

PD-ABK-353
92822

INVESTMENT PROPOSAL

FOR A

U.S. \$ 2,500,000

LOAN TO

ACCION INTERNATIONAL , INC. / AITEC

* * * MICRO-LENDING GUARANTY FUND * * *

OFFICE OF INVESTMENT

BUREAU FOR PRIVATE ENTERPRISE

JULY 1985

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

REVOLVING LOAN GUARANTY FUND

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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	DOCUMENT CODE 3
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2. COUNTRY/ENTITY LATIN AMERICA / CARIBBEAN	3. PROJECT NUMBER 940-0002.44
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4. BUREAU/OFFICE PRIVATE ENTERPRISE	5. PROJECT TITLE (maximum 40 characters) MICRO-LENDING GUARANTY FUND
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6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 06 30 91	7. ESTIMATED DATE OF OBLIGATION (Under 'B' below, enter 1, 2, 3, or 4) A. Initial FY 85 B. Quarter 3 C. Final FY 85
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8. COSTS (\$000 OR EQUIVALENT \$1 =)						
A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(100)	()	(100)	(100)	()	(100)
(Loan)	(1,000)	()	(1,000)	(2,500)	()	(2,500)
Other U.S.						
1.						
2.						
Host Country						
Other Donor(s)						
TOTALS	1,100		1,100	2,600		2,600

9. SCHEDULE OF AID FUNDING (\$000)									
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) SDA	710	819	819			100	1,000	100	2,500
(2)									
(3)									
(4)									
TOTALS						100	1,000	100	2,500

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)	11. SECONDARY PURPOSE CODE 769
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12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)
A. Code B. Amount

13. PROJECT PURPOSE (maximum 480 characters) <div style="border: 1px solid black; padding: 5px; min-height: 80px;"> Increase income and employment generation among urban poor , capitalizing a fund which will guaranty local currency borrowings by local organizations which make small loans to micro-entrepreneurs. </div>

14. SCHEDULED EVALUATIONS Interim MM YY MM YY Final MM YY	15. SOURCE/ORIGIN OF GOODS AND SERVICES <input type="checkbox"/> 000 <input type="checkbox"/> 941 <input type="checkbox"/> Local <input type="checkbox"/> Other (Specify)
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16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)
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17. APPROVED BY	Signature <hr/> Title	18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION Date Signed MM DD YY
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INSTRUCTIONS

The approved Project Data Sheet summarizes basic data on the project and must provide reliable data for entry into the Country Program Data Bank (CPDB). As a general rule blocks 1 thru 16 are to be completed by the originating office or bureau. It is the responsibility of the reviewing bureau to assume that whenever the original Project Data Sheet is revised, the Project Data Sheet conforms to the revision.

Block 1 - Enter the appropriate letter code in the box, if a change, indicate the Amendment Number.

Block 2 - Enter the name of the Country, Regional or other Entity.

Block 3 - Enter the Project Number assigned by the field mission or an AID/W bureau.

Block 4 - Enter the sponsoring Bureau/Office Symbol and Code. *(See Handbook 3, Appendix 5A, Table 1, Page 1 for guidance.)*

Block 5 - Enter the Project Title *(stay within brackets; limit to 40 characters)*.

Block 6 - Enter the Estimated Project Assistance Completion Date. *(See AIDTO Circular A-24 dated 1/26/78, paragraph C, Page 2)*

Block 7A. - Enter the FY for the first obligation of AID funds for the project.

Block 7B. - Enter the quarter of FY for the first AID funds obligation.

Block 7C. - Enter the FY for the last AID funds obligations.

Block 8 - Enter the amounts from the 'Summary Cost Estimates' and 'Financial Table' of the Project Data Sheet.

NOTE: The L/C column must show the estimated U.S. dollars to be used for the financing of local costs by AID on the lines corresponding to AID.

Block 9 - Enter the amounts and details from the Project Data Sheet section reflecting the estimated rate of use of AID funds.

Block 9A. - Use the Alpha Code. *(See Handbook 3, Appendix 5A, Table 2, Page 2 for guidance.)*

Blocks 9B., C1. & C2. - See Handbook 3, Appendix 5B for guidance. The total of columns 1 and 2 of F must equal the AID appropriated funds total of 8G.

Blocks 10 and 11 - See Handbook 3, Appendix 5B for guidance.

Block 12 - Enter the codes and amounts attributable to each concern for Life of Project. *(See Handbook 3, Appendix 5B, Attachment C for coding.)*

Block 13 - Enter the Project Purpose as it appears in the approved PID Facesheet, or as modified during the project development and reflected in the Project Data Sheet.

Block 14 - Enter the evaluation(s) scheduled in this section.

Block 15 - Enter the information related to the procurement taken from the appropriate section of the Project Data Sheet.

Block 16 - This block is to be used with requests for the amendment of a project.

Block 17 - This block is to be signed and dated by the Authorizing Official of the originating office. The Project Data Sheet will not be reviewed if this Data Sheet is not signed and dated. Do not initial.

Block 18 - This date is to be provided by the office or bureau responsible for the processing of the document covered by this Data Sheet.

I. SUMMARY.

The project proposed here consists of a loan of US\$2,500,000 and a grant of US\$100,000. to ACCION International, Inc. (ACCION), a Boston-based private voluntary organization which provides technical support and other assistance to local organizations (foundations) throughout Latin America which assist "micro-businesses". Typically these "micro-businesses" are in the informal sector of the economy, have fixed capital of \$2,000 or less and employ a maximum of five (5) people.

The particular activity to be supported through this project is the provision of credit by these foundations to such micro-businesses, which are generally precluded from access to ordinary commercial lending institutions.

The AID loan to ACCION is to be deposited in a dollar denominated account (collateral/investment account) in an international bank in the United States (US Bank).

ACCION, using the collateral/investment account as security or as a revolving guaranty fund, will be able to establish stand-by letters of credit in local currency, in favor of local Latin American banks which are providing credit to the foundations. The stand-by letters of credit will guarantee the extension of credit by the local banks to the foundations as a funding source for the incremental growth of their micro-business loan portfolios.

A local micro-lending organization (foundation) obtaining funds

through this facility will be paying the local prime rate on its borrowing from the local bank, as well as a guaranty fee which will be paid to ACCION to cover the costs of the guaranty pool (administration and bank fees). These costs will be passed along to the micro-borrowers who are the ultimate beneficiaries of the funds.

Tentative loan terms are as follows:

Amount: US\$2,500,000. (initial authorization and obligation of US\$1,000,000, with authorization and obligation of the remainder dependent on demonstrated demand).

Interest: 180-day Treasury Bill rate

Tenor: Revolving for three years. To be repaid in five equal semi-annual installments beginning at the end of three years.

Use of Proceeds: To fund a dollar deposit which will collateralize stand-by letters of credit guaranteeing local currency borrowing by micro-lending programs.

Recourse Against Borrower: ACCION will be financially liable up to the extent of the first US\$100,000 of credit loss absorbed by the guaranty pool.

Grant: US\$100,000 to fund start-up administrative costs.

The principal purpose of the project is to provide a responsive source of additional loan capital to existing local micro-lending programs, enabling them to serve more clients.

Secondarily, the project may serve to inject elements of financial discipline into the programs it serves: in particular, it will require these programs to charge effective interest rates to its micro-borrowers which reflect the full cost of the funds provided. Finally, the project may serve as a first step in a longer process of involving local commercial banks or other investors in the business of serving the credit needs of the informal sector.

II. PROJECT DESCRIPTION

2.1 Background: Micro-Lending.

In cities throughout the developing world, from 10% to 50% of total employment is provided by the "informal" sector, consisting of businesses which are so small that they are not caught up in the net of regulation and taxation.¹ This sector is characterized by:

- ease of entry;
- reliance on indigenous resources;
- family ownership of enterprises;
- small scale of operations;
- labor-intensive and adapted technology;
- skills acquired outside of formal schooling;
- unregulated and competitive markets.

These street vendors, household manufacturers, etc. almost never have access to commercial credit channels. Bankers have a hard time dealing with them: they are seldom able to provide collateral, and the size of the loans they require is too small to compensate a bank for its administrative costs in processing a loan. Thus, micro-businesses uniformly identify shortage of credit as one of the major constraints they face. For most of them, the only sources of finance are family funds or neighborhood money-lenders, who often are able to charge real interest rates as high as 300-2000% per annum.

Paradoxically, these tiniest of businesses are able to make much better financial returns on borrowed capital, when they

1) For an extensive discussion of informal sector businesses and methodologies to assist them see The PISCES Studies: Assisting the Smallest Economic Activities of the Urban Poor, ed. M. Farbman (A.I.D., September 1981).

can get it, then larger businesses can. Precisely because capital is the scarce input, they often show very high rates of return on additional capital employed.²

Likewise, the economic returns (i.e. from a social perspective) on micro-business capital are especially high.³ These businesses are by definition extremely labor-intensive: they often create new jobs at a capital cost of US\$500 or less per job, as compared with US\$5M - US\$50M in the larger formal sector. And these businesses have especially strong local backward and forward linkages. Their revenues are less likely to wind up paying for imported consumer goods or draining into foreign bank accounts.

Thus, provision of credit to micro-businesses is an obvious and attractive area for development intervention. Early efforts at micro-lending often encountered serious difficulties, including very high default rates and administrative costs. In recent years, the methodology has been improved. Several programs are now achieving 95% - 99% repayment rates, with manageably low processing costs per loan, through a combination of:

- lending small amounts for short periods, with loan renewals and expansions depending on repayment performance;
- lending to peer-group units whose members cross-guarantee each other's borrowings; and
- aggressive response to defaults.

2) e.g., Malcolm Harper, Small Business in the Third World (Chichester, 1984) pp.15 ff; also Carl Leidholm, unpublished research available in PRE files

3) See, for instance, Kilby & D'Zmura, Searching for Benefits, unpublished study (May 1984). Copies available in PRE files.

2.2 The Borrower.

ACCION International./AITEC (ACCION), a U.S. based private voluntary organization, headquartered in Cambridge, Massachusetts, has actively provided technical assistance to private foundations in selected Latin American countries over the past ten years. Emphasis has been on providing credit resources to micro-businesses which have typically been excluded from traditional financing sources such as the commercial banking system and other traditional financial intermediaries. Throughout the past several years ACCION has developed significant expertise in micro-business credit and is generally regarded as a leader in the micro-lending field.

Since 1961, ACCION has worked to strengthen community groups and indigenous institutions that assist street vendors, small business owners, subsistence farmers and other self-employed men and women at the lowest levels of the economy.

Full-time field staff are based in the Dominican Republic, Peru, Colombia, Costa Rica, Mexico, and Ecuador to work with local programs. An affiliated program operates in Honduras. ACCION's Cambridge office staff oversee financial administration, resource development, program support, development education, and research and evaluation. ACCION was a major participant in the Bureau for Science and Technology's groundbreaking PISCES projects, which explored methodologies to promote enterprise development among the urban poor.

Most of ACCION's current activities focus on lending to micro-

entrepreneurs. Within the donor community, it has been an advocate of realistic interest rates in such programs. Its reputation as a micro-lending practitioner is excellent. (A copy of ACCION's most recent annual report is attached as Annex 7.1).

Three (3) broad goals have guided the efforts of ACCION:

1. To create increased income and employment opportunities for the poor.
2. To strengthen the organizational and managerial capabilities of local beneficiaries.
3. To promote a dialogue within the U.S. business community on development related issues.

In order to achieve the first two of the above mentioned goals, ACCION has worked primarily through a network of private sector, privately funded foundations in selected countries in Latin America and the Caribbean. Because ACCION's relationship to these foundations is one of providing technical assistance and guidance, it does not exert full managerial control over these institutions. Nevertheless, because of the specific micro-lending expertise which ACCION has developed, and because of their early successes, they have been able to successfully establish their micro-lending systems and their credit philosophy in each of the affiliated foundations.

2.3 The Local Micro-lending Organizations. The ultimate beneficiaries of the project are the thousands of tiny businesses whose credit needs would be met through the use of project funds.

More immediately, the beneficiaries of the project will be a number of local micro-lending programs serving the needs of such clients. Many cities in Latin America now have such programs. Micro-lending tends to be an "add-on" activity for an already-existing community organization (foundation) serving other needs as well.

Three programs, in Quito, Guayaquil, and Tegucigalpa, have been identified as immediate users of the guaranty fund. These three projects have (or will soon have) lent out all their presently available funds. In each case, there are strong indications of a large unmet demand for additional lending.

The characteristics of the three (3) programs are summarized below. They were all developed by ACCION with local non-governmental organizations and are receiving continuing technical assistance from ACCION. Monitoring data (generally available on a monthly basis) is sent to ACCION's Cambridge headquarters.

As with all of ACCION's current programs, two types of short-term credit are extended, with loans gradually increasing in size according to the needs of their clients:

Micro-enterprises: Artisan manufacturers and service businesses with one or more employees (general average is two to three workers);

Solidarity Groups: Market stall holders, itinerant peddlers

and hawkers, street food sellers, .etc., who receive credit through a group whose members are mutually responsible for the payback of the loans.

In general, micro-lending projects throughout the participating countries have relied upon grant funding of their programs as opposed to credit funding. This is partly a result of the fact that private voluntary organizations and charitable or quasi-charitable foundations generally do not qualify as borrowers at local commercial banks. Traditionally, these foundations have turned toward the international development community for their funding needs. Because micro-business lending requires smaller pools of funds relative to the number of persons who benefit from the programs, and the programs generally have high operational costs and involve greater than normal credit risk, international development institutions have usually funded these programs with grants as opposed to loans. As a result, until recently many of these private foundations have not felt the pressure to structure their lending programs such that they achieve financial self-sufficiency. Instead, as the foundation erodes its grant funding through operational losses it continually feels pressure to seek new grants for continued operation. For the above reasons, a key factor in the success of the subject project is the establishment of realistic effective interest rates on the funds charged by the local foundations to their micro-business borrowers.

QUITO: FUNDACION ECUATORIANA DESARROLLO, PROGRAMA DE DESARROLLO DE MICROEMPRESAS (FED/PRODEM)

This organization is a private sector development foundation founded in April 1968, with the objective of raising the standard of living of the informal sector of the country through the development of projects to provide technical assistance, and consulting services in the areas of organization and production management throughout the Ecuadorian economy. The FED is headquartered in Quito and is organized into two divisions; the rural division oversees several agricultural projects including farms and a factory; the urban division heads programs for the development of micro-enterprise groups in the urban areas around Quito. The ACCION lending program is managed out of the urban division. The project began its activities during May of 1984. Funding received through a joint grant from USAID and ACCION (Private Agencies Cooperating Together).

Micro-enterprises. By March 1985, the program had reached the owners of 566 micro-manufacturers and services; of these 66% are men and 34% are women. The average number of employees per business is 2.1. Businesses are clustered principally in clothing manufacture (29%), shoe making (17%), and furniture making (12%); the remaining 42% of the businesses assisted represent 28 other types of activities.

Total portfolio has climbed to S./11.8 million (roughly US\$110,000.). In general, portfolio growth appears to be limited by the availability of funds. For example, the portfolio grew rapidly during the first five (5) months of the program from May to October 1984, and ran out of funds during

November through January of 1985. In February 1985, FED was able to make an additional takedown under the AID/PACT grant and their portfolio continued to grow.

The ratio of past due loans as a percentage of the total portfolio has climbed from zero at the beginning of the program to 12.3% as of March 1985. This is a critical index and it needs to be monitored carefully.

A total of 1,516 loans have been made in the micro-enterprise component. Loan amounts and terms vary considerably, but the "average" micro-business client has received and repaid, three (3) loans and the average loaned is US\$177.

