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PROGRAM FOR INVESTMENT
IN THE SMALL CAPITAL
ENTERPRISE SECTOR
PISCES PHASE I

ASSISTING THE SMALLEST ECONOMIC
ACTIVITIES OF THE URBAN POOR

PART II: Case Studies

LATIN AMERICA

By
Peter H. Fraser and
William R. Tucker
ACCION International/AITEC
1980

Published By
Accion International/AITEC
100 Mt. Auburn St.
Cambridge, Mass. 02138

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FORWARD

ACCION International/AITEC, a private non-profit organization was contracted* by the Office of Urban Development, Development Support Bureau, Agency for International Development to study projects which assisted the smallest economic activities of the urban poor, AITEC was to determine if it were possible to reach these tiny enterprises in large numbers and at low cost. If it proved feasible to assist this sector, projects would be developed with local agencies and AID missions.

AITEC contracted two other non-profit organizations, Partnership for Productivity for Asia and the Development Group for Alternative Policies for Africa, to carry out the research and project development phases of this work. In turn, AITEC would direct the project, complete the field work for Latin America and synthesize the results of the investigation.

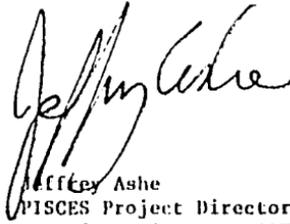
The program began with a series of workshops held in early 1979 to define the research problem. In the spring the research teams visited twenty countries to identify projects and carry out their initial investigations. In the summer they completed in-depths studies of the most promising projects.

This volume of case studies was written by Peter H. Fraser and William R. Tucker of ACCION International/AITEC based on the field work done during 1979. It contains information and project analyses which we hope will be useful for development practitioners,

* Contract Number DS-otr-C-0013, Small Enterprise Approaches to Employment, PISCES Phase I.

planners, or funders who want to upgrade existing employment and income generation programs for the poor or to create new ones.

Questions and inquiries should be directed to ACCION International/AITEC, 10-C Mount Auburn Street, Cambridge, Massachusetts 02138.

A handwritten signature in black ink, appearing to read "Jeffrey Ashe". The signature is stylized and cursive, with a large initial "J" and "A".

Jeffrey Ashe
PISCES Project Director
Associate Director, AITEC

April 1980

ACKNOWLEDGEMENTS:

A large number of projects were visited throughout the course of this study. Many project supervisors and staff at all phases of the study dedicated their time and interest to our task without whose assistance our work would have been impossible. In each case interesting observations were made which helped either in the initial identification of projects to be studied or in the actual analysis of the systems used. We wish to thank all those people for their extremely valuable collaboration.

We also wish to express our appreciation to the Missions of the Agency for International Development in the countries visited for their concurrences and any support services provided.

Finally, to Virginia McLarnon, Andrea Gold, Ayelich Semiz, and Anne-Marea Griffin, our assistants at ACCION International/AITEC, who typed the numerous drafts of these case studies we express our deepest gratitude.

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INTRODUCTION

The Latin American region, as other developing areas, is confronting a very difficult period of economic and social development. There is the immediate and urgent need to provide at least minimum standards of living and economic opportunity to its inhabitants, but the barriers to accomplishing this are numerous and very difficult to overcome.

High general levels of population growth have put tremendous pressure on governments to respond to the growing needs. During the period 1960-1977 Latin America's population increased at an average rate of 2.8% per year--higher than the average for the rest of the developing world of 2.4%. In 1960 the region had 200 million inhabitants. By 1977 there were 300 million and at current rates of population growth by 1985 there will be 400 million people vying for the region's resources and services.¹

In keeping with the general population growth trends, Latin America is experiencing a higher growth rate in its labor force than any other major geographic region of the world.²

For the region as a whole the rate of growth of the labor force during the seventies was projected to be 15% for each five year period. Between 1970 and 1975 the labor force grew by 12.1 million; between 1980 and 1985 this figure will jump to 17.2 million. Total labor force increases in Latin America are projected to be 36 million workers in the eighties and 46 million in the nineties.³ "In the next twenty five years there will be a net increase of 100 million workers in

¹Economic and Social Progress in Latin America, Inter-American Development Bank, 1977 report, p. 4.

²Ibid. p. 117.

³Ibid. p- 121.

Latin America.⁴

During the 1960-1977 period, however, planners were encouraged by unsurpassed economic growth in beginning to deal with the regional employment and development needs. Increases in gross domestic product for the region averaged 5.8% per year during the period, boasting a rate of 7.3% per year from 1968-1974.⁵

The outlook was good from a macro-economic perspective and the region consolidated a stronger economic position vis-a-vis the developed nations. A growing middle class was in evidence and their general living standards had improved.

By 1976, however, the situation worsened. Economic growth rates declined dramatically, linked to the 1973 recession in the developed countries. Between 1976 and 1977 gross national product for the region as a whole dropped from 5.4% to 3.7%.⁶

Population and labor force growth continued and the pressures on the region's governments to provide more employment and other basic services increased. But due to declining economic growth, this became increasingly difficult.

Urban centers, which are the focus of our concern in these reports, have been particularly affected. Their populations have grown at rates higher than the natural population increases due in large part to migration. Due to rapid migration from rural to urban centers, the spatial structure of

⁴ Ibid. p. 121.

⁵ Ibid. p. 3.

⁶ Ibid. p. 5.

the general population has become increasingly urban. By 1977 63% of the population of Latin America lived in urban areas as compared to 49% in 1960.⁷ These growth rates far surpass the ability of urban areas to provide the jobs, shelter and services required to maintain minimum standards of living for the poor who comprise the greater part of the increases in urban population. To address the problem a number of development program responses have been forthcoming over the last two decades.

Recognizing the need to create large numbers of jobs, large scale investments in projects which would directly create employment and provide linkages with other industries giving rise to secondary employment were made. In order to mobilize internal savings and investment within the region for this purpose substantial emphasis was placed on strengthening financial institutions and creating specialized development financing organizations.

Another major strategic choice was to concentrate a great deal of effort on rural development to provide sufficient opportunities in rural areas to slow the rate of migration to the cities.

Despite these efforts, however, both the serious lack of employment opportunities and migration to urban centers persist.

The economic growth of Latin America has been unprecedented since 1960. But no matter how impressive this growth has been in many ways, given the magnitude of increases in population in general and the labor force in particular, it is doubtful that current major development strategies will be capable of sustaining adequate growth rates, income and employment levels.

⁷ Ibid. p. 4.

It is clearly essential then, to immediately assess and embark on alternative strategies for generating the necessary income, jobs, and concomitantly, for providing other necessities such as adequate shelter, nutrition and health care to improve the standards of living for the burgeoning ranks of the urban poor.

The Studies

It is precisely to the end of gaining insights into alternative and complementary strategies of dealing with the problems of the urban poor primarily directed toward income generation and employment creation in the Latin American region that we set out to study locally designed and implemented approaches to the problem.

In determining which projects to study in-depth, initial work was done in Peru, Ecuador, Colombia, Panama, Barbados, Honduras, and El Salvador. Many different organizations were visited in an attempt to track down projects and get an initial sense of their approaches. Government and private community development agencies, private banks, savings and loan cooperatives, private development organizations of varying political and religious persuasions, and state development finance institutions were among those models surveyed on the first phase of the study.*

Out of this emerged a selection of the projects which were finally studied in-depth. The selected projects represent very different approaches to the problems of urban poverty through varying combinations of credit, management, social assistance, and skills training. They also represent varying degrees of effectiveness.

*Note: For specific information on programs surveyed during these initial visits contact ACCION International/AITEC.

The initial observations were revealing in all countries and many interesting points about programs designed to assist the urban poor came up or were corroborated through visits to many different organizations. There is no doubt that in many areas of Central and South America small economic activities provide a major source of income to many families. These activities are often used, however, to supplement another family member's income derived from formal sector employment, which is considered to be more prestigious than informal business activity apparently due to social rather than strictly economic considerations. In most areas visited small informal businesses were very evident being located in small street front shops or on the sidewalks. Additionally, on site observations in poor neighborhoods confirmed that these businesses are not confined to more visible major streets, rather they also abound in poor neighborhoods throughout the region's major urban centers.

There was a high degree of interest expressed by local project staffs in finding effective mechanisms for providing assistance to informal enterprises. To some degree credit and/or other kinds of training and social assistance were being extended to poor people everywhere. But usually these projects reached very limited numbers of beneficiaries.

While there are a great number of programs and as many different approaches to dealing with urban poverty, we have focused our efforts

on those areas of endeavor which attempt to have a direct economic impact on the poor. However, in doing so we by no means intend to diminish the importance of the social components of programs.

Since credit has overwhelmingly been identified by informal sector entrepreneurs as the major problem facing the growth and development of informal sector economic activities, heavy emphasis has been placed on mechanisms for providing credit to these people as well as business people dealing at slightly higher levels of business activity. In doing so we have attempted to understand more fully the elements of credit systems, through both their strong points and shortcomings, which are essential to effective and efficient programs from both the donors and recipients points of view. We have also looked into the role of elements such as technical assistance and social services in multi-faceted approaches to understand how they may contribute to the increased overall impact of these projects.

Barbados and Panamá demonstrated the least emphasis in income and employment projects for the urban poor both in the public and private sectors. One does not sense the same degree of bustling informal sector entrepreneurial activity as in Colombia or El Salvador, for example, where poor people have had scramble to make a living. Contacts in both Panamá and Barbados confirmed that entrepreneurial activity does not exist in these countries to the same extent among the lower-middle and lower classes. Historically, these people in both countries have preferred to be employees and have had that option.

The projects selected and described in this volume are:

- 1) FEDECCREDITO (Federación de Cajas de Crédito)
PRIDECO (Programs Integral de Desarrollo Comunal)
 - San Salvador, El Salvador
 - Type of Organization: Government Sponsored Finance and Community Development Organizations.
 - Program Emphasis: Credit, management assistance, skills training, health, nutrition, community organization.
- 2) FHCS (Federación Nacional de Cruzada Social)
CIDES (Cooperative Multiactive de Desarrollo Social)
 - Bogotá, Colombia
 - Type of Organization: Savings and Loan Cooperative, Catholic lay affiliation.
 - Program Emphasis: Savings, credit, social development, human resource upgrading.
- 3) Banco del Pacífico
 - Guayaquil (main office), Quito, Ecuador
 - Type of organization: Private development oriented bank.
 - Program Emphasis: Credit
- 4) ASEPADE (Asesores para el Desarrollo)
 - Tegucigalpa, Honduras
 - Type of Organization: Private non-profit organization.
 - Program Emphasis: Credit and social assistance to market vendors.
- 5) INEDES (Instituto Ecuatoriano de Desarrollo Social)
 - Quito (main office), Cuenca, Loja, Ecuador.
 - Type of Organization: Private, political party affiliated housing agency. Also assists a few production cooperatives.
 - Program Emphasis: Housing, mutual assistance, employment linkage, production cooperatives.

In Panamá that situation, however, has changed and since the mid-1970's unemployment has increased to staggering proportions. Even though unemployment rates are soaring in the country, the poor are apparently not starting their own economic activities to compensate, possibly because they lack the skills to go out on their own.

In Barbados, the head of Women's programs for the government explained that to a large degree the lack of entrepreneurship among the poor stems back to the British colonial government which provided for the well-being of people through the state. The welfare state allowed the poor the dubious luxury of knowing their basic needs would be covered in any event. For the most part people apparently did not have to hustle to live at a minimum level.

In places like Colombia, Ecuador, Honduras and El Salvador poor people have never been provided much security by the state and due to a lack of formal sector employment opportunities and possibly a stronger sense of individualism such as in certain sections of Colombia people have worked at whatever they could to make a living. For this reason, the projects studied in-depth were located in these countries where there was more emphasis on the development of small economic activities.

Our objective was not to elaborate an extensive inventory of projects working in this field. Instead we selected five projects which seemed to have elements which could give us insights into programming approaches from several perspectives.

PROJECT REPORT

I. PROJECT IDENTIFICATION

PRIDECO/FEDECCREDITO (Programa Integral de Desarrollo Comunal/
Federación de Cajas de Crédito)

PRIDECO: Av. Cuba y Calle Darío González #806, Barrio San
Jacinto, San Salvador, El Salvador.
Telephone: 22-59-08 or 22-59-62

FEDECCREDITO: 25 Av. Norte y 23 Calle Poniente,
San Salvador, El Salvador.
Telephone: 25-49-22

Directors: Ignacio Actiñano A., Executive President, FEDECCREDITO
Lic. Carlos E. Morales, Manager, FEDECCREDITO
Colonel Julio Zepeda A., Director, PRIDECO

Key Contacts: Lic. Abdullio Varela D., Chief, Planning Unit, FEDECCREDITO
Sra. Iberta de Soza, Chief, Department of Community
Development, FEDECCREDITO
Pedro González, Chief, Social Division, PRIDECO
Jose Melara, Chief, Development Division, PRIDECO
Fernando González, Chief, Department of Cooperatives
and Credit Assistance, PRIDECO
Rosa Francisca Peña, Credit Promoter, PRIDECO
Carlos Eduardo Meléndez, Credit Promoter, PRIDECO

Dates of Study: Preliminary: March 30, 31 and April 2, 1979

In-depth: July 16 to August 11, 1979

Researched and written by: Peter H. Fraser



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II. SETTING

General Conditions:

El Salvador is a small country with an estimated population of 4,526,000.¹ San Salvador is the capital with 700,000 inhabitants, or 15.4% of the total population.² The country's urban problems are constantly worsening, stemming from several important factors including:

1. A high national rate of population growth.
2. Lack of available agricultural land to employ people in rural areas.
3. A high rate of rural to urban migration.
4. An unstable transition process for emigrants from an agricultural to an industrial and commercial economy.
5. High levels of unemployment and underemployment.³

These factors have combined to form the basis for the serious urban poverty which exists in the city of San Salvador today.

The urban problems facing San Salvador are similar to those of many other rapidly growing Latin American urban areas. There is a serious lack of public services to meet the needs of the rapidly growing population. Potable water and sewage systems, adequate housing and jobs all are in short supply.

¹ Based on the El Salvador Ministry of Planning figure of 4.25 million inhabitants in 1977 and an average population growth rate of 3.2% per year.

² Embassy of El Salvador, Washington, D.C., September 1979.

³ Estudio de Desarrollo Urbano y Regional - El Salvador, Documento #25, Resumen Ejecutivo, Page 1.

Despite these problems migration into the cities continues unchecked. San Salvador has an annual population growth rate of 4.7%, well above the national average of 3.2%. The segment of the population of the city considered to be poor, that is, with family income of US \$175 or less per month, is growing at an even greater pace. (5.8% per year.) In 1976, it was estimated that 75,000 families⁴, or 51% of all the families in Metropolitan San Salvador were poor.⁵ By 1987, 131,000 families or 57% of the total will be in this category. There will be nearly 800,000 poor people living in the city's slums.⁶

Recent research indicates that of the urban poor:

- 90% have family incomes of US \$120 per month or less.
- 35% have family incomes of US \$80 or less per month.
- 10% are unemployed and 20-26% more are underemployed.⁷
- The majority have no title to the property they live on and renters are in precarious situations with respect to tenure.
- People lack the requirements for gaining access to even the most lenient formal credit systems.

The division between prosperous and poor neighborhoods is striking and invidious comparisons are unavoidable. The poor inhabit the urban slums (mesones and tugurios) and government housing projects,

⁴ Averaging six people per family.

⁵ Estudio de Desarrollo Urbano y Regional - El Salvador, Documento #25, Resumen Ejecutivo, page 2.

⁶ Ibid, page 2.

⁷ Ibid, page 3. Note: Within the poorest segments of the self-employed labor force the underemployment figure may be much higher than stated here due to the inadequacy of employment and low productivity of labor in the occupations of these people.

(campamentos), where in many cases there are no public services. The downtown slums (tugurios) consist of shacks perched on the sides of great gullies. Any materials available are used for construction -- mud and sticks, cardboard, and scraps of metal sheeting -- the fortunate cases use cement blocks. Eroded narrow paths wind through the neighborhoods and are the only means of passage. "Mesones" are rundown houses in the city which have become tenements. Many have up to 10 rooms, each room housing an entire family. The government built "campamentos" were constructed for the homeless following the 1965 earthquake. These provide somewhat better housing and services than the tugurios. The cement alleys which separate the rows of wooden one or two room houses have open drainage to central sewers. Electricity, communal water, sanitation facilities and washing tanks have been installed.

Urban Informal Sector Enterprises

Any discussion of the "informal sector" runs the risk of misinterpretation. Many use the term in different ways and the meaning is often ambiguous. The following description will set the stage for the use of the term "informal sector" throughout the paper.

The poor neighborhoods in San Salvador are filled with economic activity. It is estimated that 85% of the households are engaged in tiny businesses which often provide 50% or more of a family unit's income. Examples of informal businesses are:

- Carpentry and woodworking shops at home or in the paths and alleys separating houses using strictly manual techniques.

- Cooking (small eating places). A small table wedged into a tiny room, with a gas or kerosene stove, and possibly a refrigerator.
- Candy producing on wood fired stoves using large metal kettles, wooden stirring utensils and cutting boards.
- Street vending (fruits, vegetables, clothing, lottery tickets).
- Collecting bottles for resale to bottling companies in small carts or burlap bags.
- Shoemaking done in a small shop (usually part of the house) or at a booth on the street.
- Laundering at public washbasins or in the home.
- Tailoring and general sewing using treadle sewing machines set up in any available space at home.
- Retailing (small food stores most common) normally stocking inventories on shelves in a corner of one room of the home.
- Selling firewood.
- Servicing appliances (radios, etc.).

These businesses are often carried out by women at home assisted by female teenagers and children who are not in school. Men and teenage boys tend to seek more prestigious skilled or even unskilled employment in factories, markets, or other commercial establishments.

If men believe that the probability of gaining employment in the formal sector is high they may frequently chose to be unemployed rather than work in the informal sector.⁸ Thus, they remain free to

⁸See Wm. R. Steel, The Intermediate Sector, Unemployment, and the Employment-Output Conflict, World Bank Staff Working Paper #301.

search for formal sector employment. The ability to do this, however, is dependent on the existence of sufficient family income to support the job search period. Many people prefer their children to be formal sector employees because of the prestige and semblance of stability of income offered. Formal sector employment, is seen as the best way to gain rapid access to a better life.

If employment in the modern sector cannot be found, with small investments people can become involved in informal sector income generating activities to support themselves and their households. Income from informal sector enterprises is often equivalent to a single wage in the formal sector but it is generally the fruit of several family workers, which must be taken into account in comparing formal and informal sector individual wages. Informal sector businesses operate below their capacity in large part due to lack of capital. Redundant productivity reducing activities such as frequent purchases of materials and collection trips are normal. Since, productivity in these enterprises is low, individual wages derived from informal economic activities are also low.

Despite low productivity and incomes the more successful entrepreneurs believe that there are benefits to working independently. Expenses for child care, transportation to and from work, laundry services, etc. are recognized as being additional costs resulting from leaving the home to work. Women with children find the shift schedules of modern factories particularly hard to meet. On the other hand, the formal sector is legally obligated to provide

fringe benefits such as pension plans and insurance, although these obligations are often avoided. Although the employee may have help at home from other family members, major homemaking and child-rearing responsibilities still rest with the mothers who are most affected by leaving the home. On the other hand, street vendors say that even though they leave home to work, they have their own schedule and can take the children with them if necessary.

Factory work is often physically taxing. As a PRIDECO promoter put it, people "burn out" while they are still young. When they leave factory work their sole alternative is to work in the informal sector.⁹

The Problems of Informal Sector Entrepreneurs

A. Economic Constraints

Production Discontinuity:

The major problem for the owners of informal sector businesses is the lack of capital. This has several consequences for their functioning. Entrepreneurs often have only enough cash to buy sufficient raw materials to last a day or two. When the inventories run out, production stops. To replenish inventories and keep the businesses going owners must make several collection trips a day to cancel outstanding debts or borrow capital from money lenders.

⁹For interesting discussions of urban employment patterns, see Guy Standing, "Urban Workers and Patterns of Employment" in Studies of Urban Labor Market Behavior in Developing Areas, page 36-48, International Institute for Labour Studies, Geneva.