Payback is good; only US\$8,182 of the loans granted are as much as 15 days late. Legal action has been taken for the loans over 15 days late (an additional US\$2,955). Also, loans totaling US\$10,959 have been refinanced; of the active loan portfolio then, 12.3% is late and 15% has been refinanced.

Solidarity Groups. Under this program FED makes loans to groups of six (6) individuals at a time. One individual of the group is elected as a group leader and signs the documentation for the loan. In general, all of the borrowers of the group have the same commercial activity. Since the inception of the program in May 1984, 355 groups of individuals have been financed (2,130 individual participants). As of March 1985, 1,968 individuals had outstandings under the credit program. Of these, 691 were men and 1,277 were women. Total outstanding

portfolio as of March 1985, amounted to S./11.6 million (roughly US\$105,000).

The ratio of past-due loans to the total portfolio shows an increasing trend; however, it peaks in March at only 3.02% as compared to 12.3% for the small industry program. This clearly indicates the beneficial affect of the group influence on the repayment behavior of the borrowers.

GUAYAQUIL: FUNDACION EUGENIO ESPEJO, PROGRAMA DE CREDITO Y DESARROLLO INTEGRAL DE LA MICROEMPRESA DEL SECTOR INFORMAL URBANO (PROCREDEM)

Background

Eugenio Espejo Foundation is a non-profit organization created to promote the development and delivery of social services to the Ecuadorean people. The foundation was established in October of 1980, by private parties interested in promoting social and support services to diverse sectors of the population, particularly those sectors whose needs had not yet been met as a result of the overall development of the country. Originally the foundation has promoted programs oriented toward strengthening civic and humanitarian awareness. The foundation currently runs the "Escuela de la Concordia" which teaches civic awareness to the urban poor in the Guayaquil area. Additionally, the foundation administers the Instituto de Superior Estudios Administrativos (ISEA). This institute has operated in the Guayaquil area for the last eight years. Its primary aim has been to train professionals in business administration, finance, economics and other managerial

disciplines. Graduates from the program receive an advanced degree in business administration and management.

The support program for marginal communities focuses all of its efforts, at present, in the low income neighborhood of East Mapasingue, a slum neighborhood located in the northern part of Guayaquil. As a result of an \$80,000 grant from USAID in June of 1984, the foundation has been able to implement a credit program oriented toward micro-industry. Recently, the program has adopted some of the techniques and credit policies of the ACCION group. A formal agreement was signed between FEE and ACCION in June of 1984.

Micro-Enterprises. Of the 171 borrowers served by FEE, 158 (92%) are micro-industry borrowers. As of March 1985, total portfolio outstanding amounted to S./4.1 million (roughly US\$37,000) for an average loan size of S./25,900 (roughly US\$235). Of the 212 micro-enterprises financed by PROCREDEM, 66% are owned by men and 34% are owned by women. Of these, 8.2% are seamstresses, 8% are furniture makers, 6.4% are upholsterers, 5.2% are artisan manufacturers, 5.2% are bakers, and 4% are TV and radio repairmen. The rest (63%) work in some 30 different types of activities. These enterprises are somewhat smaller than those funded in Quito, with an average of 1.8 employees of whom 57% are full-time and the rest part-time.

The ratio of delinquent loans to the total portfolio has fluctuated wildly since the inception of the program. However, in the past two months the index has concentrated in the 12 to

13% range. The index for March was 13.07%.

Solidarity Groups. This lending program did not commence until October 1984, and has therefore been operational for only six months. During this time 13 groups have been financed and there is an outstanding portfolio of S./86,000 (roughly US\$800). Delinquency ratios are only available for the months of February and March indicating a delinquency of 5.18% and 4.32% respectively. Unlike the Quito project, the major emphasis of the Guayaquil project has been on loans to micro-enterprises. Because of the difference in focus, average loan term is longer. By and large, outstanding loan amounts average S./30,000 (roughly US\$275) and are outstanding for an average term of 12 weeks.

It can be appreciated that portfolio growth has been substantially slower than that in Quito. FEE does appreciably more credit analysis work prior to granting a loan and at least two people must sign off on a credit approval to include the director of the micro-lending program. Nevertheless, the delinquency ratio for micro-industry loans is very similar to that found in the FED program in Quito. In both cases the delinquency ratio is substantially less for the loans to the Solidarity Groups. This would indicate that the foundations should pay closer attention to their lending policies toward the micro-industry sector, as it appears that this is the higher risk area.

TEGUCIGALPA: ASEPADE (ASESORES PARA EL DESARROLLO), PROYECTO

DE CREDITO A MICRO-EMPRESAS (CREME) AND PROYECTO DE CREDITO A GRUPOS SOLIDARIOS (CREDISOL)

ASEPADE was established in 1977 as a private, non-profit organization to provide services to Honduras' popular organizations. ASEPADE assists in institutional development, provides legal services, helps design and evaluate projects, provides training and channels credit to various development projects. As with the foundations in Ecuador, their funding is derived from grants and to a certain extent from consulting and contract work done on behalf of the major international development agencies.

Micro-Enterprises. ASEPADE began making micro-enterprise loans as recently as November and December of 1984. The project has been funded with US\$65,000 from PACT and with US\$5,000 of ASEPADE's own resources. The project has expanded virtually to the limit of its available resources and needs guaranty funds immediately if it is to meet developing demand.

As of December 1984, total outstanding portfolio amounted to US\$5,277. The delinquency ratio was comparatively low at 3.8%.

In the brief time that the program has been in existence, a total of 25 micro-enterprises have been funded: Of these 42% are owned by women and 58% are owned by men. The activities financed are as follows: manufacture of clothing (37.5%), carpentry (25%), stuffed animals (25%), shoe making (12.5%), and commerce (12.5%).

Solidarity Groups. The primary effort of the overall ASEPADE program has been directed toward promoting the Solidarity Group loans (CREDISOL loan program). From the period beginning August 1984, to March 1985, 157 groups have become active borrowers. Total portfolio has increased to US\$47,500. It should be noted that the size of the loan portfolio remained stagnant for 3 months during the period November through January as a result of delays in receipt of grant funding. Once again, it is apparent that if sufficient cash resources are available, there exists a significant demand for this type of credit.

CREDISOL's Solidarity Groups are comprised of 942 members: 31% of the clients are men and 68% are women. Of these 32% sell fruit and vegetables, 22% sell clothing and stockings, 8% sell grains and groceries, and the rest sell 11 other categories of products. Sixteen are shoe repairmen. Nearly half (47%) have fixed stalls in the markets, while the remainder are more or less itinerant.

Demand for the Guaranty Pool. Each of the above three programs is an immediate candidate for the services of the proposed guaranty pool. In addition, numerous other micro-lending programs exist throughout Latin America. ACCION itself has affiliates in Peru and Mexico (one program in each country) and in Colombia (four programs). Within the next few months, ACCION expects to be inaugurating programs in Costa Rica and Paraguay. Possible new programs over the medium term (8-12 months) include El Salvador, Guatemala, Panama and Uruguay.

In Colombia alone, there are 18 local programs not affiliated with ACCION. Among other non-ACCION programs in Latin America are PROAPE (D.R.), Haitian Development Foundation, Dominica Development Foundation, Jamaican Development Foundation, and Honduran Development Foundation.

2.4 PROJECT PURPOSE. This project will not result in the establishment of any local micro-lending programs. It will, however, assist the effectiveness and expansion of existing programs.

A typical program may be capitalized initially with grant funds. If it is successful, it lends out its entire capitalization fairly quickly, and must then look for additional lending resources. Further grants or soft loans from donors are an option. But the problem with such sources, is that they are cumbersome. It often takes a year or two to access them. And once they decide to fund a local program, their infusions tend to come in lumps which are not finely tuned to month-by-month changes in the needs or the management capacity and creditworthiness of the programs being funded. Finally, the donor funds are usually highly concessional and may not inject as much of an element of discipline as might be desirable.

The guaranty pool will serve as a prototype of a much more agile source of funding, which can be accessed for an initial line of credit in perhaps a month or two, with further advances doled out in small, frequent increments, based on the current needs and performance of the individual program. It is

expected that after an initial start-up grant, this pool will be able to operate on a self-sustaining basis with all costs being passed on to local programs (and ultimately to their micro-borrower clients).

The affiliated foundations in each country will be expected to establish borrowing relationships with several banks in their countries such that they can borrow funds, at commercial bank rates of interest, against the stand-by letters of credit issued through the U.S. bank to its local correspondents. In general, the local commercial banks will make these loans available to the foundations for terms that will not exceed 180 days. For this reason, the foundations will seek to establish credit relationships with three or more banks in their community. Since these commercial bank borrowings will be considerably more expensive than the funding sources presently being utilized by ACCION affiliates, it is expected that the affiliates will only utilize this source of funding for their portfolios' growth on an incremental basis. Therefore, the affiliates always will have the incentive to continue to seek either grant funds (equity), or long-term credit from international organizations or other sources (BID, World Bank, etc.). It is evident, however, that payment to the banks of a commercial rate of interest on a substantial portion of their funding source will have significant impact on each foundation's lending costs. For this reason the ACCION affiliate and foundations in each country will have to reassess the present structure of interest rates and contributions charged to their micro-business borrowers.

The project's primary purpose, then, is the mobilization of incremental loan capital, on commercially rational terms, to micro-lending programs. This additional funding will permit additional loans to micro-borrowers. Additional loans may be expected to generate new jobs and new income among clients at the lowest levels of the cash economy.

Other purposes may be served, although they can be predicted with less assurance at this stage. They include the encouragement of commercial bank involvement in micro-lending, and the injection of financial discipline into existing micro-lending programs.

With very rare exceptions, commercial banks and finance companies do not at present serve the credit needs of the informal sector. Expansion of their activity into this sector would be a considerable benefit to micro-businesses, but the obstacles are formidable. Dealing with these tiny entrepreneurs entails methods of credit management and loan appraisal which are almost entirely foreign to a bank's accustomed operations. Any bank trying to make loans of this size through its usual procedures would incur heavy losses as a result of the elevated processing costs. The possibility to be explored is whether bankers can be induced to see micro-enterprises as a potentially profitable clientele, using newly developed micro-lending techniques. In addition, as micro-borrowers grow they will graduate into the small business programs already in place at the traditional lending window.

Using this guaranty pool, micro-lending programs will be encouraged to establish several borrowing relationships with local banks. The hope is that one or another of these banks may, after a time, be enticed to put a toe in the water of micro-lending itself, or at least be willing to participate in more substantial ways in a micro-lending program (such as the provision of non-guaranteed loan funds).

It remains highly unlikely that private investors (including banks) will be drawn into informal-sector lending unless, and until, some of the new non-profit approaches demonstrate a track record of viable operation at interest rates high enough to generate surpluses, after deduction of the cost of capital, administration, and loan losses. Use of the present guaranty pool will tend to force a borrowing organization in the direction of realistic interest rates, because the guaranteed capital will contain little or no subsidy. The micro-lender's cost of funds will include:

1. the prime interest rate charged by the local bank which is providing the local currency; together with
2. bank fees for the letter of credit involved; and
3. administration fee paid to ACCION to cover the administrative cost and bank fees to the U.S. bank for management of the guaranty pool.

This latter item, by itself, will be initially pegged at 4% per annum.

2.5 Developmental Aspects.

IMPACT - The micro-lending guarantee fund project will have an

impressive impact on beneficiaries in economic, social and institutional terms. Based on the direct experience of ACCION/AITEC in various Latin American countries specific and measurable benefits can be reasonably expected from the application of the guaranty fund. As the chart indicates (Figure 1, overleaf), during the first five years 199,500 beneficiaries will result from the micro-enterprise and solidarity group components of all projects undertaken. In addition, 997,500 individuals will be indirectly benefited from both components. Other benefits in the economic, institutional and social areas can be expected as well.

Economic Impact. The economic impact of this program will be directly felt in terms of increased participant income, the strengthening of existing jobs and the creation of new ones. In general, the new income created through cutting the credit costs of borrowers, the increased profits of market vendors and owners of micro-industries and the salaries of new jobs created, will generate close to seven times the value of the amount of credit extended to beneficiaries. Based on ACCION's prior experience in such lending, it can be expected that participants will experience an increase in income of from 30% to 50%. Through the use of the guaranty fund mechanism during the five year period, a total of \$57,750,000 of new income will be generated among program participants. Research shows that much of this increased income is recycled in the local economy at the "barrio" level; typically 70% of overall family income is spent in the shops and stores of other micro-entrepreneurs, thus creating an additional multiplier effect for stimulating

SUMMARY OF IMPACT INDICATORS

Indicator	Year One	Year Two	Year Three	Year Four	Year Five	TOTAL
1. Number of projects (cumulative)	3	5	8	10	12	12
2. Loans guaranteed to affiliates (cumulative)	\$ 500,000	\$ 1,000,000	\$ 1,750,000	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000
3. Total amount loaned (2.5x loan fund)	\$ 1,250,000	\$ 2,500,000	\$ 4,375,000	\$ 6,250,000	\$ 6,250,000	\$ 20,625,000
4. Number of beneficiaries						
a) microbusiness component						
direct (3x850xprojects)	7,650	12,750	20,400	25,500	30,600	96,900
indirect (direct x 5)	38,250	63,750	102,000	127,500	153,000	484,500
b) Solidarity group component						
direct (6x450xprojects)	8,100	13,500	21,600	27,000	32,400	102,600
indirect (direct x 5)	40,500	67,500	108,000	135,000	162,000	513,000
Total Direct Beneficiaries	15,750	26,250	42,000	52,500	63,000	199,500
Total Indirect Beneficiaries	78,750	131,250	210,000	262,500	315,000	997,500
5. New Income (7 x loan fund)	\$ 3,500,000	\$ 7,000,000	\$ 12,250,000	\$ 17,500,000	\$ 17,500,000	\$ 57,750,000
6. Jobs created or strengthened (amount loaned ÷ \$531)	2,354	4,708	8,239	11,770	11,770	38,841
7. Savings (cumulative)	\$ 294,000	\$ 784,000	\$ 1,862,000	\$ 3,920,000	\$ 8,036,000	\$ 8,036,000

Figure 1

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the economy.

As the chart indicates, this program is a particularly effective strategy for strengthening and creating jobs at the poorest levels of host-country economies. ACCION's experience has shown that one new job can be created or strengthened for \$531 in credit extended to businesses of the informal sector. On this basis, it is projected that a total of 38,841 jobs will be created or strengthened during the first five years of this program. The distinction between jobs strengthened and created is important. Many individuals at this level are not unemployed but underemployed, working on a seasonal or partial basis. Very often those jobs, which are temporary and unstable at best, turn into full-time employment with some job security. In addition, new jobs are created in which small micro-businesses will often hire additional employees on a full-time basis. It is important to contrast this strategy, creating or strengthening one new job for every \$531 in credit, to the more standard measure where, \$5,000 to \$50,000 in investment is required to create a new job in the formal sector.

A third important impact in the economic sphere is the mobilization of new savings among program participants. As part of program methodology, individuals participating in the program and receiving loans are required to save on a regular basis. While there is a general perception that individuals among the poorest of the economically active find it difficult or impossible to save, ACCION's experience in Latin America demonstrates that an impressive amount of savings can be mobilized. For individuals at this level savings can be a true

source of pride; saving in a local bank, credit union, or other institution often represents a breakthrough where it may be the first time in which the individual has had contact with that institution. Requiring that individuals save in a formal way is an important step toward integrating them into the formal sector. It is anticipated that during the first five years an accumulated total of \$8,036,000 will be saved by program participants. ACCION's experience in many countries demonstrates that these savings provide heretofore unknown financial security for participants. Savings are generally used for emergencies, medicine and other purposes which if the money is not available often spell calamity for the individual's family and business.

A fourth direct economic impact of this program relates to the increase in productivity of the businesses participating in each project. An important component of micro-lending methodology is the improvement of management practices and skills of business owners. Through one-on-one technical assistance as well as workshops and courses on accounting, marketing, business expansion and other subjects, participants improve their management skills and increase productivity. Improved management practices give businesses an increased chance of survival and growth, thus contributing more to the local economy.

Finally, micro-lending may help prepare businesses to mainstream into the formal economy. The program policies and methodologies are such that business participants become

accustomed to paying real interest rates, they are educated in the uses of credit, and become introduced to the formal banking system, sometimes having physically been in a bank for the first time as a result of the project. (In experience to date, fewer borrowers have "graduated" into formal commercial credit than might have been hoped for; more attention to this element of micro-lending programs will be required in the future.)

Social Impact. Generally speaking the projects which will participate in the guaranty fund focus their efforts in three general areas: credit, management training and assistance, and organization of beneficiaries. This last component - the organization of beneficiaries - produces an important social impact among participants. Surveys and research conducted by ACCION and other entities throughout Latin America clearly indicate that micro-entrepreneurs, street vendors and hawkers do not identify themselves as part of the private sector in their countries. They often feel isolated, one from another, and feel they have no forum for expressing their needs and interests. Program methodologies call for organizing program participants to promote attitudinal changes and provide increased networking among participants. At the micro-business level, formal associations are promoted. Perhaps the best example to date of such an association is MIMEXA, a micro-business association formed as part of an ACCION-assisted program in Monterrey, Mexico. This association currently has 500 members, has formally constituted itself as the first micro-business association in Mexico, has an elected board of directors and officers, and has begun to provide a series of

services for its constituency including the organization of trade fairs, and the publication of a business directory. At the micro-business level, in each program the promotion of such associations and trade fairs is common. The idea of buying and selling in groups, particularly among the same types of businesses is also encouraged, providing obvious cost and other advantages to participants which make them more competitive in the local market place.

At the street vendor and hawker level, solidarity groups are formed which have the dual purpose of serving as a guaranty arrangement for loans and also encouraging increased contact and a sense of peer support. Based on recent research conducted by ACCION on the solidarity group mechanism in Peru and Colombia, it is clear that this mechanism provides important social benefits to members. Individuals interviewed openly express their positive feelings and increased sense of support at being part of a solidarity group. This impact has spilled over into other areas of their lives.

Finally, ACCION research demonstrates that certain attitudinal changes occur among program participants which, over the long run, have an important positive impact. The fact that for the first time a program of assistance is directed specifically at these individuals in itself is viewed very positively. Generally speaking, participation in such a program creates an enormous amount of esprit de corps among participants. Many have said that for the first time they have been given hope that they can improve their lives. It is ACCION's assumption

that this increased hope, backed up by concrete results in terms of increased income and employment, provides beneficiaries with a new sense of commitment to and stake in their country.

Institutional Impact. This program also brings many strong institutional benefits. The philosophy and approach of ACCION is to work exclusively through local private intermediaries. All projects to be included in this five-year program will work with local private entities. Part of ACCION's purpose in working through these organizations is to increase their capacity for providing services to the beneficiary population. In that regard, resources are directed toward upgrading the skills of the staff and Directors of these local entities. The use of the guaranty fund itself, because of its nature and requirements, will strengthen the procedures being used by local institutions for providing credit to local entrepreneurs. It will standardize the systems being promoted by ACCION and will impose a healthy discipline and rigor on local institutions for maintaining the integrity of their loan pools.

RELEVANCE TO AID'S DEVELOPMENT APPROACH - On a broader level, it is expected that this program will help bring about certain structural changes in the economies of the countries to be assisted. Because of its focus on increasing productivity, income and employment, it will invigorate local economies from the bottom up and increase economic stability. It is consonant with AID's "four pillars".

Policy Dialogue. While this regional project contains no direct policy dialogue component, it does address an area to - micro-enterprises and the informal economy - which is of increasing policy importance to host country governments. Host country governments are becoming more cognizant of the need to adopt policies which integrate the informal and formal sectors and provide greater access of the informal sector to sorely needed resources. Currently, in countries such as Peru, Colombia, and Ecuador, the national governments have become aware of the importance of the informal sector in their economies and in each case, a national dialogue is now underway concerning the best means for integrating the two sectors. The specific programs to be assisted by the loan guaranty fund in various countries of Latin America have already helped demonstrate the problems faced by micro-entrepreneurs and concrete ways in which the formal sector can be of assistance. Because such programs have demonstrated that concrete inputs to the informal sector produce important results, host country governments have used such projects as examples in the policy analysis which is now taking place.

Institutional Development. As stated earlier, one of the primary aims of ACCION's work is to increase the institutional capacity of local intermediary groups. ACCION's technical assistance to such groups is concentrated on improving their management capabilities. In addition, this project's methodology is designed to promote the financial self-sufficiency of projects. Through the provision of credit and management services to micro-entrepreneurs, projects are

expected eventually to structure their interest and service charges in such a way that enough income is generated to cover all operational costs, projected credit losses and inflation. Such self-sufficiency is an integral part of institutional development so that donor assistance, while perhaps needed in the beginning, can realistically end without fear that those institutions assisted will collapse or be seriously weakened.

It is important to point out that the beneficiaries themselves are also directly empowered through the activities of this program. Through their increased sense of economic well-being, improved managerial skills, and greater association with their counterparts, micro-entrepreneurs can assume an increasing responsibility for meeting the social and economic needs of their families and communities. The philosophical and practical approach of this program ensures that participants are not treated paternalistically but rather that their integrity is fully respected and their independence strongly encouraged. For example, the interest rate structure and the actual costs of services are calculated at their real value so that as much as possible no subsidies are structurally built into the program, thus resigning beneficiaries to a dependency situation.

Utilization of the Private Sector. This program is a private sector initiative. Its primary purpose is to assist tiny producers who are members of the private sector and in most cases represent the majority of individuals that compose the private sector in their countries. In addition, the inter-

mediaries being used to deliver credit and other services - be they cooperatives, non-profits, or other entities - are all non-governmental. In many cases their board of directors are composed of individuals who are leaders of the private sector in their countries and wield considerable influence.

In each case correspondent banks will be utilized, which, on the basis of the letters of credit, will make their own funds available to intermediary groups that will in turn lend to local entrepreneurs. These local banks are private and it must be pointed out that this program is breaking new ground with them. In the past none have, on their own, financed micro-entrepreneurs. This program is for the first time exposing them to the possibility of providing funds for this sector either directly or through intermediary organizations. This bringing together of the local banks and the informal sector, albeit through an intermediary in the beginning, serves an important educational function which can only strengthen the private sector in the long run.

Technology Research, Development and Transfer The programs being assisted here involve the dissemination of a new technology - namely, how to reach a heretofore unattended sector with financial resources and technical assistance. The methodology being employed by ACCION and its affiliates is very different from normal banking credit procedures found in host countries.

The ultimate goal of this project is to commercialize this

technology. The long-range goal of ACCION is to make the provision of credit and basic management assistance to micro-entrepreneurs commercially viable to the point where banks and other financial institutions will move directly into this market. While recognizing that this may be a slow process, the fact remains that the informal sector represents the largest untapped financial market in the world. This program will help contribute to an increased awareness among banks and private sector entities of the vast potential represented by the informal sector and help move both sectors toward a mutually beneficial integration.

2.6 KEY ISSUES

2.6.1 The Interest Rate Issue. The ACCION model for micro-lending calls for making loans on a very short-term basis, permitting renewals for larger and larger amounts as the micro-borrower effectively demonstrates his or her ability to repay. Because of the small amount of the loan and the high administrative costs which are the result of intensive loan administration, and a determination on the part of ACCION and their affiliates to impart significant technical assistance in terms of accounting, management, production and marketing, etc., the interest charges which must be applied to the loans made to the micro-entrepreneurs must necessarily be higher than that generally charged to larger commercial borrowers. Because of this, the policy of ACCION has been that the interest rate on the loans be as high as the central bank regulations in the country will permit. Additionally, the affiliates charge a flat fee upon the face value of the loan made to the micro-

entrepreneur which, at this moment, is equivalent to 2-1/2%. The justification for this fee, from the legal standpoint, is that it does not represent interest on the loan, but rather, that it is paid by the micro-entrepreneur in exchange for technical assistance and other services provided to the borrower by the affiliate. Some affiliates have made a better effort than others to insure that the fee for contributions is easily distinguishable from the interest charge on the loans. For example, whereas in Quito the affiliate collects the fee for contributions together with the interest for the loan at the maturity date, in Guayaquil, a greater effort is made to distinguish between the fee for contributions and the interest earned on the loan by charging the contribution fee up front, at the moment of disbursement of the loan. The interest is collected at maturity. In this way there is a clear differentiation between what the borrower pays for interest and what he is paying in return for technical assistance and other services.

Nevertheless, in all affiliates the flat fee for contributions is the same regardless of the tenor of the loan. Because of this, the yield obtained on loans for longer maturities is much lower than that obtained on loans for short maturities such as two, three, or four weeks. In fact, as the micro-enterprise borrower graduates to larger amounts and to longer and longer terms, the yield to the affiliate decreases dramatically. Therefore, on loans with tenors greater than seven or eight weeks the yield received by the affiliate ends up being lower than that charged on a normal loan by a commercial bank to a

prime borrower! In both Ecuador and Honduras this means that on loans to micro-enterprise borrowers, in which the term of the loan is in excess of eight weeks, the yield received by the affiliate remains below the rate of inflation. It is evident, therefore, that a major adjustment in pricing will be required by the ACCION affiliates in order to implement a lending program in which incremental funding is provided from the commercial banking system at interest rates which are not subsidized.

It is therefore recommended that in revamping their pricing structure on the loans, the affiliates concentrate on two fundamental changes to their pricing policy:

1. In order to clearly separate the fee portion of the revenue earned on loans from the interest portion charged on the loans to the micro-enterprise borrowers, the fee portion should be collected at the time of the drawdown of the loan. The micro-enterprise borrower can be given the choice of either paying for his fee in cash or to have it discounted from the proceeds of his loan. The affiliate should make every effort to differentiate between interest charged on the loans and these fees.
2. In determining a pricing structure for the foundation's lending activity, the affiliate should concentrate on the yield to be obtained from the combination of the maximum interest permitted under the law plus the contribution for "technical assistance" which is to be collected at the time of the drawdown of the loan. The following formula has been derived for the calculation of the discount rate

to be applied to the principal amount of the loan, where:
 N = the term of the loan expressed as the number of weeks,
 I = the maximum interest rate permitted by law, and
 Y = the required yield on the overall portfolio in order
 for the affiliate to achieve self-sufficiency.

$$C = \frac{N(Y-I)}{52+YN}$$

For example, if it is assumed that the maximum interest rate permitted by law in Ecuador is 23%/p.a. (I = .23), the yield required for self-sufficiency equals 54%/p.a., (Y = .54), a loan to be granted to a borrower for a period of eight weeks (N = 8) could be granted by collecting the following contribution from the borrower:

$$\begin{aligned} \text{Contribution} = C &= \frac{N(Y-I)}{52 + YN} &= \\ &= \frac{8(.54 - .23)}{52 + (.54)(8)} &= \\ &= \frac{(8)(.31)}{52 + 4.32} &= \\ &= \frac{2.48}{56.32} &= \\ &= .0440 &= 4.4\% \end{aligned}$$

Therefore, a loan granted at 23%/p.a. for a period of eight weeks and which must yield 54%/p.a. to the affiliate will require a contribution at time of drawdown from the borrower of 4.4%.

Conversely, if the loan were to be granted for five weeks, the same formula would apply with the following results:

$$\begin{aligned}
\text{Contribution} = C &= \frac{N (Y - I)}{52 + YN} &= \\
&= \frac{5 (.54 - .23)}{52 + (54) (5)} &= \\
&= \frac{1.55}{54.7} &= \\
&= .0283 &= 2.83\%
\end{aligned}$$

It can be seen, therefore, that a loan which must yield the same 54%/p.a. and which collects the same 23%/p.a. interest at maturity will require a 2.83% contribution at time of drawdown if it is granted for only five weeks.

The attached chart (Figure 2, overleaf) gives a breakdown of the contribution charges for use by the affiliate foundations in Ecuador (where the legal maximum interest rate is currently 23%/p.a.), and in Honduras (where the legal maximum interest rate is currently 24%/p.a.).

As an example, if an Ecuadorean affiliate determines that its breakeven required yield is 45%/p.a. and a micro-borrower approached the foundation requesting a four (4) week loan for S./30,000. (roughly US\$275), a flat fee of 1.64%, or S./492. = US\$4.47) would have to be paid at time of drawdown.

In order to satisfy the S./30,000. request the micro-borrower would be made a loan of S./30,492. As he receives his money he makes his contribution of S./492. and takes home a net amount of S./30,000. The promissory note for S./30,492. earns interest at 23%/p.a. for the four (4) week period, whereupon, at maturity, the S./30,492. plus S./539.47 in interest are due. Total interest plus contributions collected equal S./1,031.47

ASSUMPTIONS: MAX. LEGAL INTEREST RATE: 23.00 % p.a.

REQUIRED YIELD %	# OF WEEKS	1.00	2.00	3.00	4.00	5.00	6.00	7.00	8.00	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00
	35.00	0.23	0.46	0.68	0.90	1.12	1.33	1.54	1.75	1.96	2.16	2.36	2.56	2.76	2.95	3.14	3.34
36.00	0.25	0.49	0.73	0.97	1.21	1.44	1.67	1.90	2.12	2.34	2.56	2.77	2.98	3.19	3.40	3.60	3.80
37.00	0.27	0.53	0.79	1.05	1.30	1.55	1.80	2.04	2.28	2.51	2.75	2.98	3.20	3.43	3.65	3.87	4.08
38.00	0.29	0.57	0.85	1.12	1.39	1.66	1.92	2.18	2.44	2.69	2.94	3.18	3.42	3.66	3.90	4.13	4.36
39.00	0.31	0.61	0.90	1.19	1.48	1.77	2.05	2.32	2.59	2.86	3.13	3.39	3.64	3.90	4.15	4.40	4.64
40.00	0.32	0.64	0.96	1.27	1.57	1.88	2.17	2.46	2.75	3.04	3.32	3.59	3.86	4.13	4.40	4.66	4.91
41.00	0.34	0.68	1.01	1.34	1.67	1.98	2.30	2.60	2.91	3.21	3.50	3.79	4.08	4.36	4.64	4.92	5.19
42.00	0.36	0.72	1.07	1.42	1.76	2.09	2.42	2.75	3.07	3.38	3.69	4.00	4.30	4.60	4.89	5.18	5.46
43.00	0.38	0.76	1.13	1.49	1.85	2.20	2.54	2.89	3.22	3.55	3.88	4.20	4.51	4.83	5.13	5.43	5.71
44.00	0.40	0.79	1.18	1.56	1.94	2.31	2.67	3.03	3.38	3.72	4.06	4.40	4.73	5.06	5.38	5.69	5.99
45.00	0.42	0.83	1.24	1.64	2.03	2.41	2.79	3.17	3.53	3.89	4.25	4.60	4.94	5.28	5.62	5.95	6.27
46.00	0.44	0.87	1.29	1.71	2.12	2.52	2.92	3.30	3.69	4.06	4.43	4.80	5.16	5.51	5.86	6.20	6.52
47.00	0.46	0.91	1.35	1.78	2.21	2.63	3.04	3.44	3.84	4.23	4.62	5.00	5.37	5.74	6.10	6.45	6.79
48.00	0.48	0.94	1.40	1.85	2.30	2.73	3.16	3.58	4.00	4.40	4.80	5.19	5.58	5.96	6.33	6.70	7.05
49.00	0.50	0.98	1.46	1.93	2.39	2.84	3.28	3.72	4.15	4.57	4.98	5.39	5.79	6.18	6.57	6.95	7.31
50.00	0.51	1.02	1.51	2.00	2.48	2.95	3.41	3.86	4.30	4.74	5.17	5.59	6.00	6.41	6.81	7.20	7.57

CONTRIBUTION RATES TO BE CHARGED AT TIME OF DISBURSEMENT-HONDURAS

ASSUMPTIONS: MAX. LEGAL INTEREST RATE: 24.00 % p.a.