Frequent collections and separate trips to purchase materials require time and businesses are often forced to shut down their shops to do these tasks. Thus, due to precarious cash flows, redundant activities are required, leading to a great deal of inefficiency and low productivity in informal sector businesses.

Inability to Extend Credit:

Based on a sample of 483 informal sector businesses in San Salvador, three-fourths sold on a cash basis, and only a quarter were able to give small amounts of credit to business customers and consumers.¹⁰ By extending credit they can expand their business to people who are paid weekly or biweekly. Until they are paid, informal sector entrepreneurs are providing credit to others through their own savings. The more prosperous they are the more savings they can generate for this purpose. The arrangement is to the mutual benefit of both producers and consumers.

Inability to Seek Better Prices

Owners must sell their product quickly to get money to continue producing. If they hold out for better prices, they put off obtaining cash receipts which they need to buy raw materials, and production stops. They must sell their products at a low profit margin in a highly competitive market and hope to maintain at least a small fixed clientele.

¹⁰ Sample of 483 or 17.7% of the entrepreneurs using small enterprise credit services of PRIDECO' FEDECREDITO during the period July 1978 to July 1979. All information was gathered from program files. (See annex # 1 for data sheet used.)

Inability to Obtain Quantity Discounts:

Given the lack of working capital informal sector entrepreneurs are seldom able to take advantage of quantity discounts and their production costs are higher than need be.

Need to Obtain Credit from Money Lenders:

Without access to banks informal sector entrepreneurs must often resort to small short-term loans from money lenders who charge interest rates which are often substantially higher than the regulated (often subsidized) formal sector rates of interests. Depending on the borrowers, money lenders lend on a daily, weekly or monthly basis. Very small daily loans often command interest rates as high as 50% per day. Twenty percent per month is the going rate for larger loans.

B. Social and Technical Constraints

1. Informal sector businesses are located in the marginal communities; theft is often a problem.
2. Materials are sometimes spoiled because of lack of good storage or exposure to rain.
3. The lack of security of land tenure in squatter communities makes owners reluctant to make long term investments.
4. Owners and employees often lack basic production skills (such as operation of sewing machines, carpentry or cooking).
5. The lack of information on how and where to sell limits profits.

To set the background for the following project description, a brief analysis of informal money markets and the issue of competition and demand within the informal sector follows.

Money Lenders:

Money lenders have costs, take risks and want to make a profit as do all financial institutions. The problem with money lenders is that they normally charge interest rates which deprive the entrepreneur of virtually all the gains made from the loans. In spite of this situation, entrepreneurs have no choice but to use the informal loans of money lenders as a means to survive, since their cash flow is so precarious.

Money lenders charge what the market will bear. Since credit is scarce relative to the demand for it, its price (interest rate) will be high. Depending on the risk assumed by money lenders and their administrative costs, these factors too will be reflected in the interest rate. The major problem with regard to the desirability of the service and the price which money lenders charge is whether their revenues from the service are used subsequently for their own personal consumption, savings, or increased lending.

In so far as money lenders make it possible for more small entrepreneurs to get working capital and increase their productivity then the service is indeed providing a positive economic function for the society as a whole. As more money flows to the sector through this channel competition for the positive rates of return on investment generated by informal lending may actually tend to

force the cost of informal money toward market rates. The problem lies in who derives the benefits of the increased productivity. This normally turns out to be the money lender through the very high interest charged.

If increased revenues to money lenders from the kinds of services which they provide are used for their own personal consumption habits, in opulent living for example, then we question whether they are providing services which benefit anyone but themselves.

It is not clear that money lenders charge monopolistic rates of interest. What is clear is that their rates are very high by almost any standard. If they are not monopoly rates, then they do not reflect contrived scarcity but only scarcity arising from other sources. These sources are:

1. Imperfections in the capital markets induced by government policies, diversion of real saving and capital accumulation from sectors where rates of return are high into other sectors -- modern show case industry typically -- where returns are lower and where subsidization increases the size of the wedge between the two rates and raises real cost to the informal and other squeezed sectors.
2. Imperfections in the capital markets due to ignorance of available sources of capital supply and cost.
3. Imperfections in the capital markets because of defective institutions for enforcing claims on debtors.
4. If in fact money lenders monopolized credit to the informal sector, this monopoly is then a final source of capital market imperfections.

Imperfections in capital markets are in part brought about by artificially low interest set by governments and interest groups primarily within the formal sector to stimulate its own growth. These

low rates benefit those people who are relatively well off and who have the traditional guarantees which permit them the access to credit. Since at this artificially low rate, banks prefer to make large, safe loans, the supply of credit to the informal sector remains low.

Since lending to the informal sector is perceived to be risky as well as costly, both public and private financial institutions will not lend at this level, therefore, availability of credit will be low to the informal sector. Those entrepreneurs who will make credit available informally will charge the "famous" high interest rates -- this is the price of credit, (reflecting scarcity relative to demand within the informal money market). This situation has made it very difficult for small entrepreneurs to improve their businesses through the use of credit. They use credit just to keep going. Their periodic credit payments absorb almost all increments in income, negating growth.

It is often postulated that money lenders provide security to the poor in terms of making ready cash available for emergencies. The proponents of this view fear that providing an institutionalized alternative (as is described in the following project review) may cut people off from the source and have a net negative effect since formal credit systems will take longer to disburse funds and usually will not be able to deal with emergency situations. However, from interviews with credit recipients the "Robin Hood" image of the money lenders is not felt. Some informal entrepreneurs recognize

that borrowing money from money lenders could get them into serious financial problems through extreme difficulty of pay back given the extremely high interest. So they prefer not to become involved in borrowing in this market if they can possibly avoid it. but at the same time, since they had insufficient funds to invest they were unable to improve their businesses.

Competition and Demand:

While competition is strong, interviews revealed that entrepreneurs do not consider their sector to be over crowded. They are confident that demand is sufficient for their products and that they could increase sales if they had the capital necessary to alleviate their cash flow problems and increase production.

The major effect of competition is to exacerbate an already tough situation. First, entrepreneurs face a seller's market when they try to obtain working capital for production, and second since entrepreneurs must often sell their products for cash in order to support their household and buy enough inventory to keep producing, they compete for buyers who will pay immediately. Greater credit will allow them to produce more and carry larger inventories if there is a positive elasticity of supply of raw materials from outside the sector.

Entrepreneurs could then continue to produce for several days providing short periods of supplier credit as well to customers, thus opening further market possibilities for themselves.

On the other hand, informal sector buyers often simply do not have the cash to pay for goods immediately thus limiting their inventories. With more credit, these entrepreneurs would have more stock and raw materials and increase not only their own businesses but their suppliers businesses as well.

The lack of credit and its consequences - inefficiently short production runs - typifies small businesses. Entrepreneurs in the informal sector are convinced that with a little more leeway in their inventories, more production capability, increased working capital, and time to seek new markets, they will be able to increase substantially their productivity and incomes.¹¹

By spending less time, effort and money on transactions dictated by lack of cash they realize that they will have more of all these resources to devote to the production process. Additional income translates into more demand for the goods of other informal sector entrepreneurs, further opening market possibilities and employment opportunities in the production of food, clothing and services.

One should emphasize that informal sector enterprises produce goods and services vital to their own communities. Increasing availability of credit to the sector thus generates growth and production of necessities for the mass of urban dwellers.

¹¹ Interviewees were all credit recipients which may affect the attitudes expressed by the sample. It was not a general sample of all informal sector entrepreneurs.

By increasing incomes of the poor absolutely and relatively to the rich, expansion of the informal sector secures both economic growth and greater income equality. In this respect it has immediate and possible long term effects quite opposite to those of investment in modern sector in "show case" industries. If the latter sector has been heavily subsidized, moreover, diversion of investment from the modern to the informal sector would raise the real rate of growth of the economy while reducing income inequality.

Arguments at variance with ours postulate static demands for goods and services of informal sector entrepreneurs. If the sector is treated as a completely closed economy without any forward or backward linkages and no price or income effect on demand within the sector, then this contention would be correct. But only in a tautological sense.

Interviews with the beneficiaries of the PRIDECO/FEDECCREDITO credit project as well as general theoretical considerations indicate that increases in their productivity and sales, though small on an individual basis, make a large impact on their well being. Net sales for a tortilla maker increased from 18 colones (\$7.20) to 22 colones (\$8.80) per day, a 22% increase after receiving credit. By the same token if the seamstress next door was able to increase her production through having increased inventories of materials (solving the production discontinuity problems typifying the informal sector) her time can be used in the business of producing clothes where she is presumably most productive and not diverted into other activities

such as producing tortillas at home for family consumption. If a small degree of specialization increases her productivity through more efficient use of time and materials then her income would rise. If her increase in income exceeds what she pays to the tortilla maker, plus interest payments, she can choose to consume more of the goods and services of other entrepreneurs, invest in her own business or have in other ways for family emergencies. Part of the increased income is always used for consumption -- a new blouse or food (often candy or soft drinks) -- which contribute to increased demand for other businesses either inside or outside the sector.

Some of the increased demand may stimulate agricultural production by increasing purchases of food or other farm production. Some may be used for other formal or informal sector products or services. (Arguments which state that some businesses are automatically hurt as others prosper thus upsetting some delicate subsistence balance of competition and demand for informal sector goods and services are based on a static demand argument which has not been shown to be the case.)

In any case income and demand increase throughout the system. As long as the supply of raw materials for production and other needed inventory, such as supplies for stores, keep pace with the additional demand for them, the process will not be inflationary.

If production increases in any one line of business to the point where demand is not sufficient, informal sector entrepreneurs normally have the flexibility to shift quickly to other lines within

a related field. For example, a shoemaker may shift to making wallets; the tortilla maker can add cheese to her tortillas to change the nature and quality of her product; and the small store owner can decrease stocking plantains and stock more watermelon when they are in season.

Informal sector entrepreneurs are able to respond quickly to market conditions since they are not locked in by large investments in specific equipment and inventories while their work seldom requires additional formalized training. Not only are they capable of flexible response to meet market demands but they are also compelled to meet them by the threat of potential competition that low barriers to entry ensure.

On the whole, the major impediment to increasing the efficiency of the informal sector is the lack of working capital. This is evidenced by the high cost of borrowing.

Effects of Income Generation:

Expanding capital in the informal sector by increasing real incomes facilitates the absorption of other kinds of long term assistance in skills training, health, nutrition and basic community development. As incomes rise, family savings increase, giving rise to mini-development funds on the family level. These increases in income are often used to improve housing, nutrition, health and education, major areas of any development effort. As a rise in real income increases the demand for all goods, even the goods provided

through development assistance, become complementary goods. By raising family income, development agencies can promote better use of their services by getting people to use their income increases for their own improvement. This is where the other facets of an integrated development scheme can have tremendous effect.

For example, income increases may be spent on more candy and soft drinks for the children, but with a nutrition education program to accompany increased consumption better diets can be promoted. However, if people do not believe that they need or can afford to use the information they are receiving through a wide array of social programs then the development efforts will fail.

Without credit the most pressing cash flow problems of informal sector households will persist leading to time and production bottlenecks perpetuating sectoral inefficiency. Productivity available for the immediate good of society will be stifled and lost and incomes will be held at subsistence levels.

Training, health, nutrition and other community development components are extremely important to the long term development of the informal sector, but the entry point for breaking the poverty cycle is through credit.

III. PROJECT DESCRIPTION

The government of El Salvador recognizes the magnitude of the urban problem it faces and has launched a comprehensive integrated urban development program with the objective of achieving general improvement in the conditions of the poor.

Through its urban community development program, Programa Integral de Desarrollo Comunal (PRIDECO) (Program for Integrated Community Development), and the Federación de Cajas de Crédito (FEDECCREDITO) (Federation of Credit Agencies), an autonomous organization with public and private funding, the government is making a strong effort to stimulate the growth of informal sector entrepreneurs to increase their incomes and, subsequently, increase informal sector employment.

Goals

The goal of the PRIDECO/FEDECCREDITO project is to provide an institutionalized alternative credit source to the informal capital market (money lenders) in order for informal sector entrepreneurs to receive loans, increase their productivity and generate income and employment in poor urban communities.

Beneficiaries see the program in the same way. They believe that the program will enable them to lead a better life with more opportunities for growth for their businesses and increased well-being for their families.

FEDECCREDITO's past Executive President, a former top bank

executive in El Salvador, saw informal sector lending as having tremendous potential to reach very large numbers of people efficiently. While he recognized that "refinancing" is unpopular with bankers, he also believes that in the case of lending in the informal sector, refinancing is a justifiable initial objective.

By refinancing people's debts in the informal credit market the project has the immediate impact of increasing personal, business, or family income. This is accomplished through direct transfers to entrepreneurs of the difference between the interest payments on FEDECCREDITO loans and those of money lenders.

If the project provides effective competition in the credit market, giving large numbers of poor people access to low cost credit, and with positive rates of return, then money lenders would be forced to lower their rates to the point where people felt that their services, including that of providing financial security for the poor in emergencies, were worth the cost.

The crucial objective for FEDECCREDITO is to provide an effective, non-collusive alternative credit source to people who otherwise would be competing for the relatively small supplies of credit (compared to the banking system) available through money lenders.

Once poor people have access to advantageous credit sources, competition is created with the informal credit sources, either bringing their rates down or forcing them out of business. The entrepreneurs can then proceed seriously on entrepreneurial and

personal improvement, with hope and pride. With the worries of survival eased to at least a small degree, people will be in a better position to take advantage of other services provided to them through health and nutrition education and other community development programs.

In addition to the credit function through PRIDECO, other goals include improved health, nutrition, community organization, and some basic assistance in notions of business administration and skills training.

PRIDECO

Background

PRIDECO is a multi-faceted urban community development organization founded in 1973 as an office of the President.¹² Its primary goals as stated by the Director of Planning are to begin the process of integrating very poor urban slum dwellers in San Salvador educationally, culturally, and economically into society. PRIDECO personnel believe that the "doors" to opportunity have been closed to the poor. State assistance is needed to open them.

The planning director believes that excessive philosophizing and theorizing about what the nature of poverty is and how to resolve some of the major problems is wasteful. What needs to be done is to find the way to quickly provide readily identifiable services to the communities to the greatest extent feasible. Resources

¹² In January 1979 the name was changed to PRIDECO from OMCOM (Oficina de Mejoramiento de las Comunidades Marginales) (Office for the Improvement of Marginal Communities).

will always be short and the ideal situation is elusive. To wait, theorize, and plan projects too minutely however, is counter-productive.

PRIDECO's primary activities include:

1. community organization;
2. promotion and organization of cultural and sports activities;
3. infant and maternal nutrition;
4. health services;
5. employment services;
6. administrative control of government sponsored housing (campamentos);
7. skills training and up-grading; and
8. promotion of credit assistance to informal sector entrepreneurs.

Some activities such as skills training are completely carried out by PRIDECO, but where it cannot provide services directly, it acts as a facilitator helping to develop interinstitutional linkages.

The next section on organization and personnel is outlined to deal with the different projects and sub-sections within PRIDECO. ¹³ Since PRIDECO is a multi-faceted community development organization, a short description of each division is necessary to give perspective to the credit project within the context of the overall Program. PRIDECO does most of the field work in the project and has positive ties with the community. To understand its credibility it is interesting to have an overview of how it operates.

13. See annex #2 for organization chart.

Organization

The Director of PRIDECO has overall responsibility for its operation and makes all major programmatic and administrative decisions. Immediately below the Director, a multi-purpose office handles personnel, supervisory, and administrative functions and, generally, assists the Director in resolving problems.

PRIDECO has four divisions: Administration, Planning, Social, and Development.

The Administrative Division

The Administrative Division is responsible for accounting and general financial record keeping. The ten employees in this Division are responsible to the Executive Director.

The Planning Division

The Planning Division does the resource planning of PRIDECO to ensure that the stated goals and objectives are reached. The Division has a Director, a secretary, and two departments: the Department of Research and Programming and the Department of Engineering. To detect community needs, all offices are consulted. Promoters from the other divisions come to the Planning Division to express their views and concerns about the state of the marginal communities and to suggest possible corrective measures. Of course, this is an ideal; few promoters are really self-starters or idea people. Still, the Director of PRIDECO through his Planning Department does seek a broad base of opinion to determine PRIDECO priorities. The Planning

Division does seem to seek out the staff's perceptions, and through community Assemblies, they learn of the community's felt needs.

Political currents in the country also help define critical needs and project directions. The Director of Planning stated that PRIDECO tries to detect these needs in order to develop a means of addressing them through project activities.

Department of Research and Programming: The planning process proceeds with a request from PRIDECO's director to provide a service to a given sector. The Department studies the situation and develops a work plan to carry out the project. They then look at what resources (both personnel and economic) are available. Often resources are lacking in which case planning tries to obtain them from outside PRIDECO through donations, volunteers, and so forth.

According to the Planning Director, when it comes to vital necessities such as health, housing, clothes, food or employment, PRIDECO does not attempt to prioritize. They attempt to provide services in all these areas. Her point is that a single program, such as nutrition for infants, makes little difference if the families live in disease ridden conditions. Programs and services must be coordinated and linked if the cycle of poverty is to be broken. In this instance, among other programs, health education, family planning, and skill training are needed.

The department is staffed by a project developer and two assistants.

The Department of Engineering: This department takes project plans and designs needed infrastructure such as retention walls and community centers. It also determines infrastructural costs. It coordinates with the Research and Planning Department to determine what other resources are necessary to carry out the project and if they are available.

The Engineering Department is staffed by a chief, an assistant, a designer, and two technicians. As an adjunct to the Department there is a general services group consisting of twelve carpenters and electricians.

The Social Division

This subdivision includes PRIDECO's numerous social programs. It is the largest division and has a number of different programs organized as separate departments, including: Community Organization, Youth and Sports, and Maternal and Infant Nutrition.

At the division level, it is staffed by a director, an assistant, and a secretary. Each department has a director and separate staff.

Promoters play a vital role in PRIDECO's activities. First, they help form representative bodies (assemblies) as a means of detecting community needs and coordinating community activities. An assembly elects a Community Director to take charge of eliciting community response regarding their felt needs to be brought to PRIDECO's attention. He consults with other community leaders in

charge of coordinating community activities and with the community discusses projects that may be implemented.

Secondly, the promoters use the assemblies as a means of promoting PRIDECO's on-going projects. Promoters work closely with those community leaders in charge of specific programs, such as health campaigns, to ensure the community is aware of and uses PRIDECO's programs.

Third, they make home visits in order to listen to people's problems and to explain PRIDECO's programs. Each home visit is designed to have a program objective such as a short chat on housing, nutrition, or employment. Usually they are able to visit three families a day for about a half-hour each. As PRIDECO does not provide promoters with transportation, much of their time -- up to three hours a day -- is spent reaching clients by public transportation.

Fourth, through their home visits, they identify potential community leaders -- those who have an interest in community improvement and who are willing to assist in program promotion and development in the community.

Every two or three weeks over a six month period, promoters visit those families showing leadership potential. They cover one objective or discussion topic per visit until they have completed an entire program covering nutrition, housing and so on.

The Department of Youth and Sports stimulates the development of recreational, educational, and cultural events. They take advantage of youth's enthusiasm to form teams and cultural groups in the communities, thus providing a constructive way for young people to occupy their spare time. The Department is staffed by a chief, three promoters, and a secretary.

The Department of Maternal and Infant Nutrition attempts to improve the community's understanding of nutrition. In addition to its educational programs, it distributes food to poor communities thru Caritas, a charitable Catholic organization. There is a small charge to beneficiaries to cover costs of the program. PRIDECO has developed a great deal of credibility through this program which it has used in its other programs, such as credit assistance. The Department has 21 employees including the Chief, secretary, assistant, two supervisors, 12 instructors, and 4 packers.

The Development Division is composed of three departments: Crafts and Skills Training, Civic and Social Organization, and Cooperativism and Credit Assistance. We will examine this last department in detail. At the divisional level, it is staffed by a Chief and a secretary.