REQUIRED YIELD %	# OF WEEKS	1.00	2.00	3.00	4.00	5.00	6.00	7.00	8.00	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00
	35.00	0.21	0.42	0.62	0.82	1.02	1.22	1.41	1.61	1.80	1.98	2.17	2.35	2.53	2.71	2.88	3.04
36.00	0.23	0.46	0.68	0.90	1.12	1.33	1.54	1.75	1.96	2.16	2.36	2.56	2.75	2.95	3.14	3.34	3.53
37.00	0.25	0.49	0.73	0.97	1.21	1.44	1.67	1.89	2.11	2.33	2.55	2.76	2.97	3.18	3.39	3.59	3.79
38.00	0.27	0.53	0.79	1.05	1.30	1.55	1.79	2.03	2.27	2.51	2.74	2.97	3.20	3.42	3.64	3.86	4.08
39.00	0.29	0.57	0.85	1.12	1.39	1.66	1.92	2.18	2.43	2.68	2.93	3.18	3.42	3.66	3.89	4.13	4.36
40.00	0.31	0.61	0.90	1.19	1.48	1.76	2.04	2.32	2.59	2.86	3.12	3.38	3.64	3.89	4.14	4.39	4.64
41.00	0.32	0.64	0.96	1.27	1.57	1.87	2.17	2.46	2.75	3.03	3.31	3.58	3.85	4.12	4.39	4.66	4.92
42.00	0.34	0.68	1.01	1.34	1.66	1.98	2.29	2.60	2.90	3.20	3.50	3.79	4.07	4.35	4.63	4.91	5.18
43.00	0.36	0.72	1.07	1.41	1.73	2.09	2.42	2.74	3.06	3.37	3.68	3.99	4.29	4.58	4.88	5.17	5.46
44.00	0.38	0.76	1.13	1.49	1.85	2.20	2.54	2.88	3.22	3.55	3.87	4.19	4.50	4.81	5.12	5.43	5.73
45.00	0.40	0.79	1.18	1.56	1.94	2.30	2.67	3.02	3.37	3.72	4.06	4.39	4.72	5.04	5.36	5.68	5.99
46.00	0.42	0.83	1.24	1.63	2.03	2.41	2.79	3.16	3.53	3.89	4.24	4.59	4.93	5.27	5.60	5.93	6.25
47.00	0.44	0.87	1.29	1.71	2.12	2.52	2.91	3.30	3.68	4.06	4.43	4.79	5.15	5.50	5.84	6.18	6.51
48.00	0.46	0.91	1.35	1.78	2.21	2.62	3.03	3.44	3.84	4.23	4.61	4.99	5.36	5.72	6.08	6.44	6.79
49.00	0.48	0.94	1.40	1.85	2.30	2.73	3.16	3.58	3.99	4.39	4.79	5.18	5.57	5.95	6.32	6.68	7.03
50.00	0.50	0.98	1.46	1.93	2.39	2.84	3.28	3.71	4.14	4.56	4.97	5.38	5.78	6.17	6.55	6.92	7.28

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which over a four (4) week period, represent a 45%/p.a. yield on the S./30,000.

In summary, it is extremely important that the foundations obtain yields on their funds that guarantee their self-sufficiency. Clearly, if the loans obtained from the local banks are utilized to defray part of their operating expenses rather than strictly for portfolio funding, ACCION runs the risk that, in the long run, the guaranty fund will be eroded away and normal repayment of their loan to AID will be impossible.

2.62 Creditworthiness of the Individual Programs. It is extremely difficult to measure the creditworthiness of the individual affiliated foundations. These foundations differ radically from corporations in that success is often measured in terms of intangible achievements rather than profitability. Achievements can be accomplished only if the foundation is successful, on an on-going basis, in the search for grant funding and donations. Tangible net worth, the creditors' cushion in the event of asset shrinkage, is simply the difference between Total Assets and Total Liabilities. However, the ability of a foundation to maintain its net worth is directly related to its ability to secure new donations and grants faster than the operating expenses erode the foundation's equity.

There is really no easy way to predict a foundation's ability to secure future grants. The assumption must be made that if

the foundation has been successful in the past it will continue to be in the future. All of the ACCION affiliates have been successful in varying degrees, in the obtaining of grants and donations.

None of the affiliates studied have audited financial statements and the internal financial information which is available is generally unconsolidated and prepared on a project-by-project basis. (One foundation, generally, is involved in several projects which may have nothing to do with micro-business credit.) For these reasons traditional analysis of financial statements of the foundations is relatively meaningless.

The conclusion is, therefore, that creditworthiness of a foundation's micro-business portfolio can best be evaluated through an on-going analysis of specific statistics. In this respect ACCION will be required, as a condition precedent to the AID/PRE-I loan, to prepare a Credit Policy and Procedures Manual. One of the objectives of this manual will be to develop a guide which will standardize reporting procedures and accounting systems among the affiliates. Close monitoring of micro-business credit portfolios will enable ACCION to evaluate asset quality and develop a better understanding of the credit risk involved in lending to each affiliate. In principle, an affiliate will not be eligible to participate in the program until ACCION has analysed the affiliate against the standards established in the Credit Policy and Procedure Manual. AID/PRE-I will approve the manual prior to disbursement of funds. In addition, AID will have the right to approve any

amendments and changes made to the manual.

2.63 Availability of Softer Grant Funding From Other Sources.

This last factor is an imponderable. Micro-lending is attracting increasing attention from the various donor agencies in recent years, with a corresponding increase in the amount of soft funding available for such programs. Such funding can be quite ponderous, taking a year or two to access, and coming in large lumps which are not finely tuned to the immediate needs or management capability of the local micro-lending program. The guaranty pool will be accessible much more quickly, and on a more carefully-tuned basis. But it must be recognized that local programs may not take expensive money from ACCION's guaranty facility when free or almost free money is available elsewhere.

All three of the candidate foundations have applied to the IDB for a small project loan. Although approval time on these loans can stretch out to two years or more, it is expected that eventually they will qualify. These loans are highly concessional and, from the point of view of the credit risk on this project, could effectively be regarded as potential equity contributions to these foundations.

The AID Mission in Honduras made ASEPADE an OPG grant in 1981 and has no immediate plans to do anything further with ASEPADE. The AID Mission in Ecuador has made grants to both FED in Quito and FEE in Guayaquil. It is currently about to disburse OPG funding to FEE with a microbusiness credit component of

US \$85,000. Disbursement is expected to take place in September 1985. Additionally, AID-Ecuador is in the process of drafting a PID for a small Business Development Project. One of the thrusts of this project includes a credit component in which both FED and FEE may be participants. Incidentally, the AID Mission welcomes this PRE-I loan guaranty fund project which they feel will dovetail neatly into their overall Small Business Development activities.

Given the growth of micro-lending activities, and the foundations' need for quickly accessible sources of capital to leverage their loan assets, ACCION believes that a demand in excess of the proposed US\$2.5MM may develop in the reasonably near future. However, given the unpredictability of this demand, particularly with respect to the competition of softer funds, it is proposed to limit the present authorization and obligation to US\$1.0MM. This latter figure allows US \$600M for the reasonably predictable demand from the three initial programs (Quito, Guayaquil and Tegucigalpa), as well as another US\$400M for other potential clients. Depending on the guaranty pool's experience in its first year or two, it may be desirable to authorize and obligate a further US\$1.5 MM at a later point.

2.7 Resolution of Issues Identified at IOP.

2.71 Credit Risk.

Leverage - In order to limit the exposure of AID and ACCION to any one program in Latin America, the project will require that individual foundations be limited in their ability to utilize their stand-by letter of credit facility with ACCION to an

amount equal to two times their "Micro-business Equity" defined as follows: (Initially, individual foundations will be permitted a leverage of only 1:1. Depending on performance of the foundations, AID may permit ACCION to lend to the foundations up to a 2:1 debt/equity ratio).

$$\text{Micro-business Equity} = \text{Total Micro-business Assets} \text{ less } \text{Total Short and Medium Term Liabilities}$$

Total Micro-business assets include:

- a) total cash and certificates of deposit
- b) total micro-business loan portfolio
- c) total fixed assets

Total short and medium term liabilities include:

- a) all current liabilities
- b) all medium-term liabilities (maturities within the next 5-year period).

A maximum leverage of two to one over micro-business equity will leave the guaranty pool reasonably secure.

Co-financing - It shall be a policy clearly stated in the ACCION Credit Policy & Procedure Manual that the local banks who are making loans to the affiliate foundations shall accept some credit risk over and above that covered by the stand-by letter of credit issued by the U.S. bank. In general, stand-by letters of credit shall guarantee only up to 90% of the principal amount of the local currency loans extended by the local banks to the affiliated foundations. It shall be up to the foundations to negotiate collateral coverage with the banks for the remaining 10% in the case that the bank insists on 100% coverage. ACCION shall exert its best efforts to reduce the

percentage of guaranty coverage, especially in the case of later bank loans to the foundations after successful experience with repayment of earlier loans.

2.72 Letter of Credit Terms. In order to insure that the local lending bank will make a serious effort to collect its loan to the micro-lending organization, rather than simply cashing in its guaranty and walking away, the letter of credit will require that drawings against the letter of credit must be accompanied by:

- 1) a certification by the bank that the foundation's loan has been past due for at least 60 days and is unpaid
- 2) a certification by the bank that it has pursued reasonable collection activities from the date of maturity to the date of the claim
- 3) a statement of undertaking by the bank that it will continue to pursue reasonable collection activities
- 4) an assignment of its rights, by the bank, to ACCION and/or AID to the extent the bank receives payment under the stand-by letter of credit

The letter of credit will contain wording to the effect that any partial payments received under the notes shall be shared on a pari passus basis between ACCION and the local bank.

2.73 Viability of Individual Micro-lending Programs. The three (3) pilot programs which were examined are indeed viable assuming that an adjustment is made to the effective interest rate charged on the loans to the micro-borrowers (see 2.61 - The Interest Rate Issue). In general, it has been found that

the micro-lending programs will break even when their portfolios reach \$200,000 to \$250,000 and when they can achieve an effective yeild on their portfolios of 44% to 49%/p.a.

2.74 Restriction of Facility to AID Assisted Countries. At the onset the project will serve the three initial candidate programs. However, as the program begins to function smoothly ACCION plans to extend the credit facility to other countries and other affiliated foundations. Initially, at least, AID will restrict ACCION to utilizing the guaranty pool program only in AID-assisted countries.

2.75 Availability of Foreign Exchange for Payments to ACCION. In certain countries foreign exchange for the payment of fees to ACCION will be more easily available than in others. In Ecuador, a perfectly legal parallel market exists and is operated, at the street level, through a myriad of exchange houses. Purchases of foreign exchange from the parallel market can also be made in the commercial banking system. This exchange rate is fully fluctuating and there is an active market for both purchases and sales of hard currency. The affiliated foundations should have no difficulty whatsoever in purchasing foreign exchange in the open market in order to make payments to ACCION and to cover the cost of the guaranty pool in the United States.

However, hard currency payments to ACCION by ASEPADE will be difficult to make in view of foreign exchange restrictions in Honduras. In the past, ASEPADE has been able to obtain foreign exchange purchase authorization from the Central Bank against

promises that US\$ grants will be forthcoming in the near future. ASEPARE maintains a US\$ bank account through which its grant funding is channelled into its programs. US\$ payments are made out of this account. However, short of utilizing the free (black) market there is no completely reliable source of foreign exchange for ASEPARE's required payments to ACCION. However, ASEPARE has shown resourcefulness in the past. It has always found a way to obtain the hard currency it requires (much of the consulting work ASEPARE does for international organizations is paid for in US\$).

2.76 Initial Level of Obligation. As mentioned earlier, \$1,000,000. will be obligated initially. It is projected that the three pilot programs alone will utilize \$600,000. during the first year. It is expected, however, that if the three (3) candidate programs operate relatively free of problems that additional ACCION micro-lending programs in other countries be put on-stream before the end of the first year of operation of the program.

If demand is proven, an additional \$1,500,000 will be obligated.

2.8 OPERATION OF THE GUARANTY POOL. Based on the research conducted at the three ACCION affiliates operating in Ecuador and Honduras, and taking into account the operations of other ACCION affiliates in countries which were not visited, the following model design will be utilized for implementation of the project.

General Description of Program.- In the United States the guarantee pool is to be established through the signing of a three-party agreement between AID/PRE-I, ACCION, and a U.S. bank. The following general concepts will apply: AID/PRE-I will make available funds in US\$ which will be lent to ACCION (the borrower). The funds will be placed in the U.S. bank in an investment/collateral account. This account will constitute the guarantee pool. Through the signing of the three-party agreement, the U.S. bank will agree to invest the funds in the account in 180 day U.S. Treasury bills. All earnings from this account will accrue directly to AID/PRE-I and funds earned in the account will be paid, on a quarterly basis, from the U.S. bank directly to AID.

The term of the loan will be 5 years. For the first three years, beginning on the date of the first disbursement, the loan will operate as a revolving credit facility. At the end of the third year ACCION must begin to repay the facility in five equal semi-annual installments.

The investment assets in this account shall serve as collateral for outstandings under stand-by letters of credit, issued in local currency, by ACCION (account party) through the U.S. bank in favor of local banks who will be lending to the ACCION affiliated foundations in different countries throughout Latin America. The U.S. bank will accept instructions from ACCION on a day-to-day basis regarding the issuance/amendment or cancellation of outstanding stand-by letters of credit.

The lender-borrower relationship between AID/PRE-I and ACCION is governed by a revolving loan agreement which will establish, among other things, that ACCION's financial risk under the overall program is limited to \$100,000. For this reason it shall be established in the three-party agreement that AID/PRE-I shall retain a security interest in the collateral/investment account established at the U.S. bank.

Based upon similar transactions which have already taken place at Chase Manhattan Bank in New York, it is estimated that the cost of operating a guaranty pool fund in the United States will be as follows:

- A. The collateral/investment account fee (to be calculated and billed on a quarterly basis). 1/2 of 1%/p.a.
- B. Stand-by letter of credit fees (to be calculated and billed on a quarterly basis in arrears).15%/p.a.

In light of the above, the costs of operating the guaranty pool would not exceed 3/4 of 1%/p.a.

ESTABLISHMENT AND OPERATION OF THE GUARANTEE POOL

As described above, because of the relatively high cost to the affiliates of the funds provided to them through this program, it is expected that the affiliates will only utilize the stand-by letters of credit to finance incremental growth of their loan portfolios. This will provide an incentive to the affiliates so that this funding source be tapped on a short-term basis (generally for periods not to exceed 180 days). For this reason it is expected that the issuance, amendment and cancellation of stand-by letters of credit based on the

guaranty pool will be done on a relatively frequent basis, and as such, will require that the three-party agreement and the loan agreement between AID/PRE-I and ACCION be tailored so that transactions can be effectuated with agility.

A local micro-lending organization wishing to access additional loan capital will apply to ACCION for a stand-by letter of credit. After an appraisal of the local program's credit procedures, existing loan portfolio, and other financial information, ACCION may approve a line of credit of a given amount, available for drawdown subject to the organization's ability to continue to meet certain criteria which is to be clearly spelled out in the ACCION Credit Policy & Procedure Manual. ACCION will then submit a request and certificate to AID, certifying among other things that it intends to issue a certain amount of guaranties within the next 180 days. AID will then disburse the requested funds into the dollar account in the U.S. bank and then ACCION shall instruct the U.S. bank to issue a letter of credit which will guarantee repayment of a local currency loan that a local bank will make to the micro-lending program.

Using ACCION's dollar account as collateral, the U.S. depository bank will issue to the local bank a stand-by letter of credit committing itself to repay the local bank if the micro-lender defaults on the loan owed to the local bank.

ACCION will charge a guaranty fee of 4% to the participating foundation which will be sufficient to cover the costs of

administering the guaranty pool and of covering administrative expenses in running the program.

ACCION will require additional staffing to conduct the review of local programs applying for guaranties to monitor their performance and to interface with the banks involved in the programs. A PRE grant of \$100,000 will help to cover these costs and other startup costs until the fund has achieved sufficient disbursements to support itself through fee receipts.

PRE has insisted that ACCION accept liability for the first \$100,000 of losses from the guaranty pool. (Beyond that amount any losses will be PRE's). As a condition precedent to disbursement under the loan ACCION will be required to show evidence of financial commitments from their donors specifically earmarked for the purpose of this indemnification.

2.9 PROJECT TIMETABLE

Congressional Notification is in preparation at present:

- | | |
|----------------------|----------------|
| . I P | August 1985 |
| . Authorization | September 1985 |
| . Loan Execution | September 1985 |
| . First Disbursement | November 1985 |

III. FINANCIAL PLAN FOR THE ACCION GUARANTY POOL

Figure 4, (overleaf) shows the budget for the first three years of operation of the ACCION guaranty pool. Grant funding of \$100,000 is to be disbursed over the initial three year period, during the first quarter of each year. The grant will cover start-up costs while the size of the pool grows and ACCION's receipts reach breakeven levels. By the end of the third year, ACCION will be generating sufficient cash to sustain itself without further grant funding.

It is projected that the three pilot projects will each draw down US\$50,000 per quarter during the first year. The program will expand to five projects in the second year and to eight by the third year. A fee of 4% p.a. on average stand-by letter of credit outstandings will be collected by ACCION from the affiliates in order to finance its costs of operating the fund.

It is assumed that an officer in charge of the program will be required on a half-time basis during the first year and on a full-time basis thereafter. Allocated salary is \$30,000 per year.

At the end of each year ACCION will contribute up to \$2500 per affiliate for a third party to review the micro-business loan portfolio of each affiliate. This expense has been budgeted to be paid in the first quarter of each year.

Significant start up costs include:

- 1) preparation of the Credit Policy & Procedure Manual

FINANCIAL PLAN FOR GUARANTEE POOL

ASSUMPTIONS: GUARANTEE FEES of PROJECTS:	4 % p. a. 3 YEAR 1 5 YEAR 2 8 YEAR 3			YEAR ONE				YEAR TWO				YEAR THREE		
	I	II	III	IV	I	II	III	IV	I	II	III			
OUTSTANDING: STANDBY L/C's														
FED-ECUADOR	50000	100000	150000	200000	250000	275000	300000	325000	350000	375000	400000	425000	425000	425000
FEE-ECUADOR	50000	100000	150000	200000	250000	275000	300000	325000	350000	375000	400000	425000	425000	425000
ABEPADE-HONDURAS	50000	100000	150000	200000	250000	275000	300000	325000	350000	375000	400000	425000	425000	425000
OTHER	150000	300000	450000	600000	850000	925000	1200000	1425000	1650000	1925000	2200000	2500000	2500000	2500000
BEGINNING CASH:	0	18606	13469	9288	6363	10231	5228	2328	1313	4931	7053	11478	11478	11478
REVENUES: FEES FROM AFFILIATES *	1500	3000	4500	6000	8500	9250	12000	14250	16500	19250	22000	25000	25000	25000
EXPENSES: L/C-BANK FEES	244	488	731	975	1361	1503	1950	2316	2681	3128	3575	4062	4062	4062
SUPERVISION TIME-EXEC DIRECTOR	1000	1000	1000	1000	1250	1250	1250	1250	1500	1500	1500	1500	1500	1500
SALARY-DIC OF PROGRAM	3750	3750	3750	3750	7500	7500	7500	7500	7500	7500	7500	7500	7500	7500
TRAVEL & PER DIEM	900	900	1200	1200	1500	1500	1700	1700	1700	2000	2000	2000	2000	2000
YEAR END MONITORING EXPENSE					7500				12500					
OVERHEAD/SECRETARIAL/SUPPLIES	2000	2000	2000	2000	2500	2500	2500	2500	3000	3000	3000	3000	3000	3000
TOTAL EXPENSES	7894	8138	6681	8923	21631	14253	14900	15266	28881	17128	17575	18062	18062	18062
PLUS: AID/PRE-I GRANT	50000				28000				25000					
LESS: C P & P MANUAL DEVELOPMENT	20000													
WORKSHOP	5000				6000				9000					
NET INFLOW-OUTFLOW	18606	-5138	-4181	-2325	3663	-5003	-2900	-1016	3619	2122	4425	6943	6943	6943
ENDING CASH:	18606	13469	9288	6363	10231	5228	2328	1313	4931	7053	11478	18421	18421	18421

-Figure 4-

2/1/8

\$20,000

- 2) costs of annual workshops/seminars with members of the participating affiliated foundations to discuss specific problems and the implementation of the program and the Credit Policy and Procedure Manual.

IV. SUMMARY OF TERMS

4.1 Summary of Terms AID/PRE-I Loan to ACCION.

- Borrower : ACCION International, Inc. (ACCION)
- Lender : USAID/PRE-I
- Amount : US\$2,500,000 (initial authorization and obligation of US\$1,000,000. Authorization and obligation of the remainder dependent on demonstrated demand.
- Purpose : For establishment of a collateral/investment account at a U.S. Bank which will serve as a guaranty pool against which the Borrower may request the issuance of stand-by letters of credit in favor of local banks in various countries. These letters of credit will serve as security against which the affiliates may obtain commercial financing for their portfolio growth.
- Interest Rate : 180 day U.S. Treasury bill rate
- Term : Revolving for three years. Disbursements to be made in minimum amounts of US\$100,000 from date of first disbursement. Repayment in five equal semi-annual installments beginning at the end of the three-year revolving period.
- Security : Security interest in collateral/investment account to be established in U.S. bank. Security interest is subordinate to claims against the collateral/investment account by the U.S. bank as a result of drawings against outstanding stand-by letters of credit issued to local banks lending to ACCION affiliates.

Recourse to Borrower: The Borrower is financially liable up to the extent of the first \$100,000 of charges against the collateral/investment account at the U.S. bank (guarantee pool). Thereafter, borrower may satisfy principal obligation by assignment of its rights against the defaulting micro-lending program.

Within a one-year period after the initial funding, the borrower must submit evidence to lender that financial commitments have been obtained from the borrower's donors, specifically earmarked for indemnification to lender, covering the \$100,000 recourse to borrower mentioned above.

Conditions Precedent to Initial Disbursement:

1. Signing of three-party agreement between AID/PRE-I, ACCION and U.S. bank.
2. Preparation by ACCION and approval by AID/PRE-I of a looseleaf Policy & Procedure Manual which will govern the relationship between ACCION and its affiliates which participate in the credit program.

Conditions Precedent To All Disbursements:

Signed statement by ACCION to the effect:

1. that drawing will be utilized to deposit to the collateral/investment account at the U.S. bank as required under the three-party agreement.
2. that all participating affiliate foundations presently utilizing stand-by letters of credit under the program are doing so in accordance with guidelines established in the Credit Policy and Procedure Manual. (In the event that there are violations of policy or default under the policy and procedure guidelines, ACCION must indicate the remedial action being taken by ACCION and the affiliate to correct the situation. Target dates for correction must be indicated.)
3. that an "annual review" has been conducted for each participating affiliate in the program, as required in the Policy & Procedures Manual, and that no credit lines have expired. (In the event credit lines to affiliates are expired an explanation and target date for completion will be indicated.)

4.2 Requirements Made By AID/PRE-I of Participating Affiliated Foundations Through Credit Policy & Procedures of ACCION

ACCION POLICY AND PROCEDURE MANUAL

A key ingredient in the management of the guaranty fund program by ACCION and a condition precedent to the first disbursement by AID/PRE-I to the loan guaranty fund is the preparation by ACCION of a comprehensive Policy & Procedure Manual which will govern the manner in which ACCION will

interface with each of the affiliates in Latin America that will participate in the program. Because the loan guaranty pool program has been designed in such a way as to provide maximum flexibility and agility in its use, it is expected that many different affiliates utilizing many local commercial banks will be utilizing stand-by letters of credit on an on-going basis. This will require that ACCION organize itself from inception in order to properly manage the credit program.

Over the past several years, ACCION has been a purveyor of technical assistance to various foundations in many different countries providing micro-business credit. In some cases, the local foundations have been unwilling to accept technical assistance from ACCION and have proceeded to implement micro-lending programs without ACCION's help. In other cases, where technical assistance contracts have been signed with ACCION, ACCION has been able to exert a certain degree of influence upon the activities of the foundation. However, the degree of control exerted by ACCION over the activities of the foundations has always been relatively weak. As a result of the guaranty pool program which is to be implemented, ACCION will suddenly be placed in a position of being able to exert greater leverage than ever before upon the activities of the affiliated foundations who participate in the lending program. In effect, those foundations who do not adapt themselves to the guidelines outlined by ACCION will not be permitted to utilize the guaranty fund as a source of portfolio funding. Since the foundations will be looking to ACCION for leadership, ACCION should be in a position to 1) have a clearly defined

policy as to how the overall loan guaranty pool program will operate, and 2) have clearly established reporting and procedural guidelines so that the program will operate efficiently. Some of the areas which should be covered in this Policy and Procedure Manual are outlined below. Since AID/PRE-I will be required to approve the policy manual prior to the initial disbursement, certain key criteria have been highlighted so that AID can, in turn, exert a certain degree of control over ACCION through the policy manual.

Key requirements to be made of the affiliated foundations through the Credit Policy & Procedure Manual are as follows:

1. at the inception of the program the debt/equity ratio of the micro-business lending program should not exceed 1:1. Subsequently, depending upon performance of ACCION and the individual foundations, AID may approve liberalizing this policy to permit lending up to a 2:1 debt/equity ratio. (Concessional borrowing such as a 1% p.a. IDB loan may be regarded as equity for purposes of calculation of this ratio.)
2. Past-due loans may not exceed 15% of the affiliates total portfolio at any time.
3. Affiliates MUST create a reserve for loan losses at a rate of 3% p.a. based on the outstanding portfolio.
4. Affiliates' loan portfolios will be reviewed once annually by an outside third party who will recommend certain loans deemed uncollectible for write-off. In this way ACCION can insure that loan portfolios remain healthy.

V. MONITORING AND EVALUATION

5.1 Monitoring - Project monitoring will consist of review of:
a) loan and financial performance; and b) adherence to development covenants. Both (a) and (b) will be done on a semi-annual basis.

Reporting on the project on a semi-annual basis will consist of information on:

1. The operation of the guaranty pool (see reporting form included in Annex 7.2)
2. Summary of statistical information from the various affiliated foundations participating in the program. This information will include:
 - a) listing of the foundations participating
 - b) breakdown of portfolio by types of businesses financed
 - c) information on asset quality, past-due loans, write-offs, status of loan loss reserves
 - d) information on level of self-sufficiency achieved by the affiliate
 - e) leverage of the foundations

Format for report to be prepared by ACCION in conjunction with preparation of Credit Policy & Procedure Manual.

3. An annual review meeting will be held in Washington or in Cambridge, Mass. between the AID project officer and ACCION management. Depending on staffing availability, AID may hire short-term staffing assistance to help with review.

5.2 Evaluation Plan An evaluation will be conducted approximately three years from the date of loan signing. In

addition to more detailed issues to be developed at maturity time, the evaluation will review:

1. The financial performance of the guaranty pool
 - losses, if any, due to letters of credit being called
 - the financial self-sufficiency of the guaranty pool (i.e., have receipts from guaranty fees been sufficient to cover administrative costs and credit losses).
2. Impact of the guaranty facility on operations of the foundations (or other programs) receiving the guarantees
 - number of additional micro-borrowers served
 - impact on interest rate structure of the foundations
 - impact on the accounting and reporting controls in place in the foundations' micro-lending programs.
3. The extent to which participating foundations have moved their micro-lending operations to unsubsidized financial self-sufficiency.
4. The extent to which participating local banks have been willing to accept smaller (or no) guarantees in their lending to the foundations, or have otherwise increased their involvement in micro-lending.
5. Whether any of the participating banks have developed any interest in direct lending to micro-borrowers as a profit-driven activity.
6. The economic and social impact of the project on micro-borrowers themselves (in at least one or two participating programs), with specific attention to any resulting increases in income and employment.

The issues presented in items 2 and 6 above will require site

visits to at least some of the participating micro-lending programs.

Information with respect to items 1, 2 and 3 above will, of course, also be developed during the course of the semi-annual reporting and the annual review meetings.

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AID:PRE/I:ROSENBERG:WIJ
06/12/85: EXT 632-2341
AID:DAA/PRE:LPREADE

AID:PRE:SPWALSH {DRAFT}
AID:PRE/PPR:RBECKMAN {DRAFT}
AID:LAC/SA:KJOHNSON {PHONE}
AID:PPC/PDPR:NZANK {PHONE}

AID:GC/PRE:NBPAGE {DRAFT}
AID:LAC/DR:SRYSNER {PHONE}
AID:LAC/CEN:HKAUFMAN {PHONE}
AID:S&T/RD/EED:MFARBMAN {PHONE}

ROUTINE

QUITO, TEGUCIGALPA

AIDAC, ATTN: QUITO, FINUCAN; TEGUCIGALPA, GROSSMAN

E.O. 12356: N/A

TAGS:

SUBJECT: IOP APPROVAL: MICRO-LENDING GUARANTY FUND PROJECT

1. SUMMARY: AN IOP {PID EQUIVALENT} HAS BEEN APPROVED ON A PRE PROJECT WHICH WOULD GUARANTY ADDITIONAL LOAN CAPITAL FOR MICRO-LENDING PROGRAMS IN LATIN AMERICA. THE FACILITY WOULD BE AVAILABLE ON A REGIONAL BASIS. PROGRAMS IN QUITO, GUAYAQUIL AND TEGUCIGALPA HAVE BEEN IDENTIFIED AS INITIAL CANDIDATES FOR ASSISTANCE. COPIES OF IOP HAVE BEEN POUCHED TO YOU. PRE REQUESTS YOUR VIEWS. END SUMMARY.

2. ON JUNE 5, 1985, AN INVESTMENT OPPORTUNITY PROPOSAL {PID EQUIVALENT} ON THE MICRO-LENDING GUARANTY FUND PROJECT {PROJECT NUMBER 940-0002.44} WAS REVIEWED BY REPS OF PRE, GC, LAC, S&T, AND PPC.