The Department of Crafts and Skill Training trains people in low or middle level skills for use in formal sector employment or in their own economic endeavors. In their shops -- set up in public buildings -- PRIDECO instructors give short courses in handicrafts. They also provide longer courses, in sewing, sewing machine operation (both industrial and domestic), and design.

These courses may last up to two years. They are given in 43 Academies throughout the country. The Department has 28 instructors but no administrators; it is directed and coordinated by the Chief of the Department of Cooperativism and Credit Assistance.

The Department of Civic and Social Organization has a political orientation. According to its Chief, the department's job when it was set up on May 1, 1979, was to go to the community to "explain individual rights to the people and promote and defend the constitution of the country and the government."

Recently, an employment service was added to the Department to facilitate employment of people from the poor communities in the formal sector. Even this program is politically oriented; essentially, the Department vouches to employers that the recommendee is not a "revolutionary". One's impressions, from the Department's Assistant Chief and other staff, is that this department enjoys little acceptance by the other segments of the PRIDECO organization. Its newness -- it was started on May 1, 1979 -- and particular orientation seem to separate it from the rest of PRIDECO. The Department is staffed by a chief, assistant, secretary, and six promoters.

The Department of Cooperativism and Credit Assistance does promotion and the initial paperwork required for credit to informal sector entrepreneurs. It is a new department, formed at the start of a collaborative credit effort between PRIDECO and FEDECREDITO. It is staffed by a chief, secretary, credit secretary, and six promoters

(four for the FEDECCREDITO project and two for cooperative development).

The chief of this department is also responsible for detecting non-credit assistance needs and supervising training functions. He organizes low level administrative assistance courses for credit recipients and skills training for all PRIDECO clients. But the courses are not compulsory.

Personnel

There are 147 employees in PRIDECO of which 90 are field promoters who spend most of their time out of the office. The rest are upper level directors, division directors, department chiefs, secretaries, and planning, administrative, and general services staff. Many of the division directors and department chiefs get to the field but not on a continuous basis.

Staff Profile -- Directors and Chiefs

The Director of PRIDECO, Col. Julio R. Zepeda, 52 years old, retired from the army in 1976. He has 34 years of military experience, and he's spent many years managing community oriented organizations run by the government. For example, from 1974 - 1975, he was president of FOCO (Fomento Cooperativo -- Cooperative Development) -- currently called DIDECO -- a government rural community development organization. The director is named by the President of El Salvador. His salary is 1,400 colones/month (\$560).

The Director of Ayudantía, Edgardo Velasco is 35 and has been at PRIDECO for only a few months. He has worked in private business, and his last job was at FEDECCREDITO as chief of the computation department. He's an accountant by profession.

By his account, he was one of those instrumental in getting PRIDECO and FEDECCREDITO together in the joint credit program. Because he worked at FEDECCREDITO, he knew of their interest in urban informal sector lending. He is unable to visit the poor communities often, but has expressed to me his recognition of the vast problems of the city and country as a whole. He is very patriotic and expresses a fervent belief that El Salvador and its people will be economic and social leaders in Central America. Currently, he is studying business administration at night. Salary: 900 colones/month (\$360).

The Chief of the Social Division, Pedro González, is 26 years old. He received his high school diploma in 1974. Since then, he has worked in urban community development continuously. His last position was in PRIDECO's Social Division as chief of the Community Organization Department. Salary: 875 colones/month (\$350).

The Chief of the Development Division, Jose Melara, is about 38 years old. The personnel manager knew little about him. Salary: 650 colones/month (\$260).

The Chief of the Department of Cooperativism and Credit Assistance, Fernando Gonzalez, is 26 years old. He has a high school diploma. His last position was with INSAFOCOOP, a government cooperative development organization providing technical and credit assistance in rural

areas. Salary: 450 colones/month (\$180).

Division chiefs and other top officials seem to be political appointees with varying educational levels. There's no exact documentation, but educational levels range from high school diplomas to some with several graduate degrees.

Lower Level Personnel

Secretaries normally have high school level educations. They are usually young women with one to five years experience. Salaries average 400 colones/month (\$160) for both department and division secretaries. The Director's secretary makes 550 colones/month (\$220) basically as a result of her higher position.

Social Division promoters seldom have high school educations; some have little more than primary schooling. A few cannot read or write. However, more of the promoters currently being hired by the Division are high school graduates. The Division Chief feels that he needs at least high school graduates to develop a credible social work program. In contrast, the present program of primary information promotion requires lower educational levels.

On the other hand, cooperative and credit assistance promoters have higher levels of education. All four credit promoters for the collaborative program with FEDECCREDITO have high school diplomas, and are studying at the university for degrees in industrial engineering (2), chemical engineering (1) and law (1).

PRIDECO promoters are poorly paid, receiving only 25% more than minimum wage. Then again, their qualifications are often little better

than factory workers. Still, people are happy to become promoters as jobs are scarce. Salary: 300 colones/month (\$140).

Employment Policies

There are no standard hiring policies nor are there specific job descriptions or requirements. Hiring practices seem to be based on two factors: first, that people are willing to work for the wages; second, that they meet with personal favor from the top staff. Because of tight budget constraints, salary levels are low, especially at the promoter level.

Interestingly enough, the low wages have had the effect of attracting people who are perfectly appropriate to do the work required of them. This is especially true of credit promoters, university students working their way through school who work almost with the spirit of voluntarism. Their position is temporary, and they look forward to another career and higher salaries after graduation.

While salary levels could be somewhat higher, high salaries tend to attract over qualified people, such as highly trained social workers and other specialists. In other programs this author has observed, such over qualified promoters are quickly bored with the day to day problems of the informal sector. They seek out positions with highly funded government organizations or prestigious formal sector enterprises. This causes substantial staff turnover and program discontinuity. If they do continue with the program, they attempt to adjust their jobs and actions to fit their personal professional objectives and needs. The result is a marked change in program objectives

and beneficiary groups.

Employee levels seem to reflect PRIDECO's priority areas for community activities. The Community Organization and Infant and Maternal Nutrition Department of the Social Division and the Department of Crafts and Skill Training of the Development Division employ 80%, or 77 of the 90 field workers; i.e. promoters, supervisors, and instructors.

Other departments have the administrative and supervisory capacity to expand, but PRIDECO's slim resources preclude hiring additional promoters. Most slots are assigned to the training, nutrition, and organization components. Programs like credit assistance are held back. The current director inclines toward what he considers the more visible program areas of nutrition, health, and housing. He seems to be less interested in credit, possibly because of its inter-institutional nature. In this regard, PRIDECO feels that despite having done all the promotion and initial paperwork in the credit program, it is not getting enough recognition from FEDECCREDITO for its efforts.

Funding

PRIDECO is an office of the President of El Salvador. Despite the seemingly advantageous position, it is poorly funded. The total monthly budget amounts to 70,788 colones/month (\$28,315.20). The government provides 91% of the total. General funds -- that is income derived from its skills training programs, rent from government built housing

MONTHLY BUDGET
(As given by the accountant on August 2, 1979)

	<u>Colones</u>	<u>U.S. Dollars</u>
Administrative Division:*		
Government	13,805.00	5,522.00
General Funds	<u>2,531.00</u>	<u>1,012.40</u>
Sub-total	16,336.00	6,534.40
Development Division:		
Government	22,135.00	8,854.00
General Funds	<u>346.00</u>	<u>138.40</u>
Sub-total	22,481.00	8,992.40
Social Division:**		
Government	19,885.00	7,954.00
General Funds	<u>2,913.00</u>	<u>1,165.20</u>
Sub-total	22,798.00	9,119.20
Planning Division:		
Government	8,840.00	3,536.00
General Funds	<u>333.00</u>	<u>133.20</u>
Sub-total	9,173.00	3,669.20
Sub-total:		
Government	64,665.00	25,866.00
General Funds	<u>6,123.00</u>	<u>2,449.20</u>
Grand Total	<u>70,788.00</u>	<u>28,315.20</u>

* The costs for the Directors office and Ayudantía are probably included in the Government line for the Administrative Division.

** Income from the food program is used to cover the cost of the program; thus, the total for General Funds in the Social Division is proportionately higher than the total in the other divisions.

for which it is responsible, fund raising through bingos, games, etc., and sales of food rations through the Caritas program -- accounts for the remaining 9%.

Government funds are used to pay salaries and utilities. There is no rent since the offices belong to the government. General funds are used for: salaries which are not yet on the official roster of slots allowed to PRIDECO; light in the academias; purchase of office equipment, furniture, transportation and supplies; and general office and vehicle maintenance. As can be seen, the bulk of the budget goes towards salaries; little is spent on overhead and other costs.

Cost of Credit Promotion and Administration to PRIDECO

The Department of Cooperativism and Credit Assistance spends 3,500 colones per month (\$1,420) on personnel. This includes all secretarial time for the Division. This is out of the total Development Division budget of 22,481 colones per month (\$8,992). Hence, running the credit absorbs only 16% of the total Division budget and only 5% of PRIDECO's monthly project budget. Even if one includes the salaries of Social Division promoters -- who occasionally inform people in the communities of the credit program -- the program's cost is low.

Let's say, for the sake of trying to determine the level of subsidy, that the Social Division cost for credit promotion is 2,500 colones (\$1,000) or about 8 person months. The total cost per month to both divisions for promotion then would be 6,050 colones (\$2,420). Given that an average of 25 solidarity groups* receive loans each month, the

*Note: to be explained in detail later.

promotion and pre-credit visits cost only 242 colones (\$.96.80) per group for first loans.

Assuming a minimum of five loans per group, this means that the promotion subsidy, not including the program's low overhead costs, is approximately 48.40 colones (\$19.36 per loan).

Now let us look at the other partner in this joint credit program.

FEDECCREDITO

Background:

FEDECCREDITO was founded in 1943. It is a financial intermediary and it is the coordinating office for the 42 affiliated credit agencies (Cajas de Crédito) throughout the country which make up the rural credit system. Each Caja is run as an autonomous business and is legally set up as a cooperative. FEDECCREDITO, however, determines policy; essentially, the Cajas are the channels for credit and the local administrator of the lending activity outside the city. FEDECCREDITO directly administers credit within San Salvador.

Since its founding, FEDECCREDITO has been dedicated primarily to rural lending for very small agricultural activities. FEDECCREDITO's principal role is to channel credit funds and a small amount of the administrative and technical assistance relative to the size of the program to the rural Cajas. Yet since 1943, it has assumed additional functions to administer urban credit programs as well.

Over the years, it has also gained a great deal of experience in the area of group lending in markets throughout the country.

In 1952, in the city of Cojutepeque, they developed the credit group guarantee mechanism to provide credit to people who lacked traditional guarantees and who were dependent on moneylenders. The program was a success. Since then, they have expanded it slowly, but steadily. The system, which will be described in detail later, relies on the credit group and peer pressures as the guarantees of loans. Despite success in this area, until recently, FEDECCREDITO allocated few funds for this credit line.

FEDECCREDITO receives funds from outside sources. It then lends money to the Cajas who onlend it to the final beneficiaries. Since the Cajas do not have their own loan funds, they rely on the interest differentials allowed by FEDECCREDITO to pay their overhead and administrative costs. The whole FEDECCREDITO system currently reaches 70,000 beneficiaries through its credit services. Loans run from U.S. \$20 to U.S. \$25,000 maximum.

Funding:

FEDECCREDITO receives funds from several sources, the most important being the Central Reserve Bank which provides about 80% of the total portfolio for all credit lines. FEDECCREDITO has assets of approximately \$42 million. As stipulated in the rural credit law of 1943, the government sponsored mortgage bank (Banco Hipotecario) was the primary funder, while the Central Reserve Bank took a secondary role providing about 20% of the loan funds. With the 1976 reform of the Rural Credit System, the Central Reserve Bank

took over the role of major system funder.

Other sources of funds are bonds, deposits from government institutions, accumulated profits from their lending operations, and external borrowing from the World Bank, Inter-American Development Bank, and one U.S. Commercial Bank. There are no private deposits.

Funds given to FEDECCREDITO by the government of El Salvador are used primarily with the agriculture and live stock development credit line.

The Inter-American Development Bank supports the rural community development effort with a 40-year loan of \$5 million, interest just paid at the rate of 1% per year for the first 10 years and 2% thereafter. The World Bank has lent \$5 million at a 6% annual rate to support the urban community development effort.

Lines of Credits:

Currently, FEDECCREDITO offers seven credit lines. The first three and the last are offered throughout the system. The rest are offered only in San Salvador. They are as follows:

1. Agriculture and Livestock Development (Fomento Agropecuario):
Loans for buying seed, fertilizer, pesticides, cattle, pasture improvements, improvement of installations, and so on. It is by far the most important credit line historically.
2. Industrial, Commercial and Services (Financiamiento e Industria, Comercio y Servicios):

For small non-agricultural enterprises such as small corner food stores, repair shops, and artisans.

3. Popular Credit (Crédito Popular):
Small loans in the markets with solidarity group guarantees.
4. Urban Community Development (Desarrollo Comunal Urbano):
The World Bank/FEDECCREDITO pilot project for lending to small businesses in the marginal urban communities to the solidarity groups guarantee procedure.
5. Loans to Public and Private Employees (Préstamos a Empleados Públicos y Privados):
Is funded strictly by GOES general funds and administered by FEDECCREDITO.
6. Education Credit (Crédito Educativo EDUCREDITO):
For low income people who lack resources for education.
7. Rural Community Development (Desarrollo Comunal Rural):
A new line for rural small enterprise development. It is funded by the Inter-American Development Bank and made its first loans as of August 17, 1979. It is experimenting with the use of credit groups in rural areas.

Organization:

FEDECCREDITO's Executive President is appointed by the President of the Republic of El Salvador. He is President of the Board of Governors which consists of representatives of two Ministries; two

state banks -- including the Central Reserve Bank, and two local credit agencies. He is in a powerful policy-making position and strongly influences FEDECREDITO operations.

Next in hierarchy is the General Manager, who essentially oversees the various divisions and makes day to day administrative decisions.

There are four divisions: Planning, Affiliated Cooperatives, Finance and Administration. Each division has several departments under it. In turn, lines of credit are assigned to the specific departments. The departments provide administrative support to the credit lines and in the case of agricultural credit, provide a small degree of technical assistance.

Urban Community Development Department:

Since our primary interest is FEDECREDITO's role in providing credit to the urban informal sector and its linkage with PRIDECO, a long examination of the many divisions and departments is unnecessary. We will concentrate only on those departments and divisions directly related to the credit project.

Several years ago, the World Bank identified FEDECREDITO's system to implement an informal sector credit project in San Salvador's slums. This credit project was to be based on a mechanism already in use in the market places as a part of FEDECREDITO's popular credit program.

To administer the project, FEDECREDITO created its Department of Urban Community Development, and in December 1977, it disbursed its

first group loans in the project. There are 16 employees in the Department led by the Department Chief who has one secretary. Each section has a Section Chief and 6 employees. The department is divided into two sections, the Credit Section and the Accounting and Financial Operation.

The credit Section is staffed by a Section Chief, two Evaluators -who visit credit applicants in the communities, one applications receiver -who receives applications as they come into FEDECCREDITO, one Contract Assistant, and one Secretary -who manages applications and registers all loan recipients.

The Operations Section is staffed by a Section Chief, two Accounting Assistants, three Loan Collectors --two for groups and one for individual loans, one office worker --who receives and accounts for daily cash receipts and assist in other office functions.

Personnel Profile:

The Department Chief has recently been transferred from another section of FEDECCREDITO. Previously, she was in the Department of Loans to Public and Private Employees, where she was in charge of contracts. She is a Social Worker and is also certified to teach in a primary school. Currently, she studies at night and is about to receive a college degree in psychology. She is in her mid-30's. Salary: unknown.

The Chief of the Credit Section is also a Social Worker with a junior college level degree --Social Work is not yet a university

degree in El Salvador. Age: late twenties. Salary: 650 colones /month (\$260). Also within the Credit Section are two Evaluators. Both are high-school graduates with twelve years of education. Both took the commercial track. Ages 20-22. Salary: 350 colones/month (\$140). They also receive 10 colones per week for transportation.

The Applications Receiver is also a high-school graduate. He took the academic track. Age: about 22. Salary: 300 colones/month (\$120).

The Contract Assistant has a high-school degree. Age: about 26. Salary: 400 colones/month (\$160).

All three Secretaries have finished nine years of general education and three years secretarial course. All are in their mid-twenties. However, the department Secretary earns 500 colones/month because of her higher position in the department. The Section Secretaries earn 350 colones/month (\$140).

The Chief of the Operations Section is an Accountant with several years of experience at FEDECREDITO. He has a high-school degree with a commercial track and has completed two years of night study toward a university degree in Business Administration. Age: about 28. Salary: 700 colones/month (\$240).

The two Accounting Assistants are both high-school graduates. Both took the commercial track. Ages: early to mid-twenties. Salary: 400 colones/month (\$160).

The all purpose Office Worker is a high-school graduate. He also took the commercial track. Age: early twenties. Salary: perhaps,

300 colones/month (\$120).

The three Loan Collectors each have nine years of schooling. In addition, they must meet the following requirements: 1) own a vehicle, such as a car or a motor scooter, 2) provide personal references, 3) be able to get along with people and 4) want to work with poor people. Ages: mid-twenties. Basic Salary: 200 colones/month (\$80). As a commission, they receive one percent of the funds they collect each month.

This commission can be quite substantial and leads to a good income for the collectors. Collectors assigned to solidarity groups may earn as much as 1,000 colones/month. One Loan Collector estimates that he can cover about two hundred groups a week (most groups pay on a weekly basis) and collects about 19,000 colones per week (\$7,600).

It should be noted that FEDECCREDITO's role as banker in the project with PRIDECO requires less promotion and more administration. This is reflected in the staff profile. Only five of the sixteen Urban Community Development Department employees are field workers. The remaining employees have strictly office functions.

Employment Policies:

FEDECCREDITO has fairly well established employment policies and seems to hire on a competitive basis; on the other hand, PRIDECO seems to hire employees on a personal basis. For example, FEDECCREDITO uses vacancy announcements and job interviews in the selection process. On the other hand, PRIDECO often seems to hire employees first referred

to it by its own staff.

As can be seen, salaries are comparable to those of PRIDECO; they are low. But, where as PRIDECO promoters and staff appear to consider their work temporary, FEDECCREDITO's staff seemed to be quite professional and consider their jobs career positions.

One weak point in both PRIDECO's and FEDECCREDITO personnel system seems to be in the area of staff orientation and training. Neither organization has a formal orientation or training program; rather, employees receive on-the-job orientation. Field workers from both agencies have stated that more formal orientation and training, however, brief, will make them more effective more quickly.

Cost of lending to FEDECCREDITO:

FEDECCREDITO's personnel costs for the project are 8,060 colones per month (\$3,224) plus an additional 28% for fringe benefits; total cost --10,316 colones (\$4,126). It is interesting to note, that since Collectors receive 1% of the total they collect each month, they make as much or more than supervisory staff. This emphasizes the relative importance that FEDECCREDITO assigns to collection. The three Collectors make a total of 3,400 colones/month (\$1,360) while the remaining eleven office staff make a total of 4,660 colones/month (\$1,864) plus 28% for fringe benefits).

Assuming that 50% of the Evaluators time is spent reviewing new applications, 30% of the Collectors time is spent collecting first loans, and 30% of office work is related to processing new loans, then we can estimate that personnel cost for first loans total approximately

3,177 colones/month (\$1,270). As an average of 25 new solidarity groups receive credit each month, the personnel cost to FEDECCREDITO is roughly estimated at 127 colones per group (50). If each group has an average of five members, the cost will be 25 colones per new loan (10).

Certainly, to obtain a more accurate cost figure per loan, one needs to calculate overhead and some personnel cost outside the department. Still, the cost trend seems to be very reasonable. Totalling the estimated PRIDECO and FEDECCREDITO personnel cost per first loan, we arrive at 73.40 colones per loan (\$29.36).

The PRIDECO/FEDECCREDITO Linkage:

Initially, FEDECCREDITO's Urban Community Development Department was responsible for all aspects of its informal sector credit program with the World Bank. They handle promotion, supervision, technical assistance, and collection functions.

However, it soon became apparent to FEDECCREDITO that its credibility in and acceptance by the urban marginal communities and that the program needed reorganizing.