3. THE PROPOSED PROJECT CONSISTS OF A LOAN OF U.S. DOLS 2,500,000 AND A GRANT OF U.S. DOLS 100,000 TO ACCION INTERNATIONAL, A BOSTON-BASED PRIVATE VOLUNTARY ORGANIZATION WHICH PROVIDES TECHNICAL SUPPORT AND OTHER ASSISTANCE TO LOCAL ORGANIZATIONS THROUGHOUT LATIN AMERICA WHICH ASSIST "MICRO-BUSINESSES," I.E., ENTERPRISES IN THE INFORMAL

LPR
RR *dr*
SPW *dr*
NBP *dr*
RB *dr*
SR *dr/plh*
KJ *dr/plh*
HK *dr/plh*
NZ *dr/plh*
MF *dr/plh*

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SECTOR WHOSE FIXED CAPITAL IS LESS THAN U.S. DOLS 2,000 AND WHO EMPLOY NO MORE THAN FIVE PERSONS.

4. THE PARTICULAR ACTIVITY TO BE SUPPORTED THROUGH THIS PROJECT IS THE PROVISION OF CREDIT BY THESE LOCAL ORGANIZATIONS TO SUCH MICRO-BUSINESSES, WHICH ARE TYPICALLY PRECLUDED FROM ACCESS TO ORDINARY COMMERCIAL CREDIT INSTITUTIONS.

5. THE A.I.D. LOAN TO ACCION WOULD BE DEPOSITED IN A DOLLAR-DENOMINATED ACCOUNT IN A BANK LOCATED IN THE UNITED STATES (THE "DEPOSITORY BANK"). A LOCAL COMMUNITY ORGANIZATION NEEDING ADDITIONAL CAPITAL FOR ITS ON-LENDING TO MICRO-BORROWERS WOULD APPLY TO ACCION FOR ASSISTANCE.

6. ASSUMING FAVORABLE REVIEW OF THE APPLICATION FOR ASSISTANCE, ACCION, USING THE DOLLAR ACCOUNT AS COLLATERAL, WOULD PROVIDE A GUARANTY ENABLING THE MICRO-LENDING ORGANIZATION TO BORROW LOCAL CURRENCY FROM A LOCAL BANK (OR OTHER FINANCIAL INSTITUTION). THE MICRO-LENDING ORGANIZATION WOULD ON-LEND THESE FUNDS TO ITS MICRO-CLIENTS. THE GUARANTY WOULD BE ACCOMPLISHED BY HAVING THE DEPOSITORY BANK ISSUE A STANDBY LETTER OF CREDIT TO THE LOCAL BANK, GUARANTYING THE REPAYMENT OF THE LOCAL BANK'S LOAN TO THE MICRO-LENDING ORGANIZATION.

7. A LOCAL MICRO-LENDING ORGANIZATION OBTAINING FUNDS THROUGH THIS FACILITY WOULD BE PAYING THE LOCAL PRIME RATE ON ITS BORROWING FROM THE LOCAL BANK, AS WELL AS A GUARANTY FEE WHICH WOULD BE PAID TO ACCION TO COVER THE COSTS OF THE GUARANTY POOL (ADMINISTRATION AND CREDIT LOSSES). THESE COSTS WOULD HAVE TO BE PASSED ALONG TO THE MICRO-BORROWERS WHO ARE THE ULTIMATE BENEFICIARIES OF THE FUNDS.

8. TENTATIVE LOAN TERMS ARE AS FOLLOWS:

-- AMOUNT: U.S. DOLS 2,500,000 (INITIAL AUTHORIZATION AND OBLIGATION OF U.S. DOLS 1,000,000 IS PROPOSED, WITH AUTHORIZATION AND OBLIGATION OF THE REMAINDER DEPENDENT ON DEMONSTRATED DEMAND AND SUCCESSFUL IMPLEMENTATION OF THE INITIAL U.S. DOLS 1,000,000).

-- INTEREST: 180-DAY TREASURY BILL RATE.

-- TERM: 5 YEARS, WITH 1 OR 2 YEARS' GRACE ON PRINCIPAL.

-- USE OF PROCEEDS: TO FUND A DOLLAR DEPOSIT WHICH WILL COLLATERALIZE STANDBY LETTERS OF CREDIT GUARANTYING LOCAL CURRENCY BORROWING BY MICRO-LENDING PROGRAMS.

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WORLDWIDE TELEGRAM

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-- RECOURSE AGAINST BORROWER: ACCION INTERNATIONAL WOULD BE FINANCIALLY LIABLE UP TO THE EXTENT OF THE FIRST U.S. DOLS 100,000 OF CREDIT LOSS ABSORBED BY THE GUARANTY POOL.

-- GRANT: U.S. DOLS 100,000 TO FUND START-UP ADMINISTRATIVE COSTS.

9. THE PRINCIPAL PURPOSE OF THE PROJECT WOULD BE TO PROVIDE A RESPONSIVE SOURCE OF ADDITIONAL LOAN CAPITAL TO EXISTING LOCAL MICRO-LENDING PROGRAMS, ENABLING THEM TO SERVE MORE CLIENTS. SECONDARILY, THE PROJECT WILL SERVE TO INJECT ELEMENTS OF FINANCIAL DISCIPLINE INTO THE PROGRAMS IT SERVES: IN PARTICULAR, IT WOULD ENCOURAGE THESE PROGRAMS TO CHARGE INTEREST RATES TO ITS MICRO-BORROWERS WHICH REFLECT THE FULL COST OF THE FUNDS PROVIDED. FINALLY, THE PROJECT MAY SERVE AS A FIRST STEP IN A LONGER PROCESS OF INVOLVING LOCAL COMMERCIAL BANKS OR OTHER INVESTORS IN THE BUSINESS OF SERVING THE CREDIT NEEDS OF THE INFORMAL SECTOR.

10. THE GUARANTY WOULD BE AVAILABLE TO MICRO-LENDING PROGRAMS ANYWHERE THROUGHOUT LATIN AMERICA. THE PROGRAMS TARGETED AS INITIAL BENEFICIARIES ARE FED/PRODEM IN QUITO; FUNDACION EUGENIO ESPEJO {PROCREDEM} IN GUAYAQUIL; AND ASEPADE {CREME AND CREDISOL} IN TEGUCIGALPA. DETAILS ON THE PROPOSED ASSISTANCE ARE CONTAINED IN THE IOP, COPIES OF WHICH HAVE ALREADY BEEN POUCHED TO YOU.

11. IN ADDITION TO ISSUES IDENTIFIED IN IOP DOCUMENT, IT WAS AGREED THAT FURTHER ATTENTION WOULD BE DEVOTED TO THE ISSUE OF EVENTUAL PHASING OUT OF PRE ASSISTANCE AND REPLACEMENT BY OTHER RESOURCES.

12. A CONSULTANT, ONOFRE TORRES, HAS BEEN RETAINED TO CONDUCT A FEASIBILITY REVIEW OF THE GUARANTY FUND AND A CREDIT REVIEW OF THE THREE INITIAL BENEFICIARIES. COPIES OF HIS REPORT WILL BE POUCHED TO YOU WHEN AVAILABLE.

13. PRE WOULD BE GRATEFUL FOR MISSIONS' VIEWS ON THE PROJECT IN GENERAL, AND ON THE APPROPRIATENESS OF THE THREE PROGRAMS MENTIONED ABOVE AS BENEFICIARIES OF A GUARANTY FACILITY. PRE IS PARTICULARLY ANXIOUS TO EXPLORE ANY POSSIBLE COMPLEMENTARITY BETWEEN ITS GUARANTY FUND AND MISSION PLANS FOR ASSISTANCE TO THESE OR OTHER MICRO-LENDING ORGANIZATIONS. TIMELY RESPONSE FROM MISSION WOULD PERMIT PRESENTATION OF INVESTMENT PAPER {PP EQUIVALENT} AT THE BEGINNING OF JULY.

14. {DRAFTED:PRE/I;ROSENBERG; APPROVED:DAA/PRE:LPREADE}444

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ACTION
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Department of State

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PAGE 01

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ACTION OFFICE PRE-06

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GCLA-03 GCFL-01 PPDC-01 STRD-01 PPR-01 SAST-01 RELO-01
MAST-01 /032 A1 320

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E.O 12356: N/A
SUBJECT: IOP APPROVAL: MICRO-LENDING GUARANTY FUND PROJECT

REF: STATE 182463

MISSION VIEWS VERY POSITIVELY PRE'S PROPOSED
MICRO-LENDING GUARANTY FUND AND THE PROPOSED INVOLVEMENT
OF THE FED/PRODEM (QUITO) AND ESPEJO/PROCREDEM
(GUAYAQUIL) PROGRAMS. BOTH PROGRAMS HAVE BEEN STARTED
WITH MISSION ASSISTANCE AND BOTH HAVE FAIRLY SHORT BUT
GOOD TRACK RECORDS. MISSION IS PRESENTLY DEVELOPING A
SMALL BUSINESS DEVELOPMENT PROJECT (PID EXPECTED EARLY
AUGUST) AND ANTICIPATES CONTINUED INVOLVEMENT WITH BOTH
PROGRAMS UNDER THE PROJECT. WE VIEW GUARANTY FUND AS A
USEFUL COMPLEMENTARY COMPONENT TO WHAT WILL BE DEVELOPED
IN THE PROJECT AND LOOK FORWARD TO CLOSE COLLABORATION.
MORLEY

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AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

LAC/DR-IEE-85-45

ENVIRONMENTAL THRESHOLD DECISION

Project Location : LAC Regional

Project Title
and Number : Micro-lending Guaranty Fund
: 940-0002.44

Funding : \$2,500,000 (L) \$100,000 (G)

Life of Project :

IEE Prepared by : Sean P. Walsh
PRE/I

Recommended Threshold Decision : Categorical Exclusion

Bureau Threshold Decision : Concur with Recommendation

Comments : Concurrence subject to
recommendations in IEE being
included in appropriate project
agreement documents

Copy to : Sean P. Walsh
PRE/I

Copy to : Richard Rosenberg, PRE/I

Copy to : IEE File

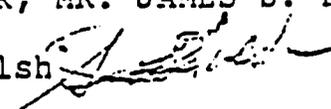
James S. Hester Date 22 June 85

James S. Hester
Chief Environmental Officer
Bureau for Latin America
and the Caribbean

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

JUN 28 1985

ACTION MEMORANDUM FOR LAC/DR, MR. JAMES S. HESTER

FROM : PRE, Sean P. Walsh SUBJECT : Initial Environmental Examination -- Micro-Lending
Guaranty Fund (Project No. 940-0002.44)

Based on the standards set forth in 22 CFR 216.2 (C)(1)(i) and (ii), and 216.2 (C)(2)(x) and (xiii), PRE/I recommends that the above-referenced project be categorically exempted from the requirements of 22 CFR 216.3.

The project is described in the attached Investment Opportunity Proposal. Minor changes in the financial structure of the project may take place during final negotiations but will not be relevant to any issues raised here.

The following factors are relevant:

- This loan will be used to mobilize matching credit funds for local private voluntary organizations which will on-lend these funds to urban micro-businesses (e.g. street-corner vendors, cottage manufacturers, etc.) with five or fewer employees.
- A.I.D. will not retain the right to approve the selection of the PVOs, let alone individual loans to their micro-clients.
- PRE/I will endeavor to include in the Loan Agreement that Accion will exert its reasonable best efforts to prevent loan funds from being used to finance any enterprises which use endangered species or parts thereof.

ACTION REQUESTED: Your concurrence in this recommendation, evidenced in your execution of an appropriate initial environmental examination document.

Attachment
Investment Opportunity Proposal

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Acción Internacional AITEC



About accion internacional aitec

accion internacional/aitec is a private, non-profit organization dedicated to creating new employment and income opportunities in the poor urban and rural communities of Latin America, the Caribbean and the United States. Since 1964 accion has worked to strengthen community groups and indigenous institutions that assist street vendors, small business owners, subsistence farmers and other self-employed men and women at the lowest economic level.

Full-time field staff are based in the Dominican Republic, Peru, Colombia, Costa Rica, Guatemala, Mexico, Ecuador and the United States to work with local programs. accion's Cambridge office staff oversee financial administration, resource development, program support, development education and research and evaluation. Consultants provide technical assistance on a part-time basis for projects in Jamaica, Honduras and Panama.

accion is supported by public and private sources including corporations, foundations and individuals. accion's work in Latin American and Caribbean countries attracts additional support from local public and private sources averaging ten times the amount of its direct administrative and program budget. accion's 1983 budget was \$1.3 million.

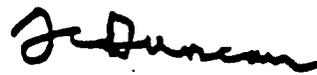
Message from the Board of Directors

World attention has been anxiously focused on the international debt problems of Latin America while the already precarious low-income communities of that region continue to swell at an alarming rate. Many of the region's poor survive only through their own creativity, entrepreneurship and perseverance. In Lima, Peru, for example, two-thirds of the urban labor force consists of hawkers, market stall holders, cottage manufacturers and other micro-entrepreneurs. Hundreds of thousands of small-scale businesses in this sector face increasingly hostile conditions. There exists a clear need for local investment at all levels of the economy in order to create sustained opportunities for income and employment.

accion international/aitec helps the poorest of small-scale enterprises in the Americas. Through modest short-term loans, managerial assistance and training programs, accion enables micro-enterprises to grow and increase productivity, generating additional income and jobs for those most in need.

accion-assisted programs reached record numbers of beneficiaries in 1983 with deliberate emphasis on engaging those at the lowest economic levels. accion initiated exciting new approaches to development such as the formation of micro-business associations and credit guarantee groups among market vendors. Innovative loan guarantee mechanisms were also set into place this year. This 1983 Annual Report describes accion's progress in reaching higher performance levels through administrative efficiency and program effectiveness. The initiation of additional programs in Ecuador, the Dominican Republic, Colombia and Mexico highlights the results of accion's expansion efforts.

We take this opportunity to express our sincere appreciation to all of accion's many supporters and collaborators, particularly those who participated for the first time in 1983. It is with your help that accion's timely work will continue to be accomplished with vigor, professionalism and commitment.



John C. Duncan
Chairman



Robert C. Helander
President

Letter from the Executive Director

During 1983 Latin America and the Caribbean demanded the attention of the American public as perhaps never before. A daily stream of events, most of them disheartening, were served with the breakfast paper and the evening news: the foreign debt crisis in Argentina, Brazil and Mexico; government austerity measures causing massive food riots in Brazil and other countries; the invasion of Grenada; and, of course, the continuing conflict in Central America.

Those of us professionally involved in Latin America felt a special responsibility to seek new approaches to these problems and to help interpret the meaning of recent events to fellow Americans. Yet often there was sharp disagreement regarding the cause of the problems and their possible solutions, even among those knowledgeable in the area. One fact was clear: the urban and rural poor of much of Latin America were economically worse off than at any time in the past ten years.

Established to assist low-income people of the Americas, *accion internacional/aitec* felt an added sense of urgency in its work during 1983. Three broad goals guided the organization's efforts: create increased income and employment opportunities for the poor, strengthen the organizational and managerial capabilities of local beneficiaries, and promote a dialogue within the U.S. business community on development-related issues.