According to PRIDECO, people in the communities have little confidence in credit institutions since they have been hurt by them in the past. Without going into detailed information, past programs have been inappropriate to the needs of the people in the urban communities; therefore, any offer of assistance is suspect and gaining the confidence of the poor is difficult.

Under these circumstances, FEDECREDITO's Executive President felt that it was necessary to utilize an organization already working in the communities to do a large portion of the promotion for its Urban Community Development Project. PRIDECO's multi-faceted programing --which includes community organization, nutrition, health, and other well accepted programs-- appears to have gained the confidence of the poor by demonstrating its concern for and interest in them. PRIDECO's promotion for FEDECREDITO was to give the project the credibility it needed to survive.

Thus, PRIDECO was contacted in 1978 by FEDECREDITO and agreed to set up a Department of Handcrafts and Credit Assistance, presently called the Department of Cooperatives and Credit Assistance. This new department was charged with promotion, supervision, and technical assistance of the project, and in late payments cases with collection as well. FEDECREDITO would account for World Bank funds, verify applications and collect loan payments. FEDECREDITO would receive PRIDECO's services free of charge. In effect, PRIDECO would subsidize this project by about \$20 per first loan.

Since the beginning of the project in December 1977, 2,736 separate informal sector entrepreneurs had received credit. Because of the simple efficient mechanism used, a high percentage of beneficiaries have received up to four and five short term loans during this period. By August 1979, including repeats, the project had disbursed 6,000 separate loans totalling over \$1,500,000. Loans from the PRIDECO /FEDECREDITO system had been spread out over 37 of the poorest neighbor-

hoods in San Salvador; roughly, these neighborhoods have a population of 20,000 inhabitants.¹⁴

The project has had no problem funding the credit line, and the World Bank is considering another loan to expand the project further and to re-design the technical assistance function.

Project Beneficiaries

The beneficiaries come from the slum areas described earlier: the mesones, tugurios, and campamentos. Over half of them had lived in their neighborhoods from 6 to 30 years as indicated in Table 1. Many of them have been in the same businesses for a long time - some for as much as 23 years in the same activity - the norm being three years. Informal sector activities in El Salvador seem to be stable, and it appears that people stick with their basic businesses for long periods. (In this project, selection criteria required that all entrepreneurs be in business for at least one year).

On the initiative of the author, PRIDECO conducted a survey of the characteristics of credit project beneficiaries. The results are as follows:

Table 1:^A Years of Residence in Community

Years of Residence	Number	Percentage
1-2	92	19.0
3-5	97	20.1
6-10	132	27.3
11-30	150	31.1
No response	12	2.5

Source: PRIDECO Credit Project Files.

^A Note: All Tables in this section are based on a random sample of 483 Credit Project Beneficiaries, 17.7% of beneficiaries from July 1978 to July 1979.

¹⁴ See Annex #3 for population information regarding poorest neighborhoods.

According to Tables 2 and 3 it is apparent that most beneficiaries are women between 30 and 40 or over 46 years old. The implication is that these people are involved in informal sector businesses to provide supplemental income to their families while continuing to be able to do the other unremunerated domestic activities such as cooking, laundry, etc. expected of them. In these age brackets, a side business makes a lot of sense also, since children of these people will be old enough to provide part-time labor to the business, bringing a large part of the family unit into the income process.

Younger people, ages 21 - 30, are less likely to be beneficiaries of credit, but care must be taken not to analyze this as necessarily meaning that they are not as likely to be involved in informal sector businesses. It may be true that for workers between 21 and 30 years old, formal sector jobs are more readily available so that less young people might be prone to enter informal sector businesses, but by the same token the data does not show this. It could very well be that the 21-30 age brackets represent less beneficiaries than other age groups because these people are primarily employed as helpers or apprentices in these activities. As such, they do not figure as project beneficiaries since they have not taken out the loans. With age and experience, they are more apt to become entrepreneurs, request loans, and figure as beneficiaries.

While some young people elect open unemployment rather than work in the informal sector, many of them, especially women,

are engaged in informal sector activities,¹⁵ despite the low prestige. However, because of the economic and social constraints mentioned earlier, they may well be highly underemployed.

Given the general need to increase employment for young people, a major and growing segment of the population, an obvious starting point is to examine the informal sector in which they are most likely to be employed or employable. The following tables show demographic data for this sector:

Table 2: Sex of the Beneficiaries

Sex	Number	Percentage
Female	417	86.4
Male	66	13.6
TOTAL	483	100.00

Source: PRIDECO Credit Project Files. See Footnote #10.

Table 3: Age of Beneficiaries

Age	Number	Percentage
21-25	45	14.5
26-30	44	14.1
31-35	57	18.3
36-40	53	17.0
41-45	38	12.2
46+	73	23.5
No response	1	.4
TOTAL	311	100.00

Source: Same as above.

15. See Mazumdar, Dipak "Analysis of the Dual Labor Market in ICDS, pp. 18-23, Studies of Urban Labour Market Behavior in Developing Areas, ed. Subbiah Kannapan, Int. Inst. Labour Studies, Geneva.

The size of households supported by credit beneficiaries varies greatly as we can see in the following table. However, as can be seen 52% of the households were in the four to six member range.

Table 4: Size of Household Supported by Beneficiaries

Size of Household	Number of Beneficiaries	Percentage
1.	14	2.9
2	36	7.5
3	61	12.6
4	86	17.8
5	81	16.8
6	83	17.2
7	61	12.6
8	42	8.7
9	11	2.3
10 +	8	1.6
TOTAL	483	100.00

Source: PRIDECO Credit files. See Footnote #10.

This data correlates with the age of most of the beneficiaries who are women over 30 who would be likely to have medium sized families living at home, with several other members away from home working on their own. Sixty six percent of the households have income in addition to that derived from the family business. In most cases, there is a husband, son or daughter employed in the formal sector who send a portion of their salaries to the family.

Fifty three percent of the beneficiaries did business outside their community of residence. Forty seven percent had home based businesses. Interestingly, almost 41% of the sample were street vendors who are frequently considered among the poorest credit risks because of their mobile nature out on the street. But in this project, for all intents and purposes, they are stable within the context of the relationships they maintain in their neighborhoods. See Table 5 for location information.

To determine the incomes of the beneficiaries is difficult. Figures from interviews and data from project files tend to be unreliable. Beneficiaries often over-estimate income from their economic activities and under-estimate their expenditures. Normally, they are not trying to mislead the project staff. Rather, they are simply not used to making specific calculations of their income and expenses, although they do have a good sense of where they stand economically. For example, people would state the amount they expect they can sell or the amounts they have sold in the past on a particularly good day rather than actual gross sales. As for expenditures, informal sector entrepreneurs often omit costs either because they have forgotten them or because they do not consider them to be important.

Nevertheless, the beneficiaries' gross income per household appears to cluster between \$120 and \$140 per month. This coincides with the urban study mentioned earlier in which 90% of the urban poor had

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Table 5: Location of Business

<u>Location</u>	<u>Number of Beneficiaries</u>	<u>Percentage</u>
Inside Community of Residence:		
at home	227	47.0
Outside Community of Residence:	256	53.0
fixed location	55	11.4
street vendor	196	40.6
travels outside San Salvador	5	1.0
TOTAL	<u>483</u>	<u>100.00</u>

Source: PRIDECO Credit Project Files. See Footnote #10.

family income of \$120 or less per month. Families would be considered poor if they had incomes of less than \$175 per month. Thus, project beneficiaries are in the upper 10% of the poor income bracket and could be considered among the more successful informal sector entrepreneurs. This is not at all surprising since the program is designed to select this type of person through the solidarity group mechanism described later. The solidarity group selection process requires that members of groups select each other for inclusion. This means that the best risks, as perceived by the entrepreneurs themselves, would be selected; in other words, the group members themselves would pick the more successful entrepreneurs for inclusion in their group.

From what I was able to observe in interviews with the project beneficiaries, they seemed to be doing as much as they could with their businesses, given their economic constraints. Most intended to continue and to improve upon their business activities thereby increasing their incomes as much as possible. With their increased income, they intended to upgrade their housing, food, and personal appearances, as well as re-invest in the business.

Informal sector entrepreneurs were also cognizant of the needs for education. There was a recognition of the value of education to the well being of their children, either to qualify for better jobs in modern industry or to make their business activities more profitable. Nearly all entrepreneurs intended to use a portion of their increased income towards the education of their children.

The PRIDECO/FEDECREDITO project strongly supports the supposition

that the major problem for lending institutions has been the lack of a good, efficient mechanism for providing credit to the poor. It has shown that administrative costs can be kept down while maintaining excellent rates of repayment (99%). Contrary to popular belief, it has shown that the poor are as credit-worthy as the more advantaged classes who are traditionally eligible for credit.

The Solidarity Group: (Grupos Solidarios)

The key to the credit system is the solidarity group guarantee mechanism, first tried by FEDECCREDITO in 1952. The idea behind the solidarity group is that people with existing businesses and a need for credit will join together in a credit group to qualify for loans. In turn, the members of the group guarantee that each member will repay his portion of the loan. For example, if one member does not pay his weekly amount when FEDECCREDITO comes to collect, then the rest of the group makes up the missing amount. We will discuss the collection procedures in more detail later. The philosophy of the solidarity group is that peer pressures within the group will be strong enough to get people to make timely payments.

Each group appoints one person to be in charge of collecting from the other members on a mutually agreed upon schedule. She is responsible for paying FEDECCREDITO, which normally collects on a weekly basis.

Each group has between five and ten members. Groups of less than five members were considered less stable and more prone to avoid payment. It is easier for three or four people to agree to avoid repayment and default by leaving the community than it is for five to ten people to do the same. Although not stated by project staff, it would seem that having more people in the group also spreads the risk for each member and improves FEDECCREDITO's chances of collecting the full amount of the loan, even if someone reneges. On the other hand, it is difficult for the group leader to maintain internal control of the group if there are more than ten members. Potential collection difficulties due to the diffuse nature of a larger group might then increase FEDECCREDITO's risk.

Ideally FEDECCREDITO would like all group members to have similar family incomes and loan levels. This way, one person would not become the major risk factor nor could he jeopardize the other members of the group by defaulting to his benefit.

As regards group selection, PRIDECO credit promoters say that they have found that it is more efficient -and just as effective- to allow people to select themselves into groups than to have the project staff do it for them. Previously, project staff tried to form groups using individual, one to one selection process which was time consuming and ineffective. Since the philosophy is that the group takes responsibility for the payback of its members, the members must know each other well, feel strong social pressures, and have a sense of responsibility and commitment to each other for the system to be effective. Since the

members are ultimately responsible for the payback of each individual, it is unlikely they will invite a poor credit risk to join the group.

This self-selection process has been crucial in keeping costs down and has undoubtedly influenced payback rates tremendously. The idea of credit groups is not at all new --letting the groups form themselves is.

The ground rules for gaining access to the credit services are spelled out by PRIDECO promoters in their community activities. People interested in the credit service are encouraged to seek out other interested persons to form a group under the conditions stipulated by PRIDECO. Often groups are promoted by one person who has heard about the program and who seeks out others. This person motivates them to take credit, even though they may have never intended to take advantage of the system. Despite this seemingly risky way of forming a group, the system does work; late repayment and default rates are excellent --3.4% and 1% respectively.

Occasionally, someone leaves the group. As long as all payments have been made this is not a problem. Someone else is asked to join. While I am not certain, I do not think that PRIDECO or FEDECCREDITO conducted field investigation of the new person or persons as long as the original group paid back its first loans promptly. In one instance, a particularly active group leader formed two completely different groups with herself as group leader. When her first group disbanded because of internal problems, she recruited sufficient people to form a new group to retain her access to credit.

Since PRIDECO does not form solidarity groups and is limited in its promotional efforts because of time, budget and staffing constraints, costs are kept low. By way of illustration, they have only four promoters in this very successful project.

One important factor in the success of the solidarity groups is that all credit recipients realize the benefits of credit and the necessity of maintaining a good credit record if they are to receive additional loans. That everyone knows the consequences of someone else not paying back—that is tarnishing the credit record for the other members of the group—ensures that the likelihood of coming up with one or more defaulters in the group is minimal.

Groups can be of any size, type of business or individual levels of income; however, as we mentioned earlier, FEDECCREDITO would prefer that loans for each member be about the same size.

In some cases, three people who want credit accept two others, even though they have no businesses. PRIDECO can normally detect this during the selection process in their visits to group members homes. In such cases, the group is denied credit and told to reorganize.

Group leaders are important as facilitators to the collection process. Rather than collect from each loan recipient, FEDECCREDITO contacts only the group leader. Together they do all the calculations and paper work. Each group member then pays the group leader the amount owed, and the group leader pays FEDECCREDITO. The group leader reports informally to other members on the loan's progress and possible repayment problems.

In some cases, group leaders have been able to assume roles outside the credit function. One case involves a seamstress who increased the size of her business to where she employs a full-time worker and sells T-shirts on credit to a local store. She seems to be well respected in the community for her business sense. She advises people on other kinds of profitable businesses. She also advises seamstresses on the advantages and drawbacks of various makes of sewing machines and she explains how to find the best prices for materials in the area. In addition, she helps people find buyers for their products through her network of contacts in the formal sector.

Credit:

As we can see in the table below, 82.4% of beneficiaries first loans were between \$80 and \$200 per person. They received fourth and fifth loans of up to \$900 depending on their credit record. The maximum total loan to a given group is \$4800.

Based on the recommendations of PRIDECO credit promoters, the Community Development Department staff at FEDECREDITO determines loan size and frequency of payments. Loan size and frequency of payments are determined primarily by the type of business or economic activity involved and its income frequency. In this project, loans are repayed on a daily, weekly, bi weekly or monthly schedule.

TABLE 6
SIZE OF FIRST LOANS

Amount of First Loans (in colones)	Number	Percentage	Amount of First Loans (in US \$)
100	1	.2	\$ 60 or less
200	49	10.1	30
300	166	34.4	120
400	57	11.8	160
500	126	26.1	200
600	8	1.7	240
700	6	1.2	280
800	28	5.8	320
900	3	.6	360
1000	22	4.6	400
1500	8	1.7	600
2000	9	1.8	800
T O T A L	483	100.0%	

Source: PRIDECO Credit File. See Footnote #10.

Interviews with credit recipients show that they feel the short payback periods and very frequent repayments help them to pay back their loans regularly and promptly. At most, tiny businesses produce their goods and services on a daily, even hourly basis, and must receive immediate payment for those goods and services. As we discussed earlier, they have little or no margin to allow credit to their customers. Given these factors, it is only logical to gear the credit terms to the incomes and income frequency of the entrepreneur. As one recipient pointed out, there is no telling what could happen to her or her business in the next month, so it is better to start with a minimum and easily repayable.

short-term loan. The short-payment interval forces her to think about her loan daily. She knows she must put aside some of her revenues every day, if she is to meet the payment tomorrow or at the end of the week.

Someone who has never had access to credit before needs to be introduced to the system slowly. He needs to understand that a large loan, lax payback schedule and long grace periods might do them more harm than good if it led to poor business planning, default, and a ruined credit record. The system is inviting trouble if it insists on lending \$2,000 to a person who has seen, at most, \$200 at one time. Simply put, he is unprepared for the credit process on such a scale.

Accustoming beneficiaries to credit is an important part of this program, and this can be done in a short time. As the entrepreneurs become familiar with credit and their own abilities, they can increase their loans and lengthen repayment periods. In this way, they learn how to control cash flow, and develop the capacity to save for the next payment. ¹⁶ But for this to occur, the terms of credit must be geared to entrepreneurs time frames and points of reference. As we have seen, this may require weekly, even daily repayment of loans.

Loans are made for working capital, tools, and workplace improvement. The average credit recipient stated that part of her first loan, and sometimes parts of subsequent loans, is used for

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Credit stimulates savings by the informal sector entrepreneur if the system is set up properly and indeed effectuates payback. Credit is a lubricant for business transaction, if it enhances efficiencies in production and makes increments in income, savings or investment possible.

non-business purposes, such as a new sheet of roofing or shoes for the children; although the average recipient realizes she must be able to ensure prompt repayment of the loan. Overwhelmingly, however, people use their loans for expanding business inventories and to increase production and sales. They are very aware of the real possibility of increasing income and business expansion through the proper use of credit.

Credit Requirements:

To be eligible for a loan, a person must:

- be twenty-one years old or older. Although there is nothing written in the requirements, there seems to be tacit agreement by project staff that people over sixty are ineligible.
- be a member of a credit or solidarity group. This eliminates the need for property or possessions as collateral.
- present a personal reference from someone in the community outside the credit group. The reference need not have previous banking experience.

There are no restrictions or requirements as to the type of business activities assisted. Nor are there business registration requirements or other legal roadblocks to eligibility. This reflects the program's interest in the individual. They are interested in finding individuals who are mostly likely to make good use of credit. In this regard, the credit group serves to identify for PRIDECO those individuals deemed to be good credit risks.

Interest rates charged by FEDECCREDITO are about 16.4% per year for first loans and 15% for subsequent loans. The additional 1.5% commission on first loans covers initial administrative costs.

FEDECCREDITO determines the interest charges on the basis of their costs. Charges are in line with commercial regulated rates in El Salvador. FEDECCREDITO hopes to reach a break-even portfolio by next year which will cover their costs. PRIDECO costs will remain subsidized. The interest rate, based on program cost of first loans is broken down as follows:

World Bank loan (interest FEDECCREDITO pays)	6.5%
Administrative Costs	2.5%
Reserve Fund of Bad Debts	1.5%
Follow-up and Technical Assistance (short courses)	4.4%
Capital Accumulation and Profits	1.5%
	<hr/>
	16.4%

Credit recipients stated that the interest charged by the project is reasonable. The alternative is to pay up to 50% per day for small daily loans or 20% per month for larger, long-term loans from the informal capital market. Notwithstanding the discussion about the imperfections of the capital market and the questions about the competitive vs. monopolistic nature of money lenders, the fact is, poor people pay extremely high interest rates for credit in the informal market. Ironically, the relatively well off -- who could afford to pay more -- get lower rates for commercial, often subsidized, credit through formal credit systems. In short, the PRIDECO/FEDECCREDITO project has given the poor a much needed alternative in deciding which sources of funds best serve them on generally the same interest terms as wealthier classes.

Promotion:

As explained earlier, PRIDECO has promoters in various programs who spend almost all of their time in the communities promoting PRIDECO's activities.

In terms of credit, promoters from all programs let people know about the possibility of forming "solidarity groups" to receive credit; however, most of the promotion was done by the credit promoters specifically assigned to the program at the outset. Now that the program has gained its reputation, it is almost entirely self-promoting; most of the promoters time is spent on the selection process.

There is a small amount of promotion done in community meetings and with individuals on an ad hoc basis. Using some mimeographed hand-outs, promoters explain the conditions for credit and the requirements for forming solidarity groups.¹⁷ Because of budget restrictions, no posters, radio broadcasts, or television commercials are used for most programs.

The promoters say that if the program is good and responsive to the community's felt needs, there is little need for promotion. Word of mouth becomes the best form of advertising.

Selection:

Once a solidarity group forms itself, it goes to the PRIDECO offices to begin the procedures for receiving credit. At PRIDECO, the secretary of the Department of Cooperatives and Credit Assistance again explains how the program works and outlines the responsibilities of the group. At this time, the secretary fills out a simple

¹⁷ See annexes 4(a) and 4(b) for sample documents.

data sheet on each individual in the proposed credit group that includes each member's name, home address, and the amount of loan requested.¹⁸ This form is filed with other pending applications.

In most cases, three or four days later, a credit promoter visits group members individually to observe them, verify their economic activities, and further explain the nature of credit, its effective use, and repayment. In addition, the promoter may inform the members of other seminars in training courses designed to provide other forms of credit and assistance.

It is during this visit that the promoters fills out a "solicitud de préstamo" (loan application) in triplicate for each applicant.¹⁹ Two copies are for PRIDECO, one for FEDECREDITO. The application contains questions concerning the applicant's business and family; it includes questions on family size, sales, business sales, additional income from family members, and general personal data.

Upon returning to PRIDECO, the promoter gives the individual loan application to the credit secretary who evaluates it. The credit secretary and the Department Chief then decide if the amount of the loan requested for each individual is appropriate to her income level and type of economic activity.²⁰ Most loans are approved at the PRIDECO level; occasionally, however, there is an obvious problem and the group

¹⁸ See Annex #5 for sample data sheet.

¹⁹ See Annex 6 for sample application form.

²⁰ Although the credit secretary and department chief are said to have this function, the promoters advice seems to be routinely accepted. According to the credit promoters, there are loan amounts which seem to be best for first, second and third loans etc. regardless of the type of enterprise.

is requested to drop one of its members or to rethink its request.

Once a decision is reached, the loan application is returned to the secretary. The group is notified and requested to return to PRIDECO. On the second visit, the group fills out a form applying for "grupo solidario" status, which, by this time, is a foregone conclusion.²¹ PRIDECO then sends a "letter of recommendation" to FEDECCREDITO, preferably handcarried by the group leader.²² Here ends PRIDECO's part in the pre-loan process.

Three or four days later, a FEDECCREDITO evaluator visits each group member. The evaluator spends a good amount of time talking about credit and its importance to the future of the applicant's business. He tries to make people keenly aware of their responsibilities to pay back the loan. He also explains the rewards of having a good credit record and continued access to equal or increasing quantities of credit.

While the FEDECCREDITO evaluator is slightly more insistent on obtaining accurate data regarding the applicant's business than are PRIDECO staff, the interviews are short and still attempt to get very general information. At this level there is no doubt about the poverty of the people and their need for assistance. Normally, more detailed information would be used to provide a basis for determining risk in credit projects using one-to-one lending and technical assistance mechanisms. Obtaining this information is very time consuming, if not possible.

Indeed, in this case, the guarantee is the group. They themselves

²¹ See Annex #7 for sample application for group status.

²² See Annex #8 for sample letter of recommendation.

determine the risk and select members accordingly. The information collected on income levels is most useful then for having some base line data for future evaluation of project income impact and not as a determinate of whether or not to make a loan.

PRIDECO and FEDECCREDITO do secure that data which is readily obtainable, such as adequacy of housing, diet, health and attitudes towards consumption and savings. With this data, they could measure the impact of a project through improved standards of living.

If the standard of living increased in the above social-economic terms, after participation in the credit program, it can then be extrapolated that incomes had improved. Although, it would be difficult to ascertain precise increments of income improvement, people could be shown to be better off for having received credit.

There is duplication of effort in PRIDECO's and FEDECCREDITO's separate visits and they realize this. However, apparently information from PRIDECO has been inaccurate in several cases. There may also be some inter-institutional suspicion at work; perhaps, FEDECCREDITO does not totally trust PRIDECO's selection and so wants to examine each applicant for itself.

FEDECCREDITO requests personal references from outside the credit group for each individual loan applicant. References need only know the applicant and do not have to have bank accounts, property or other normal proof of solvency. While FEDECCREDITO attempts to contact all references, it is unable to do so because of time and personnel constraints. Still, it seems that because credit applicants realize

their words may be subject scrutiny, they are rarely guilty of gross misinterpretation in their credit statements.

Once the applications and required paperwork are completed, they are sent to a FEDECCREDITO qualification committee which routinely approves the applications and loans. This step seems to be more a means of maintaining internal communication with other FEDECCREDITO departments on Urban Community Development line activities than an important decision making step. The committee is made up of people from other departments and divisions within FEDECCREDITO.

After the qualification committee gives its final approval, the credit file is returned to the Department of Community Development. The paperwork is assembled in a package and sent to the contract assistant. Here, collections cards with each individual's name, payment amount and payment frequency are made out and placed with the other papers.²³ There are two sets of collection cards; one for the collector and one for each member of the group.

Once all the documents are assembled, a contract is drawn up stipulating the group's legal obligations to FEDECCREDITO.²⁴ This forms the legal basis for any action to be taken in case of default.

At this point, the group is called in to the office. Once more, the contract assistant explains the payment system and payment amounts. He gives collection cards to the group leader who is then responsible

23 See Annex # 9 (a) and 9 (b) for sample collection cards.

24 No sample available.

for their safe keeping. The group proceeds to the Department Chief. After presenting some form of identification, each member receives his check and signs or places his thumb print on the contract. The checks can then be cashed at a bank.

The entire application process should take about three weeks, but groups interviewed said it took anywhere from two weeks to several months for their loans to be approved. My impression is that events move fairly quickly after the group's initial visit to PRIDECO.

After the first loan is repaid, approval comes swiftly for subsequent loans --usually two days to a week after application. The the group has established its credit record with FEDECCREDITO and the process is simplified. For all future loans, PRIDECO receives the applications and sends them directly to FEDECCREDITO with the recommendation after checking its files. FEDECCREDITO then automatically processes the loan in the normal way.

Collection:

The collection system is simple and straightforward. The afternoon before collections, the FEDECCREDITO collector determines a credit route and receives a collection route form from the accounting staff.²⁵ He also takes the collection cards for each individual.

The next day, the collector goes to the group leader to collect the amount left for that period, normally a week; payments are often

²⁵ See Annex # 10 for sample form.

calculated on a daily basis over the week. Occasionally, the group leader comes out short, because for instance, only four members paid up on all seven days while one person did not pay his/her full share. In this case, the collector divides the total delinquent payment among all five members and subtracts this sum from each person, thus lowering the payment credited to each group member that week. In effect, the rest of the group pays on the spot for the delinquent member by not being credited for the full amount they had paid that week. If the entire group falls behind one week, it has all that much more to pay the next week. The group is then responsible for inducing the delinquent member to pay his share.

To continue, the collector does all the necessary calculations and punches the number of blocks in each member's card corresponding to the number of days collected. Returning to FEDECREDITO, the collection route form and punched collection card are checked against money delivered. The collector is charged for any deficits so he is extremely careful with his calculations, card punching and collections.

When groups fall too far behind, FEDECREDITO is supposed to notify PRIDECO to begin collection action; according to PRIDECO, however, FEDECREDITO has been lax in this respect. Normally PRIDECO finds out about a payment problem when members of the group come to PRIDECO to complain about someone not paying his share.

In collection cases involving late payments, PRIDECO

requires all members of the group to attend a meeting at PRIDECO with the Chief of the Credit and Cooperative Assistance Department. All members must be present or the meeting will be re-scheduled. The Department Chief listens to the group's problems and works out a solution with them.

PRIDECO's legal advisor then prepares a legal document stipulating that all money owed be paid by the end of the credit period, and each member is required to sign it. Although this legal collection document is new, the Chief of the Department feels that it has been effective in getting people to pay. PRIDECO has no late payment charges or fines, but it warns group members that if the new conditions are not met, it has legal authority to suspend any services group members receive from them, such as food rations, low cost housing, or health services.

Since bad debt and late payment rates are so low, these threats have never been implemented, and it is hard to evaluate their effect. It would seem, however, that most people respond well because of the group pressures inherent in the loan mechanism and pay back their obligations promptly. PRIDECO does not need to resort to more forceful pressure.

The collection system is quite efficient and I was especially impressed with the collector's friendly relationship with the clients. Credit recipients were in no way intimidated nor did they seem to be resentful of the collector. On the contrary, when the groups fell short in their payments, the collector explained clearly and amicably the exact amounts necessary to bring the account up to date.

The collector has good reasons for maintaining friendly relationships with his clients. He is happy with this job, believes in the positive consequences of the credit program, and is encouraged to do a good job given the salary incentive (1% of total collections). He has just the right skill level and expectations for the required task and his base salary is very low. This may be in part luck, but I believe that in large part, the chances of getting someone like this for the job are enhanced by wisely designed employment and salary policy in FEDECREDITO.

Supervision and Follow-up:

PRIDECO was originally given responsibility for supervision and follow-up. The work was to be carried out by the Department of Handicrafts and Credit Assistance, however, given the large amount of credit demand and the pressure on the credit promoters to do the basic work of initial interviewing of applicants and filling out applications forms, they are not able to do any scheduled supervision. If promoters happen to be in the area they might spontaneously visit an entrepreneur to see how a loan has been used and what improvements have come about or what problems have arisen. But this supervision is carried out in a very informal way with no specific content.

There are no forms or questionnaires designed to document impact, although the essential baseline data is available. The only time

FEDECCREDITO visits the entrepreneurs is during the evaluator's initial interviews after application for credit has been made. FEDECCREDITO assumes no supervisory role and no monitoring of the use of loans or business progress is done.

Technical Assistance and Skills Training:

There is no formal one-to-one technical or management assistance given to loan recipients. The Program Managers believe that the usual emphasis and levels of business assistance are not applicable at this level since needs are so basic. Furthermore, since the number of clients is so large, it is imperative to reach people more effectively through grouping of some nature. The costs of one-on-one assistance are high in any project, but in a massive credit project costs could be enormous primarily because of staffing.

What little management assistance there is occurs through informal conversations about possible improvements in business between the PRIDECO Credit Promoters and individual credit recipients. But this process is not planned and is at best sporadic.

Basic skills training is provided by PRIDECO through groups but is not limited to members of solidarity groups. The credit and training programs are separate.

Training courses are offered in 43 "academias" throughout the low income neighborhoods of San Salvador. Courses emphasize sewing and the use of industrial and domestic sewing machines. These courses are a serious training effort over two years to train people for formal sector employment or for self-employment.

PRIDECO's Department of Cooperatives and Credit Assistance has recently done a survey of three thousand people from the poor neighborhoods to determine their demand for certain skills.²⁶ Given ten choices, the first order of priority was for sewing and sewing machine operation, next on the list was cooking, and in third place was artificial flower making and arrangement. Interestingly, people are most concerned with gaining those skills which will most directly affect their personal well-being as well as provide a source of income.

Each of these priority skills are areas which can double for business activities and home improvement. As a result, rapid upgrading of the general condition in which people live is possible.

These skills are given to groups through short courses, the timing of which will be set around a schedule which best suits the people. PRIDECO is also attempting to give short courses in more accessible places so that more people can take advantage of them. They hope to reduce the cost to the people in terms of time traveling to and from the course and the cost of transportation. The participants will be charged a small nominal fee of £ 3.00 (\$1.20) for people from the poorest neighborhoods and £5.00 (\$2.00) to others.

Previously, some short courses were given in strictly business related subjects to credit recipients. The topics included mini-bookkeeping, sales, and very simple notions of cost analysis. The trainers were paid by FEDECREDITO using the 4.4% interest charge (see breakdown) for "technical assistance". PRIDECO organized the courses.

²⁶ See Annex #11 for questionnaire.

Analysis of the program indicated that this assistance was not effective and not terribly well received. The material was presented on too high a plane, even though a strong attempt was made by the instructors to keep the subject matter very simple. Furthermore, the subject areas, while accepted by the people as possibly important on the longer term, were not perceived as major areas of short term need, either of their businesses or for their homes, which are often in the same location.

Upon attending a mini-bookkeeping course for store owners, the valiant effort by the instructor to keep his presentation and materials on a very low plane come across slightly condescendingly.

Instructors have a difficult task. Understanding the need for using simple terms and keeping on a low level is one thing. Actually communicating at this level is another. Furthermore, apparently, the materials were really not of much use to the entrepreneurs at this stage in their development. Business skills training, should not be abandoned. Initially, however, other kinds of assistance are perceived by the beneficiaries to be more urgently needed. Once an individual perceived some up-grading of his economic well-being this, then, may set the tone for other assistance later.

To this end, it is very interesting to note that assistance is given by solidarily group members themselves to other informal sector entrepreneurs. Often business and production skills at a level appropriate to the informal sector, based on their own perceived needs, are right there in the community. These skills could

perhaps be tapped through an organized system of assistance utilizing community level trainers in conjunction with a few well oriented assistance "coordinators".

In reference to the skill training taking place through the "academias", a new skills/credit link-up has been started by PRIDECO in which graduates from the "academias" can form solidarity groups consisting of 10 members and receive a group loan of up to £ 20,000 or U.S. \$8,000 to set up a small worker owned and managed business (small industrial) including the purchase of sewing machines and starting inventory. This is an interesting approach to starting new businesses based on the training program and subsequently the solidarity group credit mechanism.

In addition, each member has a moral obligation to train two other people. In this way training impact can be greatly multiplied.

The program falls under the same conditions and philosophy as the rest of the PRIDECO/FEDECCREDITO effort and is an interesting expansion into another mode of assistance other than working exclusively with existing individual efforts.

But the underlying force is still the same as in all other solidarity groups, that each individual must pull his weight. Each worker/owner is paid on a piece-work basis and must pay back his portion of the loan as in any other solidarity group. The shop is a facilitator for provision of contracts and raw materials purchases. PRIDECO will attempt to facilitate this intermediary service more diligently in the future.

There are currently three "talleres industriales", but to date the project has not evolved sufficiently to be able to analyze results accurately. There are start-up problems, for sure, but not any that can be pointed to as problems with the basic approach.

Technical assistance and skills training are costly and highly subsidized program components for most projects. FEDECCREDITO is attempting to cover its costs through interest charges, and expects to reach a breakeven portfolio in 1980.

Given the questionable results of one-on-one technical assistance and many kinds of skills training efforts, it appears to be more effective to depart from the program planner's perception of the "ideal" in this area and become very pragmatic about what people will find useful (by asking them) and then concentrate on providing the basics to as many people as possible through "lean and hungry" programming possibly utilizing to the fullest extent low cost or free resources already existent in the communities.

Project Impact:

There are numerous benefits initially from the credit project and secondarily from the grouping mechanism used, which were detected through visits to many beneficiaries. Their own statements about the positive qualitative changes in their lives are especially interesting.

Most beneficial impacts could be anticipated although some reveal different ways of understanding the benefits of credit at this level.

There are essentially two types of impact. One category has to do with reducing costs and increasing efficiency and productivity. The other category is related to the entrepreneur's social and personal development

1. Economic Impact:

- To allow entrepreneurs to expand raw materials inventories and provide more production and marketing flexibility increasing their efficiency and incomes and their ability to combat the causes of production discontinuities. (See Problems section).
- To allow entrepreneurs to extend small amounts of credit thereby increasing the total number and size of transactions that they can make in turn creating multipliers which increase the demand for the products of many other businesses both inside and outside the urban informal setting.
- To allow entrepreneurs to take advantage of quantity discounts.
- To increase the number of jobs and most importantly the adequacy of employment in the informal sector meaning that as people become more productive they will increase their incomes and as incomes rise in relation to a pre-determined "full employment" wage, their level of employment increases by some proportion of one "job" created.
- To increase family incomes through refinancing debt to money lenders. The interest differential between FEDECCREDITO and

and the money lenders constitute an immediate income transfer to the entrepreneurs.

2. Social and Personal Development Impact:

- To increase informal sector entrepreneurs ability to save and invest in the improvement of the basic conditions of life through improved housing, nutrition, clothing, education or entertainment which accompany increased income or the receipt of a first loan.

Entrepreneurs stated that besides investing in their businesses they often used increases in income and to some extent a portion of their first loans for a new sheet of roofing or siding for their homes, clothes for their children, schoolbooks, or a good meal. Group members stated that they kept an eye on non-productive expenditures using loan money. If too much is spent on these kinds of purchases which produce income, if at all only after a long time, the ability to repay the loan would be reduced.

- To stimulate self-esteem and confidence in their own abilities to use credit and payback through the credit process.

Entrepreneurs often underestimate their capacity to use credit and are intimidated by it. This is often a consequence of programmers designing projects in ways which could be expected to overextend the entrepreneurs and, indeed do, making payment difficult if not impossible.

If the credit process, however, is geared to the needs of the entrepreneurs, they will be in a good position to be able to pay back. Credit amounts and payment intervals are set according to the client's capacity to pay.

Every effort is made by the credit mechanism to diminish risk. One way to do this is to design the loan terms to dovetail with the entrepreneur's financial capacity.

- To foster the development of more community collaborating through bringing people together in a common effort.

After several groups in one neighborhood had received loans, they began to recognize the benefits of collaboration and together approached the Community Representative Assembly. The result was that they succeeded in getting common sanitation facilities built. Materials and plans were provided by PRIDECO. Much of the labor came from the neighbors themselves. Bringing people together in this way has also stimulated community based entrepreneurial assistance from other credit recipients having better developed skills.

Last, and probably one of the most important observations on the project's impact is the fact that beneficiaries have frequently given the humanitarian impact of credit as one of the most important benefits to them. They constantly returned to the theme that their lives were more "desahogado" (literally, "unsuffocated"). They were pleased to have finally gained access to a viable way to self-improvement personally and economically. They showed pride in their gains, however small, and their increased ability to provide an improved quality of life to themselves and their families.

Examples

The business cycle of a candy producer is a case in point of how credit has improved conditions for an entrepreneur and is generally illustrative of how credit can help many entrepreneurs in varied types

businesses such as sewing, carpentry, shoemaking, commercial establishments (corner stores) and so forth.

The following example is taken from interviews with an elderly credit recipient.

- a. Begin production process at 1 a.m.
- b. Distribute product to nearby stores on consignment by 7AM for payment the same day.
- c. Return home by mid-morning after distributing candy.
- d. Commence home related activities (if a female entrepreneur).
- e. Return to stores by mid-afternoon to begin collection for candy sold that day.
- f. Buy materials for the next day's production during early evening with proceeds of sales.
- g. Return home by 7 or 8PM.
- h. Begin process again at 1 a.m.

With a loan a person can utilize his/her time more productively and can purchase several days inventory in materials allowing production and sales schedules to be much more liveable as well as more efficient since time is used more for productive rather than redundant activities such as collection trips which shut down production.

After credit:

- a. Begin production process at 6AM.
- b. Distribute product to nearby stores on consignment by noon for payment the next day.

- c. Return home by mid-afternoon, after distributing candy, buying needed materials for next day, and collecting from stores on previous days delivery.
- d. Commence household activities (if a female entrepreneur), i.e. sewing, cooking, receive children from school.
- e. In the evening, time to devote to other productive activities, community activities, leisure.
- f. Begin process again at 6AM.

With added materials for production the entrepreneur said that she could produce more and with the help of her sons, sell the increment. Instead of making several trips a day to her buyers, one for distribution and one for collection, she could combine the two into one trip and furthermore she did not have to collect immediately or even the same day in order to continue producing.

Sales fluctuate from day to day. Added inventories of materials permit the entrepreneur to smooth out demand peaks and lows and not lose sales due to the lack of cash on bad days thus creating a production bottleneck due to lack of material for the next day when sales may be good. The entrepreneur is thus, in a position to be able to produce more constantly and accumulate a small amount of finished inventory on slow days which can be distributed on peak sale days, such as weekends or paydays, increasing overall sales and income.

On my second visit to the candymaker several months later, she said that the business continued to do well and that with increased income, she has started a second business. Once a week she went to

a nearby town to buy cheese to sell in her neighborhood. This constituted an up-grading of her business into a more expensive, very profitable item, which was in high demand. Again she apparently did not have any problem selling all the cheese she could afford to buy.

But as important in many respects as the increases in production, and sales is the fact that the work schedule of the candymaker is now much more liveable. Her initial reaction to a question on what credit had done to help her emphasized that her life is now much easier. She can get sufficient rest, instead of working all night, and she has to make fewer time consuming, expensive (transportation costs) and tiring sales and collection trips to town.

Similar impacts are in evidence in "tortilla" making. Credit enabled a tortilla maker to expand her inventories of raw materials and production. She used each of her three loans to buy sufficient inventories of firewood and corn for several days production at increased levels rather than buying on a limited daily basis. Increased cash on hand has enabled her to get quantity discounts of £8.00 (\$3.20) per sack of corn, for example.

Before her first loan she sold, £18/day (\$7.80) per day, now she sells, £22 (\$8.80) per day. She has now expanded her market and is able to sell to a pediatric hospital which pays her weekly. Before receiving credit she would simply not have had the cash flexibility to be able to take advantage of this market. In addition, she has recently opened a savings account in a commercial bank something which

is rarely done by informal sector entrepreneurs. 27

Tortilla makers can up-grade their product by making cheese or meat filled tortillas called "pupusas". Many successful "pupuserias" began as small "tortillerias".