Significant progress was achieved toward each of these goals. New initiatives aimed at reaching greater numbers of beneficiaries were launched in several countries. The new ADEMI program in the Dominican Republic, for example, broke new ground its first year by markedly scaling up operations at low cost while producing 750 new jobs and raising participants' income an average of 37%. Similar results were demonstrated by the Peruvian program, which provided credit and basic management assistance both to market vendors and micro-businesses.

accion's approach stressed enhancing the capabilities of local organizations and beneficiary groups to seek solutions to shared concerns. The first association of micro-entrepreneurs in Mexico, MIMEXA, was formally instituted in the city of Monterrey. *accion* strengthened the organizational and management capacity of various farmer organizations and community groups in Costa Rica; designed an evaluation system for APEDE in Panama to improve that entity's ability to assess the impact of its management training courses on small businesses; and provided direct technical assistance to local organizations in other countries such as Colombia, Guatemala and Ecuador.

accion expanded its development education efforts in the United States to complement its field level work. With partial funding from the U.S. Agency for International Development through a Biden-Pell matching grant, *accion* worked to establish Private Sector Resource Committees in Boston, New York, San Antonio, Atlanta and Washington, D.C. These committees will help organize and sponsor activities to engage the business community in a dialogue on the causes of poverty and hunger in Latin America and new solutions for their alleviation.

Did *accion's* efforts make a real difference for the urban and rural poor of Latin America in 1983? The answer is "yes." *accion* provided an increasing number of small farmers and micro-entrepreneurs with direct access to credit, training and other valuable resources. Local organizations, many with roots in the private sector, acquired an increased capacity to work with the poor. National governments began to discuss policies for directly assisting micro-enterprises in countries such as Colombia, Peru and Mexico. International donor agencies

and even the banking community moved toward viewing the informal economic sector as a dynamic, vital part of Latin America which, if assisted, could offer a partial solution to local economic stagnation and the inequitable distribution of income.

The work of *accion internacional/aitec* and other private voluntary organizations has directly contributed to this increased awareness of the economic activities of the poor. The real possibility of channeling significantly more resources to the informal economic sector provides us with an important note of optimism as we begin 1984.



William W. Burrus
Executive Director

Summary of Program Reports



Colombia

Colombia

accion continued to expand its impact and outreach during 1983 through collaboration with local grass roots organizations, such as the Cooperativa Multiactiva de Desarrollo Social (CIDES) in Bogotá, the Fundación Para el Desarrollo Social y Urbano (FUNDESCOM) and Women's World Banking (W.W.B.) in Cali, and the Centro de Desarrollo Vecinal "La Esperanza" in Cartagena. Programs to provide credit and technical assistance helped meet the needs of over 300 street vendors, market stall holders and tiny producers. Average income of the beneficiaries—most of whom are women—increased by 70% during 1983.

Costa Rica

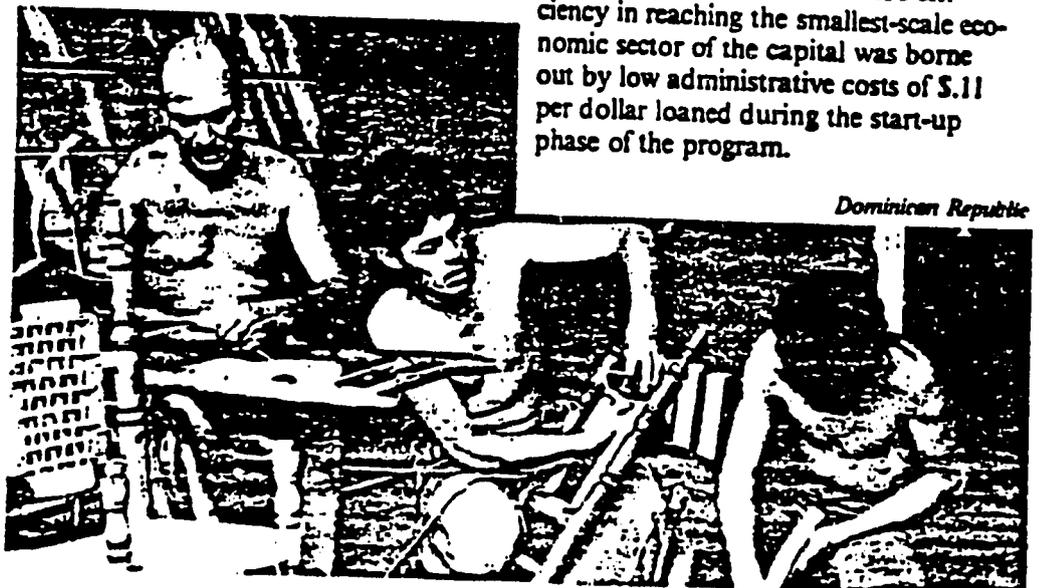
To promote programs in both rural and urban areas for micro-entrepreneurs and small farmers, accion assisted in the start-up of a new organization, the Asociación Para el Desarrollo de Pequeños Empresarios (ADEPE). In addition, accion provided direct assistance to six rural community and farm organizations, in Sabanillas de Acosta, Mastatal de Puriscal, San Miguel de Barranca, and three communities on the Peninsula of Nicoya. These groups, financed in part by the Inter-American Foundation, are involved in programs of agricultural diversification that include honey and milk production, hardwood and fruit tree propagation, and the growing of basic grain crops.

Guatemala

accion continued to assist Hogar y Desarrollo (HODE) with program design and the preparation of funding proposals. The Inter-American Development Bank agreed to finance the organization's loan fund for micro-entrepreneurs, and approved a grant for the provision of technical assistance. Responding to a request from another private, non-profit organization in Guatemala, the Fundación Cristiana para la Educación y el Desarrollo (FUNDACED), accion completed an evaluation of its integrated rural development program.

Jamaica

The English-speaking Caribbean represents a new area for accion, and the organization's policy has been to move slowly but deliberately in identifying specific program opportunities. accion completed exploratory work in Jamaica during 1983 and entered into a tentative agreement for mutual collaboration with Projects for People, a local non-profit development organization. Projects for People is in the initial stages of promoting a small farm program for milk and cheese production in the three communities of Mayfield, Medina and Maidstone in central Jamaica. accion's role will be to assist in capitalizing a loan fund, provide training for local participants and evaluate program performance.



Dominican Republic

Ecuador

One of accion's Associate Directors relocated to Quito in 1983 to help initiate a new micro-enterprise program there. accion conducted an analysis of the informal sector in Quito, and found that micro-entrepreneurs frequently cited lack of access to institutional support and credit as major obstacles to growth. accion also assessed the capabilities and interests of local organizations, and reached an agreement with the Ecuadorian Development Foundation to collaborate on a program of credit and management assistance for small-scale business owners and vendors.

Dominican Republic

This year accion launched a significant new effort in the micro-enterprise development field by helping to create the Asociación para el Desarrollo de Microempresas (ADEMI) in Santo Domingo. ADEMI began operations in May with initial financing from accion, the local private sector, and the Inter-American Development Bank. ADEMI provided credit and basic assistance to 1,181 vendors and to 573 micro-business owners in 1983, resulting in 638 new jobs. Individual credit to micro-enterprises and group loans to vendors totalled \$689,180. Average loans of \$430 and \$68 respectively were paid back at a rate exceeding 99%. The increased income to the micro-enterprises enabled participants to save over \$64,000 in 1983. ADEMI's efficiency in reaching the smallest-scale economic sector of the capital was borne out by low administrative costs of \$.11 per dollar loaned during the start-up phase of the program.

Mexico

As part of its expansion efforts in 1983, accion's associate program in Monterrey, Asesoría Dinámica a Micro-empresas (ADMIC), established two satellite programs: one in Linares, just outside Monterrey, and another in Torreón, Coahuila, a neighboring state. ADMIC also increased the size of its revolving loan fund by securing an additional \$200,000 from the Inter-American Development Bank. Four hundred and seventy-four micro-enterprises received credit, technical assistance and training, resulting in the creation of 414 new jobs.

ADMIC helped to create the first Mexican Association of Micro-Entrepreneurs (MIMEXA) with an initial membership of 250 small enterprises. ADMIC also produced, published and distributed the first directory of goods and services available from small-scale enterprises in the Monterrey area. The Monterrey Institute of Technology and ADMIC entered into a formal agreement to create a technical advisory council which oversees the involvement of engineering students in the promotion of micro-business development.

Panama

The Asociación Panama de Empresarios (APEDE) contracted accion to design and implement an impact evaluation system of the organization's training activities. APEDE is a private training institution which runs management training courses for small-scale business-people throughout Panama.

Peru

Four hundred and fifty micro-businesses in Lima received loans and management assistance from the accion-assisted program in Lima, Acción Comunitaria del Perú (ACP). Over 300 new jobs were generated in 1983. In addition, 700 street and market vendors participated in the program with loans averaging \$75 each. Fifty percent of the beneficiaries at this level are women with daily incomes of between \$1.50 and \$4.00. The Inter-



American Development Bank helped capitalize the revolving loan fund. accion also leveraged additional loan funds from the Banco Wiese, a privately owned local bank, through a letter-of-credit loan guarantee mechanism.

During 1983, a total of 135 solidarity groups were formed through ACP's PROGRESO project. This project provided loans totalling \$272,126 to 650 individuals through their respective groups. The repayment rate for that period reached an impressive 98.2%, and administrative costs were \$.087 per dollar loaned.

Maine

Management training for the locally self-employed continued through accion's affiliate, The Maine Idea. More than 250 individuals participated in the management workshop series conducted in towns throughout central Maine. The program was restructured in late 1983, enabling the newly created Maine Micro-Business Association to assume responsibility for promoting the interests of the self-employed community. A new micro-business was also formed to assume one-on-one management assistance and training for Association members.

Development Education

acion secured funding in 1983 to initiate its development education program, The Americas Dialogue. Private Sector Resource Committees were promoted in five U.S. cities to elaborate plans for a series of events which will bring together U.S. business and community leaders with their Latin American and Caribbean counterparts. The program is designed to promote corporate awareness of the causes and consequences of poverty and underdevelopment in the Americas and ways to support the economic initiatives of the poor.

PISCES Project

Since 1979, accion has directed the Program for Investment in the Small Capital Enterprise Sector (PISCES) with funding from the U.S. Agency for International Development. The PISCES project team has carried out research in sixteen countries world-wide, identified innovative approaches to micro-business development, and tested new approaches through demonstration projects in poor countries.

PISCES program activities in 1983 included the completion of evaluations of micro-enterprise development projects in Costa Rica and the Dominican Republic. Together with the Banco Popular y de Desarrollo Comunal of Costa Rica, PISCES sponsored a workshop in Santo Domingo, Dominican Republic on "solidarity group" experiences. Additionally, through accion sub-contractors, a micro-enterprise development project was initiated in the villages surrounding the city of El Minia in Egypt. PISCES conducted assessment studies of this project and of a similar PISCES-initiated project in Kenya.

PROFILE: Solidarity Groups

Luz Marina Correa Motta used to sell sweets from a tiny, make-shift dispensary located in the window of her house, far removed from the commercial areas of Cali, Colombia where she lives. She joined the accion-assisted "solidarity group" credit program in 1983 together with four other small-scale vendors. Luz used her first loan of \$62 to broaden her selection of goods and increase her sales. A subsequent loan of \$82 enabled her to buy a glass-enclosed cart to wheel into a commercial area where her sales are now profitable enough to allow her to meet her personal and family obligations and even to save a little each month.



Miguel Antonio Paez helped found the solidarity group "El Condor" to improve his onion-selling business in Bogotá, Colombia. Miguel faced a chronic cash flow shortage and used to buy four bags of onions on credit for \$49. He had to charge higher prices to cover his high interest payments, which adversely affected his sales. Miguel and the other members of his group qualified for 15-day loans at commercial rates by agreeing to co-insure the credit. Thus, with a \$51 loan from the accion-assisted program he now pays for the same amount of onions with \$37 in cash. His daily earnings have risen 250%, from \$4 to \$10, with a corresponding increase in savings. Miguel found that the solidarity group enabled him to obtain working capital at a low cost, and taught him to share the burdens and satisfactions of his business with others facing similar circumstances.

Solidarity group members in the Mercado Público de Bazurto receive training along with short-term loans to improve their businesses and increase incomes.

acion-assisted projects in Colombia, the Dominican Republic, Costa Rica, Ecuador and Peru have steadily integrated the solidarity group mechanism into their programs in order to reach the poorest of those engaged in informal sector economic activities. The majority of these street vendors, market stall holders and cottage artisans are women operating independent businesses in the low-income neighborhoods of Latin American and Caribbean cities. Almost all of them lack access to traditional sources of institutional support and credit.



Ana Rosa Ospina de Camargo takes pride in the quality of produce she sells in Bogotá's markets. With a loan from accion's solidarity group program, she is able to attract more customers and raise daily sales by expanding her selection of fruits and vegetables.

Solidarity groups are composed of five to eight micro-entrepreneurs. They are designed to solve common problems and to guarantee working capital for each member. *accion* involves the participants in a process of orientation, evaluation and training to complement the credit programs.

Members co-sign their loans in order to obtain short-term credit at commercial rates. The group as a whole takes responsibility for repayment if any one member defaults. Although there are no collateral requirements, group pressure keeps the repayment rate high: over 98% in most cases. Payback periods are short—from two weeks to three months—and loans range from \$50 to \$500. Program participants assume an active role in promotion, selection, group formation and loan recuperation, thus keeping the operational costs low.



Liber José Medina formed the solidarity group "La Unión" with five other vendors in Bogotá. Self-employed people in the markets typically need small loans of \$50-100 to finance their daily costs of operation and make enough to support a family.

Groups meet formally every week or so to make payments on their loans and to receive management and marketing assistance. The program also encourages cooperative efforts such as the establishment of emergency loan funds, burial and insurance plans, neighborhood improvement projects and grass roots associations. Frequent contact among the micro-entrepreneurs allows for follow-up and training in their businesses, as well as an organizational forum in which to address common concerns in their communities.



*Market stall holders in Cali, Colombia are attracted to *accion's* solidarity group program because of the advantages of working with other vendors on daily problems confronting tiny businesses.*

PROFILE: Micro-Business Associations

Small-scale enterprises face common problems in their respective struggles to achieve competitive positions in both informal and formal markets. *accion* programs are designed to promote the formation of micro-business associations. Through collective efforts, the participating entrepreneurs are able to share information, engage in joint purchases of working materials, enjoy broader market access and generally support each other.

It is in this spirit that MIMEXA was founded in Monterrey, Mexico with the assistance of *accion's* affiliate program, ADMIC. MIMEXA, Asociación de Microempresarios Mexicanos, is the first micro-business association of its kind in Mexico; it reached a membership level of over 250 in 1983.

MIMEXA worked with ADMIC to produce and distribute a practical Directory of micro-businesses in the metropolitan area of Monterrey, with cross-referenced information on products and services by location. During 1983, MIMEXA leaders collaborated with ADMIC to design and initiate a system of centralized buying and selling of raw materials and finished products for micro-enterprises. This centralized service is also intended to facilitate the transfer of small-scale production technology.

Headed by a group of five of its members, MIMEXA holds regular meetings to exchange experiences and to develop a collective voice on behalf of the important economic interests the micro-entrepreneurs represent. Communication links among members are strong, enabling an effective dissemination of information regarding services available through ADMIC and other private and public institutions.



1983 Micro-Business Membership in MIMEXA

Type of Activity	Number of Businesses
Door and window makers	50
Machine shops	34
Carpenters	32
Lathe workers	30
Upholsterers	23
Dye makers	16
Shoemakers	16
Leather craftsmen	10
Bakers	9
Ceramic pipe makers	8
Tailors	7
Others	15
TOTAL	250

MIMEXA members work together to strengthen their small-scale businesses. From their meetings have emerged many valuable ideas, resulting in a centralized buying and selling system, and publication of a Directory listing goods and services available from Monterrey's micro-businesses.

Third Decade for Development

accion's special campaign, "The Third Decade for Development," entered its second successful year during 1983. Building upon twenty-two years of achievement in the Americas, the campaign is designed to dramatically increase the impact of accion's efforts in four specific areas. The high level of interest and support generated by the Third Decade campaign permitted considerable progress toward these goals.