Another example the gains made by entrepreneurs through the project is a seamstress who began with a £400 or US\$160 loan and who now has been able to increase her production through four loans to enable her among other markets to sell T-shirts by the dozen to a commercial retail establishment in downtown San Salvador. With increased sales and production she uses more materials; with her increased cash availability she now can take advantage of quantity discounts on materials.

Her last loan was for £1,000 or US \$400. She has hired a full time helper to sew the shirts enabling her to spend more time on sales and cutting the patterns. She stated that before her first loan with the project, she had a loan of £200 or US \$80 at 20% interest per month with a "friend" who did not live in the neighborhood. Part of the first loan from the project went to cancel her previous debt.

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27. Most entrepreneurs reinvest income increases proportionately in larger inventories and consumption. It is impressive to see that possibly with increased emphasis in this area, savings mobilization as well as increased investments in productive activities can take place simultaneously, differing only from savings and loans programs in that credit is granted before accumulation of savings has taken place.

Savings and loans organizations and credit unions normally service people's credit needs after they have reached a minimum savings level. Many of the poorest entrepreneurs therefore, will find it difficult to use credit unions or similar associations since they use the savings needed to build their balances for immediate investment in their businesses.

Before her first loan the seamstress stated that she really did not feel that the business was a success or could improve. She always felt under severe cash flow pressures and always eeked out enough just to make ends meet. She now feels that she is a success and business has improved markedly as indicated by the fact that she feels less pressured financially than before. She emphasized that if she did not sell anything one day, she still had enough cash and/or raw materials in stock to keep on producing. Furthermore she is now able to save very small but adequate amounts for family emergencies.

Small store owners were also able to increase their stocks of supplies through credit. Often these people stated that before receiving their loans they had to turn business away because of the lack of inventories. One such owner, a solidarity group leader doubled her sales of soft drinks and upon receiving her third loan was able to actually buy an old refrigerator with part of the credit. She now is able to make popsicles and keep small supplies of ice for sales to neighbors. With increased income she has been able to obtain a few pieces of used furniture for her sitting room. She was somewhat apologetic for its condition, but obviously proud of the purchase.

Future Plans and Project Replicability

Both FEDECCREDITO and PROVIDECO believe that they can easily expand the credit project in San Salvador and would like to do so, given the perceived demand for credit and success of the program to date. The major constraint for both agencies currently is their staffing levels.

The World Bank is considering another loan to FEDECCREDITO supporting the project. However, since technical assistance has not been very effective both in terms of its content and numbers of people reached, before a new contract will be signed further study of this component will be needed.

Furthermore, since PRIDECO functions only in the city of San Salvador, an expansion of the program into secondary cities would imply that the program would have to find a way to duplicate PRIDECO's role, either through expanding PRIDECO's area of operation to include areas outside San Salvador, an expanded role for FEDECCREDITO, or engaging another institution similar to PRIDECO to assume PRIDECO's functions elsewhere. In order to make the decision the issue of the importance of the multi-faceted approach vs. a program strictly focused on credit would have to be analyzed.

From FEDECCREDITO's point of view the credit program could be expanded to other urban areas where there are affiliated credit agencies (Cajas de Credito). Any expansion however, would increase their administrative costs due to having to channel credit funds to other Cajas, but it is not felt that this alone would be a deterrent. However, if FEDECCREDITO assumed PRIDECO's current functions the costs to them would increase, possibly by a sufficient amount to preclude expansion or necessitate a larger subsidy to the program.

Given that FEDECCREDITO would experience the same kinds of credibility problems as it did in the initial phases of the current project if it tried to act alone and given that it would take time for FEDECCREDITO to build its credibility in secondary cities, (it

has credibility in rural areas), these factors imply costs and logistical considerations which would have to be resolved by FEDECCREDITO possibly affecting the speed with which project replication could take place and might even become a prohibitive factor.

FEDECCREDITO's Chief of Planning however, seemed enthusiastic about expansion possibilities. He felt that the PRIDECO/FEDECCREDITO project provides an important part of the solution to the mounting urban problems in El Salvador.

PROJECT ASSESSMENT SUMMARY

Organization and Work Flow

A great deal of activity is in evidence upon entering PRIDECO's unpretentious headquarters in a lower middle class area of San Salvador. PRIDECO's administrative and supervisory employees seemed to be very busy and it appeared not to be strictly "busy work". Most of the employees are promoters and as such were not at PRIDECO, rather in the neighborhoods, so the offices were not full of idle staff.

PRIDECO beneficiaries were constantly coming and going either to apply for credit or to attend training programs. Most of the time allotted to the study of PRIDECO was spent with Credit promoters because of their direct involvement full time on the income and employment project. These promoters have a high sense of social responsibility and believe that their work is very important to the well-being of people in the community.

However, two of the promoters, both engineering students (industrial and civil), pointed out that their involvement in this program was not a career objective because the work did not directly relate to the kinds of skills they were acquiring in the university. Furthermore, as another promoter put it, the salary is so low that no university graduate could consider the job.

There seems to be a "volunteer" attitude among the credit promoters where there is a high degree of social awareness and commitment for a short period (several years), but seldom are employees in the job for a career.

The relations between PRIDECO and the beneficiaries seem to be good. There is a relaxed attitude about work in the communities.

FEDECCREDITO's role is primarily an administrative one, and the field staff (evaluators and collectors) as with PRIDECO, are young and have low levels of training, but are perfectly adequate for the task to be done. They are interested in their work and get along well with the clients.

FEDECCREDITO, in contrast with PRIDECO, has its headquarters in an upper class section of the city in their own seven story office building. This does not seem to have had a deterrent effect, however, on credit beneficiaries who must come to FEDECCREDITO for final loan processing.

The PRIDECO/FEDECCREDITO system is very efficient. Pay scales for employees (promoters and collectors) are average, and at least from PRIDECO's side, overhead is low.

The system is not overstuffed by any means. Technical assistance, although included as a cost to FEDECCREDITO (but carried out by PRIDECO) does not appear to be a major expense due to its very low-level nature. One FEDECCREDITO executive believes, however, that a good program of technical assistance would make the credit project much more expensive, possibly precluding self-sufficiency. While there are concerns at FEDECCREDITO, World Bank, and PRIDECO that the system is deficient, it does allow many more people to be attended by a given number of staff than more traditional one-to-one credit and technical assistance schemes.

Some further reduction in project costs may be possible, but it is difficult to see where at this point since it is already so lean. Probably, as FEDECCREDITO indicated it is planning to do, the system will have to increase its portfolio thereby increasing revenues at a quicker pace than costs to break even rather than try to effectuate cost savings.

The FEDECCREDITO/PRIDECO project is doing a great deal to have very positive impact on many urban poor people. It is on target with this approach to other non-credit assistance, but has not taken full advantage of its existing system to reach many more people through special training and orientation programs.

The credit impact on individual entrepreneurs would be difficult to improve upon. The major way to increase overall socio-economic impact would be to implement the existing credit model on a massive scale with modifications in the technical and managerial assistance delivery system.

Technical Assistance for Further Project Development:

There seems to be very little need for long term outside assistance

from international organizations. One area of concern expressed by the implementing agencies and the World Bank, however, and which could use short term project design inputs, would be in the technical and social assistance aspects of the program.

TOWARD A GENERAL ASSISTANCE MODEL

Lessons Learned from FEDECCREDITO/PRIDECO System:

A. Credit:

1. Informal sector entrepreneurs can be reached in large numbers with very small amounts of credit through very low cost and efficient means. Through solidarity groups, payback is excellent meaning that interest rates can be reduced reflecting a reduction of risk to the lender.
2. Payback rates are very good if credit terms complement the income capacity of the entrepreneurs:
 - a. Payments should reflect the frequency of income of entrepreneurs, that is, their schedule of cash receipts. If payments are too spread out, it is tempting for entrepreneurs to fall behind in their payments. Frequent payments on a weekly basis continuously remind entrepreneurs of their obligation to pay. If payments dovetail with their cash receipts there is less chance that the clients will deviate from their savings/payment schedule. Since cash is always a pressing problem, to expect informal sector entrepreneurs to find it easier to make payments if payment frequency is lengthened may have exactly

the opposite result. Even a month or two between payments may seem like a very long time to informal sector entrepreneurs making them lax in their accumulation of capital with which to make their payment spelling disaster for their ability to ultimately cancel loan obligations.

- b. Loan amounts should reflect a sum which entrepreneurs can relate to. If the entrepreneurs cannot relate to the size of their loan, the problem of payback is exacerbated. Loans which are too large within the framework of the entrepreneur's perception of the quantities they are dealing with, may be used ineffectively in large part due to non-productive expenditures. They may then, need further "assistance" from the financial institution in spending the money leading to elaborate and costly procurement systems requiring receipts or other special accounting procedures or even in-kind purchasing as well as other technical assistance and training. This in turn precludes the possibility of reaching large numbers of people.
3. Clients must be brought into the credit system gradually. Initial loans should be very small and easy to payback as part of an educational process to develop further awareness of business procedures and self-confidence in their abilities to use credit responsibility and deal with credit institutions.

4. The assistance system from promotion and selection through collection must foster trust and respect on the part of the clients. For this reason, the personnel structure of the agency is extremely important. The kinds of ancillary services and people on the staff doing the public relations and field work must be carefully chosen and have the right level of skills and commitment to the project even if it is on the short term, meaning that staff turnover may be fairly frequent.
5. Credit group guarantees through which participants assume responsibility for the loans of each individual member, tremendously reduce staff time and involvement in the whole credit process including client selection, loan analysis and collection particularly. This reduces costs and increases the possibility of reaching many more clients per staff member. The system works on the basis of peer pressures to induce other group members to payback and continually remind each other of their credit obligations.
6. Subsequent loans after the first or second should increase in size reflecting increases in productivity and positive effect of previous loans. At some point, ideally, the most successful entrepreneurs would be encouraged by loan staff to "graduate" into a higher level SSE type program or some other generally more formalized business assistance format. As the business improves, because of need detected through experience, entrepreneurs may recognize and truthfully desire technical and/or management assistance making those efforts worthwhile.

B. Group Selection Process:

1. In order for peer pressures to develop affectively, a self-selection process should be used whereby groups form themselves by mutual consent. Project staff should be an informational source about the availability of the service and facilitate the contact between the clients and the institution.

By letting people form their own groups given their knowledge of their mutual responsibilities, a strong sense of "knowing what they are getting into," and personal responsibility for their own fate within the group, makes it difficult for them to shirk responsibility in cases of late payment or default by blaming project staff for selecting group members poorly. The people themselves make the decision as to whether to take advantage of the system.

While there are anxieties on the part of some entrepreneurs about the risk they are assuming, they are making the system work almost exclusively by themselves, with minimal institutional intervention.

C. Promotion:

1. The promotion task in very poor communities is an essential step to developing the credibility of the assistance program. Unless the institution promoting the project has credibility and does not pose a "threat," the project must link into some other organization, possibly already working in poor neighborhoods, which has solid relationships and already does have the necessary cre-

dibility.

2. Once the project is known, trusted, and addresses felt needs, promotion can be done almost exclusively by word-of-mouth, in terms of letting people know about the service and how to get more specific information.

D. Personnel:

1. Promoters, credit evaluators, and collectors need not be highly trained professionals to carry out most tasks required in an assistance program for informal sector entrepreneurs.
 - a. Skill levels, training, and professional expectations must be commensurate with the task to make field staff effective in their work. Otherwise frustrations build up and staff turnover may be high. Even the goals and objectives of a project can be jeopardized through staff doing what it wants rather than what the organization is mandated to accomplish through legislation or loan agreements for a specific project purpose.
 - b. Lower level skills are less costly and possibly more effective in accomplishing the goals of the project.
 - c. Non-career employees such as college students working their way through school may be very effective credit promoters and evaluators. They do not have long-term involvement with the project, but may provide a high degree of commitment on the short run essential to its successful promotion.

E. Collection:

1. The solidarity group mechanism provides through the group leader

an efficient way to collect from at least five clients per collection visit. With a very small staff, a large number of loans can be collected.

2. A salary incentive system gives the collectors more reason to be efficient in their collections.
3. A simple control system makes collectors very careful since they are charged for any lacking sums.
4. Collection visits can and should be made to the groups rather than having them come to the institution. First, it is safer for the group leader not to have to leave home with the payments. Since robberies could occur repayment is more certain and better control on late payments can be kept. The opportunity costs in terms of the use of time, and the alternatives are high not counting the costs of transportation which could adversely effect the incidence of late payment since the probability of a group leader missing a payment would be greater. While there is no concrete evidence, it is also probably cheaper to do the collections in the field immediately rather than having to chase people down later. And, finally, it gives the financial institution the opportunity to get out to the communities cheaply and efficiently, while increasing their credibility, if the collections are done properly.
5. Groups should not be expected to pay the total accumulated amount by a delinquent group or members on the final payment of a loan. This puts excessive burden on the group. Despite a high sense of group responsibility, full payment at the tail end of the loan

may simply be impossible. Thus, in the spirit of the way the whole system is oriented, which is to make payments as simple and least burdensome as possible, the collection system makes automatic and immediate transfers to the account of the delinquent member or members from the amounts actually collected from the rest of the group. This immediately makes the timely members absorb any individual late payments, with immediate resulting pressure for the delinquent member(s) to pay up. Through this system, each member by way of the group leader and the punched collection cards, knows exactly how far behind (or ahead, possibly) the group is at each payment interval. It is, then, an internal problem for the group to determine who is not paying, how to induce payment, and square accounts.

F. Technical and Managerial Assistance:

1. Technical and managerial assistance projects in general are often launched immediately upon provision of credit to entrepreneurs or as a pre-condition to credit. This is done in an effort to assist entrepreneurs in making more productive use of credit as well as to attempt to diminish the risk of business failure and default.

However, the result is that clients often accept this assistance and "bear with it" in order to qualify for credit, but very seldom use it. Until they specifically perceive the importance of non-credit assistance to them, the short term impacts of credit take precedence. Credit is often the only assistance sought by entrepreneurs at the outset.

2. The timing of technical or managerial assistance must agree with the client's stage of awareness of his need for extra training. The need for credit and other types of assistance probably will not dovetail. Credit will be an overriding priority to clients at early stages in their awareness of need. As their awareness evolves the project can then introduce the appropriate follow-up components. This would require a means to detecting the entrepreneurs stage of awareness and promotion of the services.
3. Members of groups with more highly developed skills can provide informal technical and managerial assistance to their colleagues in such areas as production, purchasing and marketing. This kind of collaboration can happen because the group members are not required to be in the same business which otherwise might make them cautious about giving too much competitive information. However, even if several shoe-makers are in the group it is in their mutual best interest to collaborate. To the extent that knowledge is shared among the group, the risk of default by members is diminished.
4. Initial assistance to informal entrepreneurs should cover skills of immediate use in improving family quality of life-- cooking, nutrition, sewing, flower-making for home decoration, as well as provide sources of income.

Solidarity Groups for Technical and Managerial Assistance:

As solidarity groups evolve in the loan process, efficient pro-

motion of very simple technical and managerial assistance could be done. As groups approach FEDECREDITO/PRIDECO regarding second, third, or fourth loans, promotion could be initiated in the normal on-going credit process at the office. This would consist simply of letting people know what assistance is available to them followed by discussions of perceived needs for assistance within the solidarity group.

The next step would be to experiment with the continued use of self-selection for technical and managerial assistance through groups. Those groups interested in receiving further assistance could enroll on the condition that the whole group signs up.

Through internal processes in the group, individual members could help their colleagues understand the need for additional skills. This could lead to large numbers of people asking for non-credit assistance because of their increased understanding of the importance of certain types of assistance to their specific needs. Simple notions about record keeping or production may in this way be used by more people, resulting in greater benefits of assistance to more people.

If groups could not completely agree on extra assistance, they could re-form themselves into those consisting of interested members ("technical assistance" groups) and those which are not ready for further assistance. With certain incentives to stimulate the process such as higher interest to groups not using assistance to "pay" for those who do, this process could possibly increase the coverage as well as effectiveness of non-credit assistance.

What seems most important is that the center-periphery clientele relationship prevalent in most projects dealing with the poor would be diminished through continuance of the self-selection idea and the use

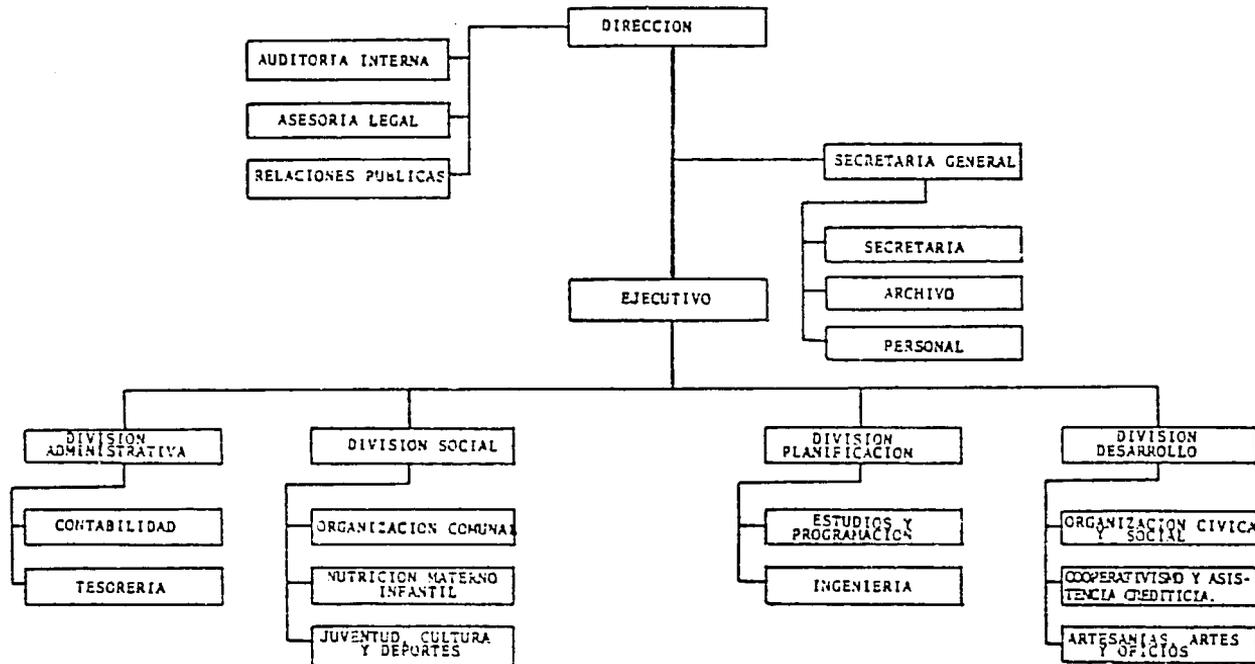
of "technical" resources often readily available in the poor neighborhoods. The system would use community identified "instructors" with well-oriented assistance "coordinators" from the agency primarily to guide efforts in a productive way.

C. General:

1. The grouping system is a process with many inter-related parts. The success of the system and potential for future development are not predicated on any one of the elements. The group credit idea itself is nothing new. It is 32 years old in El Salvador, and it has been independently used in many countries. What makes the whole FEDECCREDITO/PRIDECO system unique is that it indicates a clear understanding of the economic capacities and priorities of informal sector entrepreneurs, the structuring of the credit groups themselves, the uses of peer pressure, and the collection procedure based on all of the above, which, when tied together into a single mechanism, makes a very effective model.
2. Furthermore, the solidarity groups can be used as an intermediary step to all sorts of collaborative efforts among people. With good staff orientation, some groups could give rise to formal cooperatives, to worker managed enterprises, or to general community improvement projects. The process gives people the opportunity to decide what the benefits of collaboration are, and then, what types of joint efforts, if any, are most important to them. Once again the people make their own choice, based on their experiences, not on what someone else has decided is best for them.

ANNEX #2

ORGIGRAMA DEL PROGRAMA INTEGRAL DE DESARROLLO COMUNAL, PRIDECO



ANNEX #3

en las oficinas
P.R. Dept.

LISTA DE COMITADOS DE BARRIALES
Y COMPLEMENTOS RELACIONADOS DE LA CIUDAD DE PUERTO
RICO Y DE LOS MUNICIPIOS MARGINALES, CIRCULO

<u>COMITÉ</u>	<u>Nº DE HABITANTES</u>
1.- Asunción	325
2.- Atonal	550
3.- Antokista	220
4.- Barba # 1	400
5.- Barba # 2	800
6.- Barba # 3	500
7.- Barba # 4	375
8.- Buena Vista Norte	462
9.- Bumbalar	440
10.- Bolivar	275
11.- Buenos Aires	330
12.- Cecilio del Valle	327
13.- California	150
14.- Calle Antigua al Matanzas	450
15.- Catarce de Julio	110
16.- Colonial	125
17.- Cristo Redentor # 1	270
18.- Cristo Redentor # 2	166
19.- Corazón de María	561
20.- Cuatro de Mayo	300
21.- Complemento Banco Hipotecario	750
22.- Complemento Cent. Policía	509
23.- Complemento Central	2430
24.- Complemento San Antonio	990
25.- Complemento San Juan	1100
26.- Complemento Policía de Hacienda	8600
27.- Complemento Técnico Industrial	3000
28.- Complemento Santo Tomás	375
29.- Darío González	600
30.- Doce de Octubre	125
31.- El Manguito	175

C

COMUNIDAD

Nº DE HABITANTES

32.- El Tanque	00
33.- El Prado	105
34.- El Coro	412
35.- El Plan Piloto	1650
36.- El Camen	495
37.- El Progreso	275
38.- Florida	02
39.- Fortaleza	9600
40.- Francisco Muñoz Arrud	150
41.- Fimal Avenida Peralta	200
42.- Francisco Morazán	1430
43.- Finca Surpao	530
44.- Florencia	800
45.- Gallegos 1	660
46.- Gallegos 2	550
47.- Granjero 1	2707
48.- Granjero 2	125
49.- Israel	256
50.- Ixtaanía	330
51.- Las Herodes	450
52.- Lubbr 1	357
53.- Labor 2	422
54.- La Esmeralda	1200
55.- Las Lajas	150
56.- La Foca	2145
57.- La Maccota 1 y 2	152
58.- Lupita	250
59.- Las Palmas	5600
60.- Mojico	700
61.- Miraflores	4200
62.- Mesón Surpao	200
63.- Nicaragua	550
64.- Portales 1	574
65.- Portales 2	00
66.- Primero de Mayo	412

d

<u>COMUNIDAD</u>	<u>Nº DE HABITANTES</u>
67.- Primero de Mayo	412
68.- Ramón Irua	1650
69.- Santa Ana Atlacatl	715
70.- San Judas	165
71.- Quiñonez	4100
72.- Sagrado Corazón	550
73.- San José de la Montaña	160
74.- San Martín	1100
75.- San José	260
76.- Sánchez	165
77.- Santa Ed	300
78.- Tinotti	350
79.- Tutunichapa 1	870
80.- Tutunichapa 2	440
81.- Tutunichapa 3	200
82.- Tutunichapa 4	825
83.- Tres de Mayo	925
84.- Valle de Oro	275
85.- Yanira	101
86.- 22 de Abril	2500
87.- Las Margaritas	1500
88.- Papini	506
89.- Las Ruca	250
90.- Monserrat	30
91.- San Rafael	800
92.- Amantitan	135
93.- Barrio Santa Lucía	1500
94.- La Pedrera	500
95.- La Isla	350
96.- Fenadosal	550
97.- Villa Jesús	1672
98.- Primero de Octubre	870
99.- Centro Arca_jón	400
100.- San Bartolc	684
101.- San Antonio Abad	566
102.- Mano de León	

.....

2

CIUDAD

Nº DE HABITANTES

103.- El Roblo	360
104.- Providencia	1300
105.- Santa Cristina	306
106.- Comaradn	950
107.- Bolivar	2300
108.- Alemana	40
109.- Pasaje La Pedrera	125

hmg.

4

ANNEX #4(a)

BIENESTAR PARA TODOS EN
LAS COMUNIDADES MARGINA-
LES A TRAVES DE LOS PROGRA-
MAS DE CONCOMI.

!! ATENCION COMPAÑERO !!

La Oficina de Mejoramiento de las Comunidades Marginales O.M.C.O.M., unido a la Federación de Cajas de Crédito, estamos proporcionando préstamos a todos aquellos pequeños comerciantes que residan en las distintas Comunidades en Desarrollo.

Actualmente se han beneficiado 10.000 familias de grupos solidarios, habiendose distribuido más de DOS MILLONES Y MEDIO DE COLONES.

Esto es solamente el principio de este programa, del cual deseamos formar parte de la siguiente manera :

- Tu grupo solidario se compondrá de cinco a diez miembros, los cuales deberá de residir en la misma comunidad con sus negocios ya establecidos dentro o fuera de la misma.
- El interés a pagar es del ^{16.47%} 1.7% anual o sea el ^{1.36%} 1.36% mensual.
- Se llama grupo solidario porque todos los integrantes del mismo son responsables de la deuda colectiva.

Estos son los requisitos fundamentales para que puedas obtener tu préstamo y al mismo tiempo te facilitamos asesoramiento técnico para el buen funcionamiento de tu negocio.

Apresurate a formar tu grupo, para mayor información te esperamos de lunes a viernes de 8:00 a.m. a 4:00 p.m., en nuestras oficinas situadas en Av Cuba y Calle Dario González No.306, Barrio San Jacinto.

DIVISION DESARROLLO ECONOMICO
O.M.C.O.M.

ANNEX #4(b)

REQUISITOS PARA FORMAR UN GRUPO SOLIDARIO

Los grupos solidarios se conformarán por un mínimo de cinco miembros y un máximo de diez, los cuales tienen que residir en una misma comunidad y observar una responsabilidad ética y honradez reconocida.

Los préstamos únicamente se harán para incrementar la inversión en el negocio existente y nunca para establecer negocios, para construir o para satisfacer necesidades de tipo personal.

Se llama grupo solidario, porque todos los miembros del grupo son responsables de la deuda colectiva y, cuando algún miembro del grupo no puede pagar por cualquier motivo, los restantes del grupo pagarán la deuda total de dicho miembro.

El interés es del 12% anual ó el 1% mensual. El monto y plazo de pago de la cuota será designada por FEDECREDITO. (Los intereses y el saldo se amortiza simultáneamente).

Una vez supervisado un grupo solidario, no se podrán agregar más miembros.

Cuando se le llene la solicitud de crédito, se les entregará una notificación donde se señala la fecha y hora en que será supervisado dicho grupo.

El grupo solidario elegirá entre todos sus miembros un representante el cual será el encargado de recogerles todas las cuotas y velar por el pago puntual de los mismos.

Los miembros del grupo solidario deberán revisar cada semana el saldo de su crédito para evitar cualquier anomalía. Lo cual lo podrán lograr llevando un control de los pagos mediante una hoja contable.

Las personas que habitan en los campamentos deben de estar solventes con el pago de cesantías, lo mismo que las que habitan en las comunidades indígenas deberán estar solventes con las Juntas de Ayuda.

Fecha	Concepto	Entrada	Salida	Saldo	Firma ó sello del cobrador
-------	----------	---------	--------	-------	----------------------------

Al notar cualquier anomalía en cuanto al pago de las cuotas debe de ser notificada de inmediato al Departamento de Crédito, de DHCOR.

W

ANNEX #5

INFORME - PROMOCION DE CREDITOS

DIVISION DESARROLLO ECONOMICO

COMUNIDAD: _____ PROMOTOR: _____

FECHA: _____ HORA: _____

ASUNTO: _____

GRUPO SOLIDARIO NO. _____

<u>NUMERE</u>	<u>CANTIDAD</u>	<u>RESIDENCIA</u>	<u>DIRECCION DEL NEGOCIO</u>
1.-	_____	_____	_____
2.-	_____	_____	_____
3.-	_____	_____	_____
4.-	_____	_____	_____
5.-	_____	_____	_____
6.-	_____	_____	_____
7.-	_____	_____	_____
8.-	_____	_____	_____
9.-	_____	_____	_____
10.-	_____	_____	_____

DESCRIPCION: _____

ANNEX # 6(a)

Formulario Solicitud de Préstamo

PRESTATARIO _____ FECHA _____

PROMOTOR _____

1.—Nombre del solicitante _____

2.—Edad _____ Años.

3.—Sexo _____ Estado Civil _____ Profesión _____

4.—Dirección actual donde reside _____

 ¿Cuánto tiempo tiene de residir en esa dirección? _____

5.—Cédula No. _____ Lugar y fecha de expedición _____

6.—Referencias Personales. (3 nombres de personas que lo conozcan)

NOMBRE	DIRECCION	TELEF.
_____	_____	_____
_____	_____	_____
_____	_____	_____

7.—Grupo familiar (personas bajo ingreso común)

NOMBRE	PARENTESCO	EDAD	INGRESO MENSUAL.
1 _____	_____	_____	_____
2 _____	_____	_____	_____
3 _____	_____	_____	_____
4 _____	_____	_____	_____
5 _____	_____	_____	_____
6 _____	_____	_____	_____
7 _____	_____	_____	_____
8 _____	_____	_____	_____

No. DE PERSONAS _____ TOTAL MENSUAL _____

1

6(b)

B - Gasto Mensual del Grupo Familiar:

a) Vivienda _____	Alquiler _____
	Amortización _____
b) Electricidad _____	_____
c) Agua _____	_____
d) Cuentas _____	_____
e) Alimento _____	_____
f) Vestuario _____	_____
g) Otros _____	_____
TOTAL _____	_____

EMPRESA

1 - Tipo de Negocio _____	Dirección _____
2 - Ingreso Mensual del Negocio _____	Gastos Mensuales
Ingresos o Venta Mensual C _____	Materiales C _____
Otros Ingresos E _____	Mano de Obra E _____
Total Ingreso C _____	Transporte C _____
Menos Gastos C _____	Otros Gastos E _____
Ingreso Neto Mensual C _____	Total de Gastos C _____

3 - Numero de Mano de Obra Familiar () Hn. Familiar _____

4 - ACTIVO FIJO _____	PASIVO
Casa, Lote, Taller _____	Préstamos _____
Equipo, Herramientas _____	Deudas _____
Inventario (materiales) _____	Otros _____
Otros _____	
TOTAL _____	TOTAL _____

5 - Ha recibido otro préstamo? _____ Deuda? _____

K

6(c)

6 — MERCADO

- a) Cliente de la Comunidad _____ %
b) Cliente fuera de la Comunidad _____ %
c) AUTO CONSUMO _____ %
d) Cómo vende: Al Contado _____ % Al Crédito _____ %
e) Cuál es su venta al mes \$ _____ /mes. Cantidad _____ /mes
f) En qué otro lugar cree usted que podría vender sus productos _____
g) Qué haría usted para aumentar sus ventas _____
h) Cuánto compra en mercadería al mes \$ _____ Qué cantidad _____
Cuánto le descuentan _____ en que cantidad _____
En qué lugar obtiene mayor descuento _____

8 — VERIAS

PRODUCTO	VENTA DEL MES	COSTO	GANANCIA	SOBRE VENTA
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

9.—Administración (Promotor)

GENERAL	BUENO	REGULAR	MALO
—Organización Laboral	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
—Adquisición y Manejo de Materia Prima	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
—Contabilidad	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
—OTROS	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

(. (st)

Qué problema específico tiene para poder mantener su negocio? _____

OBSERVACIONES DEL PROMOTOR

1 - Nivel de Organización Comunal _____

2 - Programa Existente en la Comunidad _____

3 - OBSERVACIONES GENERALES _____

USO DE FIDEICREDITO

PRESTAMO

1 - Monto Solicitada _____ Plazo _____ Uso _____
_____ Cuota Mensual _____

2 - Relación de Amortización de Crédito sobre Ganancias.

a) Cuota Mensual ₡ _____

Ingreso Neto Mensual ₡ _____ (No. 1)

(No deberá pasarse del 30%) Relación % _____

b) Cuota Mensual ₡ _____

Ganancia Adicional Mensual ₡ _____ (No. 2)

(No deberá pasarse del 50% Relación % _____

M

ANNEX #7



FedeCredito
FEDERACION DE CAJAS DE CREDITO
INSTITUCION FINANCIERA DE RESPONSABILIDAD LIMITADA

DEPARTAMENTO DE DESARROLLO COMUNAL
CALLE 100 N. OFICINA 100

DEPARTAMENTO DE DESARROLLO COMUNAL

FORMULARIO DE SOLICITUD PARA GRUPO SOLIDARIO

FECHA: _____

SEÑORES DEPARTAMENTO
DE DESARROLLO COMUNAL
FEDERACION DE CAJAS DE CREDITO

Señores:

Hacemos de su conocimiento que hemos acordado formar grupo para obtener préstamo dentro del Programa de Desarrollo Comunal que presta esa institución, comprometidos a cumplir las condiciones y requisitos que señala el Reglamento de dicho Departamento.

Estamos entendidos que el importe de cada préstamo será determinado por el volumen del negocio, el interés económico y capacidad de pago de cada uno de nosotros; lo que nos obligará a cumplir puntualmente con el pago de los intereses en la forma que contratamos y a invertir el importe del préstamo en la actividad económica para la cual lo estamos solicitando.

GRUPO SOLIDARIO

NOMBRE	EDAD	OCCUPACION	PRESTAMO EDUCATIVO	FIRMAS
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				

Solicitud otorgada por: _____
(Nombre del Empleado)

LUGAR O ZONA: _____

ESPACIO PARA USO EXCLUSIVO DEL DEPARTAMENTO

Handwritten mark resembling the number '2'.

ANNEX # 8

LA OFICINA PROGRAMIA INTEGRAL DE DESARROLLO COMUNITAL
(PRIDECO)

Por medio de la presente nota hace constar que el Sr.(a) _____
_____ es el representante del grupo solidario
de la comunidad _____ el cual está cons-
tituido por _____ miembros que forman el grupo solidario. Permi-
tiéndome así presentar ante usted, para que sean incluidos en el programa de créditos del Departamento de Desarrollo Comunital, de la Federación de Cajas de Crédito.

Atentamente,

JOSE ANTONIO MELARA
Jefe de División de Desarrollo

San Salvador, _____ de _____ de 197_

ANNEX #10

FEDERACION DE CAJAS DE CREDITO

Unidad de Cobro
Caja de Crédito

DEPARTAMENTO DE DESARROLLO COMUNAL

Liquidación de Cobros
correspondiente al día _____ mes al comprobante No. _____

No. y Nombre del Cobrador _____

Grupo No. _____

1-V/P _____

2-V/P _____

3-V/P _____

4-V/P _____

5-V/P _____

6-V/P _____

7-V/P _____

8-V/P _____

9-V/P _____

10-V/P _____

Total.....€ _____

Grupo No. _____

1-V/P _____

2-V/P _____

3-V/P _____

4-V/P _____

5-V/P _____

6-V/P _____

7-V/P _____

8-V/P _____

9-V/P _____

10-V/P _____

Total.....€ _____

Grupo No. _____

1-V/P _____

2-V/P _____

3-V/P _____

4-V/P _____

5-V/P _____

6-V/P _____

7-V/P _____

8-V/P _____

9-V/P _____

10-V/P _____

Total.....€ _____

Grupo No. _____

1-V/P _____

2-V/P _____

3-V/P _____

4-V/P _____

5-V/P _____

6-V/P _____

7-V/P _____

8-V/P _____

9-V/P _____

10-V/P _____

Total.....€ _____

Grupo No. _____

1-V/P _____

2-V/P _____

3-V/P _____

4-V/P _____

5-V/P _____

6-V/P _____

7-V/P _____

8-V/P _____

9-V/P _____

10-V/P _____

Total.....€ _____

Grupo No. _____

1-V/P _____

2-V/P _____

3-V/P _____

4-V/P _____

5-V/P _____

6-V/P _____

7-V/P _____

8-V/P _____

9-V/P _____

10-V/P _____

Total.....€ _____

Firma/.....

ANNEX # 11

MINISTERIO DE LA PRESIDENCIA
PROGRAMA INTEGRAL DE DESARROLLO COMUNITARIO "PRIDECO"
DEPARTAMENTO DE COOPERATIVISMO Y ASISTENCIA CREDITICIA
PROGRAMA DE CAPACITACION TECNICA FEDECREDITO-PRIDECO

HOJA DE ENCUESTA PERSONAL

- 1.- NOMBRE: _____
 - 2.- COMUNIDAD: _____
 - 3.- DIRECCION: _____
(EXACTA)
 - 4.- Es usted usuario de Crédito SI _____ NO _____
 - 5.- En caso de haber marcado NO, ¿le gustaría serlo SI _____ NO _____
 - 6.- PORQUE? _____
 - 7.- Cree usted que el horario de los cursos anteriores es adecuado
SI _____ NO _____
 - 8.- Le parece adecuado el horario de 2:00 a 4:00 p.m. una vez por semana SI _____ NO _____
 - 9.- De las clases que se mencionan a continuación, cuales le gustaría recibir, (Coloque una X en el espacio que le corresponde, puede marcar una o más).
El tiempo de duración de cada curso es de 6 meses con dos horas de clase por semana.
- | | |
|------------------|-------|
| -FLORISTERIA | _____ |
| -MACRAME | _____ |
| -ENCUENTROS | _____ |
| -COSTURA | _____ |
| -COCCINA | _____ |
| -PASTELERIA | _____ |
| -Jugueteria | _____ |
| -PELUQUE Y FELTA | _____ |
- 10.- Para mejorar la asistencia a los cursos se impartiran en las Casas Comunitarias de las siguientes Comunidades:
 - a) Tutunichapa No. 1 _____
 - b) Policia de Hacienda Sec. R. _____
 - c) Comunidad Bolivar _____
 - d) Comunidad Las Palmas _____
- ¿ A cual de ellas puede asistir ? marque con una X el lugar que más le parece.

PROJECT REPORT

- I. FEDERACION NACIONAL DE CRUZADA SOCIAL (FNCS)
COOPERATIVA MULTIACTIVA DE DESARROLLO SOCIAL (CIDES)

Carrera 14 #47-39, Bogotá, Colombia

Telephone: 232-3642

Director: Alvaro Perilla Niño

Other personnel contacted:

Fanny Garcia - CIDES Advisor

Jorge Barrera - Credit Assistant

Gabriellina Fuentes - Accounting Assistant

Nelly Largo de Perilla - Cashier and Receptionist

Lucrecia Castaño - Social Worker

Dates of Studies: Preliminary: March 14-16, 1979

In-depth: October 9-19 and October 25-29,
1979

PISCES Representatives: Preliminary: William R. Tucker

In-depth: Peter H. Fraser

Written by: Peter H. Fraser

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11. SETTING

Colombia is a large economically and culturally diverse country located on the northwestern tip of South America. With over 24 million inhabitants it is one of the most populous countries in the region.

Bogotá is the capital with an estimated 5.1 million inhabitants. The average annual population growth rate of the city was 6.5% between 1975-1980. This outstrips even Sao Paulo's exceptional rate of population growth of 5.7% between 1950 and 1960.¹

According to the Urban II study, a major cause of Bogotá's population growth is heavy rural to urban migration representing 46% of the increase. Another cause of growth is the high birth rate caused in part by the in-migration of large numbers of young people in their prime reproductive years. Today children under 15 years old comprise 39% of the population and young adults between 15 and 34 years old represent another 37% of the population.

With this demographic scenario it is clear that there will be tremendous pressure on planners to generate unprecedented numbers of jobs and levels of income in the coming decades.

¹

All census data in this section of the paper taken from the "Projections" section of the Urban II study of Bogotá completed in 1972.

Projects to lower the birth rate, reduce the rate of immigration, stimulate out-migration, and create employment in modern industry, are important components of an integrated urban development program. But it is also imperative to assist low income people who support themselves through their self-initiated economic activities.

The numbers of people who could be more productively employed in their own tiny businesses is very large. In 1970, a survey of households done by the Colombian National Statistics Department (DANE) showed that 43% of the population belonged to the lower lower and lower classes. Of these people 38% of the lower class and 12% of the lower lower strata are independently employed as small artesans, salespeople, and providers of personal and domestic services.² Included in these categories are shoemakers, small store owners, street vendors, shoeshine boys, etc.