- I. *To expand its small-scale enterprise development programs to at least four new countries of Latin America and the Caribbean . . .* accion established new programs in Ecuador, Jamaica and the Dominican Republic, evaluated the prospects for beginning a project in Panama, and increased the outreach of ongoing efforts in Mexico, Peru, and Colombia.

To establish a program of assistance for micro-business in the United States, with particular emphasis on the Spanish-speaking populations of the southwest . . . accion advanced its search for a collaborative organization to serve as a link with the target population in San Antonio and the Mexican border areas, and identified several private sector sponsors.

- III. *To create an education department which will generate increased awareness of development-related issues among selected audiences in the United States, focusing on the economic role of the hemisphere's urban and rural poor . . .* accion initiated The Americas Dialogue in major U.S. cities and disseminated materials related to its development education department.

- IV. *To capitalize a guarantee fund to leverage credit from financial institutions for micro-businesses and small farmers . . .* accion developed a model for the guarantee fund, and has launched a pilot project with the Banco Wiese in Lima, Peru.

accion's solid advancements, coupled with leadership pledges of \$75,000 to \$100,000 from IBM World Trade Americas/Far East Corporation, St. Joe Minerals and the Rockefeller Brothers Fund, attracted many new sponsors to the campaign this year. By the end of 1983, pledges and contributions were received totalling over 60% of the ultimate goal of \$1.5 million. As the campaign enters its final phase, accion will continue to seek the support of corporations, foundations and individuals to meet its Third Decade expansion goals.

**Report of
Independent Accountants**



May 7, 1984

To the Board of Directors of
accion international

In our opinion, based upon our examinations and the report of other independent accountants referred to below, the accompanying balance sheets and the related statements of support, revenue, expenses and changes in fund balance and of functional expenses present fairly the financial position of accion international at December 31, 1983 and 1982, and the results of its operations and the changes in its fund balance for the years then ended, in accordance with generally accepted accounting principles and with *Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations (1974 edition)* consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of the Dominican Republic program (established in April 1983) which

statements reflect total assets constituting 33% of accion's total assets at December 31, 1983 and revenue constituting 20% of accion's total revenue for the year then ended. These statements were examined by other independent accountants whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Dominican Republic program, is based solely upon the report of the other independent accountants.

Price Waterhouse

Balance Sheet

	December 31,	
	1983	1982
Assets		
Cash and temporary cash investments	\$117,319	\$154,001
Contributions and grants receivable (Note 3)	42,357	82,454
Pledges receivable	31,500	—
Loans receivable, net (Note 4)	137,023	—
Investments (market value 1983—\$17,509, 1982—\$16,375)	12,884	12,151
Property and equipment, net of accumulated depreciation (Note 5)	61,610	51,151
Real estate held for sale, net (Note 5)	14,311	—
Other assets (Note 7)	68,250	3,136
	<u>\$485,254</u>	<u>\$302,893</u>
Liabilities and Fund Balance		
Liabilities:		
Accounts payable and accrued expenses	\$239,087	\$ 81,920
Deferred revenue	43,937	— 80,240
Mortgage note payable (Note 5)	13,371	13,486
Obligations under capital leases (Note 6)	15,323	—
Total liabilities	<u>311,718</u>	<u>175,646</u>
Fund balances:		
Unrestricted	127,249	87,954
Restricted (Note 1)	—	1,628
Property and equipment	46,287	37,665
	<u>173,536</u>	<u>127,247</u>
Commitments and contingencies (Note 7)		
	<u>\$485,254</u>	<u>\$302,893</u>

See notes to financial statements.

Statement of Support, Revenue, Expenses and Changes in Fund Balance

Year ended December 31,

	1983			1982	
	Unrestricted	Restricted	Property and Equipment (Note 2)	Total	Total
Support and revenue:					
Direct private contributions	\$217,036	\$ 372,678	\$ —	\$ 589,714	\$ 716,801
Indirect public support	25,121	—	—	25,121	—
Government grants	—	425,693	—	425,693	192,373
Government contracts	—	274,420	—	274,420	329,289
Interest and other income	11,543	98,676	—	110,219	30,634
Total support and revenue	253,700	1,171,467	—	1,425,167	1,269,097
Expenses:					
Program services:					
Foreign micro-business	—	1,012,960	7,849	1,020,809	817,925
Rural development	—	44,279	—	44,279	122,504
United States micro-business	—	109,811	—	109,811	125,337
Public education	—	32,018	—	32,018	22,407
Total program services	—	1,199,068	7,849	1,206,917	1,088,173
Supporting services:					
General and administrative	112,443	—	4,395	116,838	133,896
Fund raising	55,123	—	—	55,123	44,327
Total supporting services	167,566	—	4,395	171,961	178,223
Total expenses	167,566	1,199,068	12,244	1,378,878	1,266,396
Excess (deficit) of support and revenue over expenses	86,134	(27,601)	(12,244)	46,289	2,701
Transfers to property and equipment and restricted funds	(46,839)	25,973	20,866	—	—
Fund balance at beginning of year	87,954	1,628	37,665	127,247	124,546
Fund balance at end of year	\$127,249	\$ —	\$ 46,287	\$ 173,536	\$ 127,247

How much of this is donated services

See notes to financial statements.

Statement of Functional Expenses

Year ended December 31, 1983

	Foreign Micro-business	Rural Development	United States Micro-business	Public Education	General and Administrative	Fund Raising	Total
Salaries and related expenses	\$ 422,535	\$33,335	\$ 55,995	\$24,287	\$ 17,025	\$18,184	\$ 571,361
Travel	73,699	1,658	7,184	3,115	8,991	2,223	96,870
Rent	23,932	—	4,227	—	16,832	—	44,991
Professional services	160,024	—	6,349	2,437	22,255	29,996	221,061
Training	10,270	4,008	200	7	217	185	14,887
Telephone	14,268	—	10,685	470	6,989	1,010	33,422
Printing	26,378	—	3,790	506	6,378	164	37,216
Promotion	115,336	4,069	3,407	57	1,688	135	124,692
Office expense	14,018	1,209	8,064	759	15,805	788	40,643
Relocation	21,554	—	—	—	—	1,389	22,943
Miscellaneous	123,114	—	4,021	133	14,232	924	142,424
Equipment	7,832	—	5,223	247	2,661	125	16,088
Depreciation	7,849	—	666	—	3,765	—	12,280
	\$1,020,809	\$44,279	\$109,811	\$32,018	\$116,838	\$55,123	\$1,378,878

Year ended December 31, 1982

	Foreign Micro-business	Rural Development	United States Micro-business	Public Education	General and Administrative	Fund Raising	Total
Salaries and related expenses	\$311,413	\$ 74,004	\$ 61,221	\$ 5,404	\$ 61,360	\$31,558	\$ 544,960
Travel	74,559	14,731	8,032	1,678	1,071	4,069	104,140
Rent	9,577	718	8,973	—	15,092	—	34,360
Professional services	144,336	8,551	13,679	12,955	8,306	1,779	189,606
Training	23,899	7,820	—	—	504	17	32,240
Telephone	16,280	501	5,841	39	4,338	882	27,881
Printing	16,226	182	2,729	1,450	9,821	5,064	35,472
Promotion	85,466	11,663	4,749	100	3,411	54	105,443
Office expense	31,957	1,459	18,318	423	13,677	12	65,846
Relocation	30,522	—	—	—	—	—	30,522
Miscellaneous	68,153	2,875	1,795	358	13,396	892	87,469
Depreciation	5,537	—	—	—	2,920	—	8,457
	\$817,925	\$122,504	\$125,337	\$22,407	\$133,896	\$44,327	\$1,266,396

See notes to financial statements.

Notes to Financial Statements

December 31, 1983

Note 1—Organization

accion international is an independent, non-profit organization dedicated to creating new opportunities for employment and economic well-being among the low income populations of the Americas, with headquarters in Cambridge, Massachusetts and seven branches in South and Central America.

Note 2—Summary of Significant Accounting Policies

The accompanying financial statements are prepared in accordance with the *Voluntary Health and Welfare Organizations Audit Guide* issued by the American Institute of Certified Public Accountants and the *Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations*.

Contributions and Grants

Contributions and grants are received from individuals, private industry, foundations and government agencies. Contributions and grants may be designated by the donor for a specific project or be given as a general contribution.

All contributions and grants are considered to be available for general use unless specifically restricted by the donor. Restricted grants and contributions are recognized as support and revenue as the appropriate conditions are met. Contributions received for services which are required to be performed in future periods are accounted for as deferred revenue.

Property and Equipment

All additions to property and equipment over a minimum amount are recorded at cost and are depreciated using the straight-line method over their estimated useful lives. Equipment under the capitalization minimum is expensed in the year acquired.

Obligations under Capital Leases

Obligations under capital leases are recorded at an amount equal to the present value of the lease payments. When paid, lease payments are allocated between a reduction of the obligation and interest expense.

Foreign Operations

Monetary assets and liabilities in foreign countries are translated at current exchange rates. Nonmonetary assets and liabilities are translated at historical exchange rates. Revenues and expenses are translated at average exchange rates. Exchange gains and losses are reflected in the Statement of Support, Revenue and Expenses currently. Translation gains/losses in 1983 and 1982 were not material.

Donated Services

Donated services are reflected as contributions and expenses in the accompanying statements at their fair market values at date of receipt.

Restricted Fund Balance

Assets and liabilities of the restricted fund are pooled with those of the unrestricted fund. The amount included in the restricted fund balance represents the net assets of the restricted fund which are due from the unrestricted fund. At December 31, 1983 restricted assets equaled liabilities.

Property and Equipment Fund Balance

Prior to 1982, accion did not separately present the fixed assets component of the unrestricted fund balance. The funds invested in property and equipment was retroactively established effective in 1983. Accordingly the 1982 financial statements have been reclassified to reflect this change in presentation.

Note 3—Contributions and Grants Receivable

A detail of contributions and grants receivable at December 31, 1983 and 1982 follows:

	December 31,	
	1983	1982
Grants receivable	\$ —	\$37,495
Combined federal campaign	25,121	—
Private contributions	—	30,800
Other receivables	17,236	14,159
	\$42,357	\$82,454

Note 4—Loans Receivable

During 1983, a micro-entrepreneur program was established in the Dominican Republic. Under this program business loans are given directly to individuals and groups who have little accessibility to other formal financing agencies. Loans are to be used for operating capital. The interest rate is 2%-3% monthly. Due to the nature of these loans, estimating a reserve for uncollectible amounts is an ongoing process and is a subject of continuous management review. At December 31, 1983, management estimates that a reserve of \$1,849 is adequate to cover any uncollectible loans.

Note 5—Property and Equipment

Property and equipment are summarized as follows:

	Useful life (in years)	December 31,	
		1983	1982
Land		\$ —	\$ 3,332
Building	20	—	13,329
Transportation equipment	5-10	31,937	31,937
Furniture, fixtures and equipment	5-10	41,146	23,071
Computers held under capital leases		16,417	—
		89,500	71,669
Less—Accumulated depreciation and amortization		(27,890)	(20,518)
		\$ 61,610	\$ 51,151

In 1981 accion acquired land and a building and assumed an 8¼% mortgage note. The land and building had a fair market value of approximately \$16,700 and accordingly the note has been discounted to produce a 15% interest rate. The note is payable in equal monthly installments of principal and interest of \$180 through the year 2002. In 1983 accion decided to dispose of this land and building and accordingly this asset has been classified as real estate held for sale.

Note 6—Obligations Under Capital Leases

The organization has two capitalized leases for computers for the period October 1983 to October 1986. Amortization expense relating to these computers for the year ended December 31, 1983 was \$2,737.

Future minimum lease commitments as of December 31, 1983 are summarized as follows:

1984	\$ 6,896
1985	6,896
1986	5,172
Total minimum payments	18,964
Less—amount representing interest	(3,641)
Present value of lease payments including current portion of \$4,829	\$15,323

Note 7—Contingency

During 1983, a program was established in Peru whereby accion guarantees loans made by a bank to micro-entrepreneurs up to a maximum of \$50,000 in total loans. In conjunction with this program, accion established a \$50,000 irrevocable letter of credit through May 1985 to reimburse any losses incurred by the bank. In order to obtain this letter of credit, accion placed \$50,000 in an account at the bank which is restricted as to withdrawal. This restricted cash is included in other assets on the balance sheet.

Note 8—1982 Support and Revenue

Support and revenue for the year ended December 31, 1982 consisted of the following:

	Unrestricted	Restricted	Total
Private contributions	\$212,892	\$ 503,909	\$ 716,801
Government grants	—	192,373	192,373
Government contracts	—	329,289	329,289
Interest income	8,236	22,398	30,634
	\$221,128	\$1,047,969	\$1,269,097

Note 9—1982 Program Expenses

Program expenses for the year ended December 31, 1982 consisted of the following:

	Unrestricted	Restricted	Total
Foreign micro-business	\$64,776	\$ 753,149	\$ 817,925
Rural development	—	122,504	122,504
United States micro-business	—	125,337	125,337
Public education	—	22,407	22,407
	\$64,776	\$1,023,397	\$1,088,173

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Chairman and CEO
PepsiCo, Inc.

Honorary Director

The Honorable Jacob K. Javits

Chairman

John C. Duncan
Corporate Director and Consultant

Vice Chairman

Berent Friele

President

Robert C. Helander, Esq.
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Montana Industrial Corporation
Venezuela

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Xerox Corporation

Ralph A. Weller
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United Technologies Corporation
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Otis Elevator Company

International Advisory Council

Armando Arauz
Second Vice President of Costa Rica
Costa Rica

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Dominican Republic

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Arnulfo Coto Martinez
Guatemala

Gerard R. Dodd
United States (Maine)

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Ecuador

Alvaro Hernandez C.
Henry Karczynski
Costa Rica

J. Pedro Jimenez
Dominican Republic

William R. Tucker
Peru

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ACCION INTERNATIONAL, INC. /AITEC
 Guaranty Fund Report

Date _____

AFFILIATES USING PROGRAM	AMOUNT OF L/C's OUTSTANDING	# OF BANKS	EXPECTED USAGE OF L/C's NEXT SIX MONTHS	FEE'S PAID TO ACCION	FEE'S ACCRUED AND UNPAID
1					
2					
3					
4					
5					
6					
7					
8					
TOTAL					

SUMMARY			
	ACTUAL	BUDGET	VARIANCE
Beginning Cash			
Inflow -			
Outflow			
Ending Cash			

Total Revenue _____

Less: Bank Fees _____
 L/C Allocated Salary o/c _____
 Travel Expenses _____
 Per Diem _____
 Secretarial/Overhead _____
 Monitoring Expense _____
 Workshops _____
 Other _____
 Total Expenses _____

Net Inflow - Outflow _____

 Executive Director-ACCION

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

PD-ABK-353

92822

MEMORANDUM FOR DAA/PRE, MR. L. P. READE August 22, 1985
GC/PRE, MR. MICHAEL KITAY
MS. BARBARA DAVIS
PRE/I, RICHARD ROSENBERG ✓
HOWARD ALLER
JUDITH KNUDSON
LAC/DR, MR. ROBERT OTTO
PPC/PDPR, MR. NEAL ZANK
FVA/PVC, MR. JOHN GRANT

FROM : PRE, Mr. Sean P. Walsh *Stresh*
SUBJECT: IP Review - Micro-Lending Guaranty Fund

An IP review on Micro-Lending Guaranty Fund will be held on Wednesday, August 28, 1985, in Room 3676 at 11:30 a.m.

Attached, for your prior review is a copy of the IP and its attachments.

Attachment: IP for Micro-Lending Guaranty Fund

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