They are not assisted both because the economic importance of these businesses is poorly understood and the cost of assisting them through the most common means has proven to be too high and not very successful.

The Government of Colombia has attempted to increase employment opportunities through expanding modern industry while at the same time keeping inflation under control, but the task of keeping up with employment needs is very difficult. More formal sector jobs are available, but job creation is not keeping

²Carlos Castillo, *Vida Urbana y Urbanisimo*, Biblioteca Básica Colombiana, Instituto Colombiano de Cultura, 1977, table #2.2 p. 254.

up with demand. Furthermore, current inflation has continually outstripped wage levels; the incomes of the lower and middle classes have decreased in real terms.

Under these conditions many people must find secondary employment, live in extended families where incomes are pooled, or set up informal economic activities to make ends meet.

Predictions estimate that in 1980 over three-fourths of Bogotá's families will have monthly incomes of less than US \$120 on constant 1970 terms.³ Rent or mortgage payments alone can easily run half this amount. To provide adequate food, clothing, and education for an average family of six would be nearly impossible.

Given the inadequacy of formal sector employment coupled with wage erosion by inflation, a rapid increase in family based income generating economic activities is inevitable.

The alternative to either formal or informal sector work is unemployment which requires financing through personal or family savings during the "job search" period.⁴

³"Projections" Urban II study, Bogotá, 1972 p. 129.

⁴For information on the job search model see Studies of Urban Labour Market Behavior in Developing Areas. Ed. Subbiah Kannapan; "Analysis of the Dual Labour Markets in LDC's" by Dipak Mazumdar, London School of Economics; World Bank, pp. 18-23.

Few people have this option thus the "job search" period must be financed somehow, possibly through informal sector business activities.

These informal sector businessmen are often thought to be very transitory and unstable. While specific data is not available on Colombia-Bogotá in particular-, it seems that informal businesses are more stable than is normally presumed. Observation strongly shows that they provide income to very large numbers of poor people representing a largely untapped productive resource if given the opportunity to develop.

Credit to Informal Sector Entrepreneurs

Despite the desperate need for programs which provide credit and other non-credit services to urban, informal sector economic activities, there are none sponsored by the government on a national level. Colombian programming has been directed at comprehensive credit and management assistance, typically for Small Scale Enterprises of 5-30 employees. The few partially effective projects dealing at the informal sector level are private non-profit social efforts usually locally based, and work with only a few clients.

Credit is a primary need of informal sector businesses that desire to increase their productivity and incomes. But at this level, access to credit is very difficult if not impossible. The government has made provisions for "popular credit" lines through commercial banks intending to deal with the problem of

credit availability to very small, micro-businesses. The popular credit lines provide for maximum loans of Ps\$50,000 (US\$1200) at 20% to 22% interest per year. However, the regulations imposed by the banks such as bank references, minimum fixed incomes of the clients, tax declarations, property ownership, and Chamber of Commerce registrations are major roadblocks to qualifying for credit.

Under these circumstances it is virtually impossible for poor people to obtain credit since the requirements are far too restrictive. Is is not preferential interest (interest which is two to four percent lower than on other commercial lines) which will open credit to the poor. The need is for efficient approaches to diminish risk and reduce the administrative costs of small loans which will make credit to the informal sector viable.

Given the problems associated with obtaining bank credit, many businessmen use supplier credit which is available from the larger distributors. Through interviews with businessmen it is evident that not having to combat the barage of regulations makes paying slightly higher prices for their inventories (essentially interest on the purchase) worth the price.

Post-dated checks are the normal form of payment of supplier credit.

While guarantees such as property ownership may be required, distributors are eager to provide credit in order to sell more. In general, restrictions are lax. They make quick judgements

on the business and deliver the supplies immediately. Once the client's reputation is established the amount of credit is increased. No other assistance is provided in marketing or production.

One fairly prosperous storeowner observed that another major service of the distributors besides supplier credit was the delivery of goods right to the store. This saved time since he was able to reduce the frequency of trips to town. Through the distributors he was able to buy larger quantities than he could have otherwise, and he could buy several lines in the same transaction, reducing the number of redundant activities. These savings were, apparently, greater than the cost of credit to the entrepreneur.⁵

Despite the benefits of supplier credit, one very small storeowner was concerned, however, with the prices charged by suppliers (i.e., reflecting service and interest charges) and felt that alternative sources of credit allowing her maximum savings on the price of goods would be the most beneficial. Apparently her volume of sales was not sufficient to justify additional costs to her to buy through suppliers.⁶

An alternative to the distributors and banks are the money lenders. Regardless of the size of the business, people

⁵See annex #1 for Case Study.

⁶Entrepreneurs cannot articulate exactly how high the cost is, but know that they can get supplies more cheaply from other sources. They know that the higher price to them is related to the credit they are receiving.

stated that the going rate "en la calle" (street lending) is 3% per month or 36% per year (which is very low by Latin American standards).

Given that the inflation rate in Colombia is between 25% and 30% per year, the profit to the money lenders is reasonable. The official Colombian commercial interest rates fluctuate between 20%-26% depending on the credit line and purpose of credit. Still credit from banks is more attractive than from money lenders, but precisely since the return to banks is so low, (if not negative), the supply of credit through banks is severely limited, and barriers to eligibility remain high.

Since the return to banks is so low, they continue to adhere to their stringent guarantee requirements. There is no incentive for banks to lend under these conditions, especially to the poor, who are considered to be high credit risks.

Recognizing the problems of credit availability, government and private programs have been implemented to institutionalize credit with the objective of easing guarantee requirements and interest. However, government sponsored programs are complex including costly technical assistance schemes and in the final analysis assist small, but fairly well established businesses relative to informal sector activities. Even at this level, since their technical assistance has been quite ineffective given its cost and credit payback has been mediocre, a conclusion often reached by experts upon analyzing these programs is that very small businesses cannot use the services offered.

Small loans to individual clients are costly to administer requiring a high degree of subsidy and since payback rates are mediocre it is assumed that more technical assistance is needed to improve the businesses so they will be able to pay back the loans. Furthermore, larger loans are given to businesses due to the high cost of making very small loans, necessitating increased technical assistance, further increasing costs, and so forth.

An attitude can very easily develop under these circumstances that very small businesses are impossible to assist from a cost and technical viewpoint.

While there are no projects which we could detect in Colombia that contained all the elements of an effective project, that is, to assist through credit, managerial assistance, and other social components the improvement and upgrading of many informal sector businesses, there are several small private projects which attempt to work with very poor people in community development, nutrition, health, which have added savings and loan components. Foster Parents Plan and the Federación Nacional de Cruzada Social are two such programs which have set up savings and loan cooperatives as a way of mobilizing savings and providing credit services to people without resorting to the normal commercial channels.

Given that the savings and loan mechanism is essentially the same in both programs, it was decided to study the Cooperative Multiactiva de Desarrollo Social (CIDES) of the Federación Nacional

de Cruzada Social since its guarantees through solidarity groups and payroll plans provide further information on the merits and problems of different guarantee mechanisms as well as the appropriateness of the savings and loan system to reach informal sector enterprises.

III. PROJECT DESCRIPTION

Background

The Federación Nacional de Cruzada Social (FNCS) was founded 31 years ago by a Catholic lay group (Laicos) which, after the "Bogotazo" of April 9, 1948 and the assassination of President Gaitán (a populist politician), decided that there had to be more participation by private citizen's groups in the social development and welfare of the poor.

During the first twenty years the program was primarily a small, social welfare organization. Its major functions were to distribute food, clothing, and medicine free of charge in the poor communities of Bogotá. The organization was staffed by volunteers, usually from the upper class.

Cruzada or FNCS (as the name is abbreviated) has grown and currently has 11 regional offices supervised by a National Director in Bogotá.

Given its growth and broader perception of its role, about 8 years ago Cruzada began to realize that the social welfare components were simply not enough to have any very far-reaching impact on the poor or their lives. Much more was needed

in the way of general education and the social and moral upgrading of people.

Cruzada has evolved over the last 8 years into a program which is based on providing services to as many people as possible charging very low prices. It has gotten away from welfare including distribution of clothes, food and medicine. As Cruzada found out, because of its limited size and resources it could not reach very many people under its welfare orientation. Those that it did reach did not receive any substantive assistance in terms of personalized long term educational, cultural, and social improvement. As a result, Cruzada decided to shift to a more developmental orientation touching on many areas of socio-economic concern.

The multi-faceted programming approach adopted by Cruzada is consistent with what are considered to be Colombia's most important development needs.

Cruzada has attempted to address the needs of its clientele by maintaining a comprehensive development effort on a small scale within its philosophical and economic constraints.

Program Areas

- Education a) The Social Promotion Center was designed to provide short courses once a week for a month in areas requested by Cruzada's clients. These courses include handcrafts, sewing, simple business methods, sex education, and human relations. All courses are

given at Cruzada offices in an upper middle class area of downtown Bogotá. Part time teachers are hired and/or Cruzada volunteers are used to give the courses. All scheduling and course content is coordinated by the staff Social Worker. This component is a highest priority for FNCS staff because of its focus on improving people as "complete beings." Through courses it is hoped that people's interest in their own well being will be stimulated and will lead to their using the services offered more diligently.

b) Centro de La Inmaculada is a school providing instruction through the 10th grade for 400 low income girls. The Board of Directors is made up of FNCS Staff with exception of the school's Director who is a Catholic nun. The school is housed in a Cruzada building. All teachers are paid by the District of Bogotá. Each student pays Ps\$200 (US \$4.75) per month.

c) Hogar Materno e Infantil is a home and day care center for unwed mothers and their children. Currently there are 30 mothers and 80 children. The goal is to provide a place for mothers to live with their children while also enabling them to work. There are two teachers for the 80 children divided into two age groups. Ten Cruzada volunteers help with recreational activities. The home itself is directed by nuns.

- Health A health program was begun several years ago working in Cruzada subsidized community health centers. However, due to the lack of response by the poor neighborhoods and the underutilization of affiliated doctor's time, and lack of volunteer doctors, it was decided to centralize these activities to set up a health unit at the FNCS offices.

Even though it is not as convenient for some clients, the system seems to be working better. The medical unit provides services in general medicine, dentistry, and has a bacteriology laboratory. The unit is staffed by several paid doctors who often have offices outside the center, but which work in the center part time out of a sense of social responsibility.

- Housing In conjunction with SERVIVIENDA, a Jesuit founded and operated pre-fabricated housing foundation, FNCS, through its savings and loan cooperative is providing access to low cost housing through a special savings and credit plan.⁷ Additional income for CIDES is generated through this component based on 1.) management of a revolving fund from Miserior and 2.) a percentage on house sales.

⁷See annex 05.

- Recreation This is not an ongoing program, but FNCS has some experience in this area through periodic short term projects.

- Economic Ten years ago a savings and loan cooperative, not under Cruzada's auspices, was started called Cooperativa de Accion Social (CAS). Its objective was to provide access to credit through savings mobilization to people who could not qualify for credit in the normal system. Several of the current FNCS staff worked with that cooperative. Due to internal philosophical problems with regard to the cooperative's responsibilities to its members, CAS was asked to leave FNCS and FNCS as an organization withdrew support. A new cooperative called Cooperativa Multiactiva de Desarrollo Social (CIDES) was set up under the auspices of SERVIVIENDA, and FNCS and forty individuals. It took a year and a half to get official approval by the Superintendent of Cooperatives, a government office, but in March 1977 CIDES became official.

The Savings and Loan System: Cooperativa Multiactiva de Desarrollo Social

As a result of the above internal philosophical differences between FNCS members and the management of CAS (Cooperativa de Accion Social), CIDES was established.

These differences arose because of CAS's policy to invest a large amount of its funds in outside investments which were more profitable rather than making loans available to members which did not pay good interest. CAS objectives over the years shifted more toward increasing income and providing larger, longer term credit. The current director of CIDES (who is also the National Director of FNCS) and another FNCS board member who is an advisor to CIDES now, felt strongly that CAS was too eager to make the highest return on its money rather than providing services to the clients through loans, human development programs and education. They felt that the social and philosophical base of CAS as it was originally stated had been eroded by the director and several influential members. Many efforts were made to arrive at an amiable resolution of the problem, but after a time this seemed not to be a viable solution.

Instead of continuing to attempt to change policies or the leaders at CAS it was decided that FNCS would start its own cooperative.

Given the experience with CAS, it was decided that CIDES had to be structured to avoid the possibility that any one person's orientation would dominate and overpower the philosophical base of the organization. The founders and current Board of Directors, therefore, include two institutions, FNCS and SERVIVIENDA. It is hoped that by having these institutions as Board members, the social service orientation of the organization will have strong institutional backing and continuity

despite changes of individuals over time.

The cooperative began to operate almost immediately with ex-members of CAS in FNCS installations, but not with legal sanction. Provisions in Colombian cooperative law, however, make it possible for cooperatives to operate conditionally without an approved registry from the Superintendency of Cooperatives. Initial operations were difficult because of government inaction. Potential members were wary of joining the cooperative until it was legally registered and approved.

According to FNCS's advisor to CIDES, this is the government's way of discouraging socially oriented cooperatives, especially those working with poor people. Potential members wonder why the cooperative is not being approved leading to a lack of confidence in the stability of the cooperative and the safety of their savings. If registration at the Superintendent of Cooperative's office is stalled long enough, the cooperative could dissolve by the time it is finally approved. There is a general feeling at CIDES that government is against socially oriented cooperatives perse and that government policy is not designed to assist small businesses.

CIDES Goals and Social Emphasis:

Savings and loan cooperatives are based on mobilizing savings, creating a loan fund, and lending back to clients at favorable rates of interest and on easier terms. Often the systems make it possible for people who do not qualify for other

credit programs to pool their resources for the benefit of the group. The cooperative is often the only institution which mobilizes the resources of low income people which, in turn, provides services to them.

CIDES is no exception to this, but in addition emphasizes its economic function is only valid to the extent that individuals remain the central focus of the cooperative. The goal for CIDES is for individuals to improve themselves personally and economically. Individuals are encouraged to come to FNCS meetings, short courses, and participate in savings contests and group activities designed to "promote" the whole self.

The importance of the saving function is stressed by CIDES and is an important part of reaching this goal. It seems to be viewed philosophically as a test of the coop member's character. The entire foundation of CIDES provides a good economic service which will attract people to the system which can then, in turn, be used to promote all other FNCS activities to members.

CIDES believes in limited growth in membership to the end of breaking even economically and providing better services to its members. Under no circumstances will it sacrifice human development to cooperative size. The directors are convinced that growth must take place and have set CIDES up to legally enable it to form branches throughout Colombia, but the process must be measured and not deviate from the overriding emphasis

on individual moral and spiritual development.

CIDES Membership:

CIDES views one of its functions to bring people of different backgrounds and ways of life together to foster understanding and community.

Coop membership currently numbers nearly 1,000, and cuts across social barriers attending lower and middle-class clients.

It was calculated by CIDES staff that 10% of the membership was self-employed and had their own businesses which they attended full time, or were FRCS volunteers and staff.

But the major source of membership (¹/₂ 90%) is from the ranks of company employees, who are not independent entrepreneurs and who are generally lower class.

- Formal Sector Employees When CIDES was founded, the directors decided they really did not know much about the market for the cooperative's services. A survey was done to determine what types of people did not have access to credit, what they did for a living, and how to best reach them.

The survey showed that a very large proportion of factory workers and other types of employees normally had no access to credit. In a few cases, company savings plans provided a means for workers to get consumer credit, but even so, the company plans did not provide any of the

human development services CIDES feels are essential.

Since there seemed to be a large potential membership there, a promotion plan was designed whereby companies were contacted and asked if they would permit CIDES to promote their cooperative among company employees.

By doing promotion through companies the cooperative is able to reach larger numbers of potential members with the very small staff of volunteers and part time help. Essentially the company employees make up the "group" through which promotion is done in the absence of community organizations or other grouping arrangements.

Due to this promotion technique, CIDES has a large membership of company workers. As this program has evolved, friends and relatives of members have also become aware of the cooperative by word of mouth or through the FNCS health unit or other affiliated services, and have joined the cooperative.

This has had negative repercussions, however, since factory workers and members promoted by word of mouth do not necessarily live in the same areas. Thus CIDES' membership is spread over much of metropolitan Bogotá. This makes it impossible for staff to do field work with the members and has made a centralization of CIDES/FNCS functions at the offices imperative, which is a concern to the Director.

Overwhelmingly, CIDES members are from poorer classes, but by the same token are not destitute. By design, CIDES members must at least be employed and be able and willing to save which immediately in itself defines the members as for the most part being toward the top of the poor income bracket.

- Self Employed Entrepreneurs About 10% of CIDES members own their own small businesses which are full time income generating activities, and this is the group this study tried to focus on. Clients who have used CIDES loans for their business activities specifically are quite well organized and managed. They are several notches higher than the typical informal sector businesses which are characterized by extremely little mechanization, very low productivity, difficulty in obtaining sufficient inventories, inefficient use of time through frequent and redundant activities, and lack of access to formal credit.

The businesses visited were run by fairly articulate people with medium levels of education. In only one case could the business be classified as belonging to the informal sector.

These entrepreneurs know their work well, normally having worked previously as employees for someone else in the same line of business. This was the case specifically with a locksmith (production/retail business) a baker

(production/retail), a tailor (production subcontractor for large garment company) and a small neighborhood store owner.

The smallest entrepreneurs (a market lady, a seamstress, and a shoemaker) despite a valiant attempt on the part of project staff and the interviewer were impossible to locate. Unfortunately, these enterprises would have given more insight into informal economic activities and the impact of CIDES productive credit at this level.

Besides the above categories, a number of CIDES members had part time businesses at home in addition to their factory employment to assist with family income.

One seamstress worked all day in a large factory. Given her ability in sewing, she decided to open a small shop at home. With cooperative loans she was able to obtain a treadle sewing machine and raw material inventories.

Despite the fact that CIDES estimates a low percentage of loans to informal sector business activities, given the economic setting in which CIDES operates and the fact that many members are company employees, it may well be that a surprisingly large number of CIDES loans actually are being used for part time business activities.

This offers, perhaps, another large area of high demand which is seldom tapped in productive credit project. It may

be that many CIDES members listed as employees have other income generating activities and actually use their loans or part of them, (classified as consumption credit) for part time businesses, such as a weekend furniture repair shop, a corner stand beside a stadium to roast corn or meat, or a small neighborhood foodstore or kiosk selling beer and basic foodstuffs.⁸

Organization

CIDES is legally an autonomous savings and loan cooperative under the auspices of Cruzada Social. The Director of Cruzada is the Manager of CIDES and the CIDES advisor is also a member of the Board of Directors of Cruzada. Each of these people puts in half time at CIDES. Some of this time is dedicated to Cruzada programs in general, although it is difficult to clearly separate the two.

The programs and directions of CIDES are, according to the director, primarily designed and developed by himself, the Cruzada advisor to CIDES, and another person on the Cruzada coordinating committee.

⁸ This phenomenon was also found in El Salvador by the National Director of Savings and Loan Cooperatives. Loan classification is not often accurate. Many "consumption" loans are split with part of the credit being used for purchases of raw materials for part time businesses or stocking the small corner store. He felt that close examination would reveal a greater productive nature of cooperative lending activity.

Besides these three "prime movers" there are four full time staff at CIDES who work exclusively in the office, a receptionist/cashier, a credit assistant, an accounting assistant, and a messenger, who also has some accounting responsibility.⁹

Project Activities: CIDES is an integral part of the FNCS approach to assistance to the poor in Bogotá, but does not actually run any of the social services directly. CIDES offers these previously described services to members as part of a package available through its affiliation with FNCS.

Anyone can use FNCS services since it is not a membership organization, as is CIDES. Charges to CIDES members and their families, however, are lower or free of charge than to the non affiliated user of services. Instead of paying Ps\$60 (US\$1.45) to the health unit, cooperative members pay Ps\$40. Similarly people who are not members of CIDES must pay FNCS Ps\$400 (US\$9.50) for short courses, while CIDES members with over Ps\$1200 (US\$28.50) of savings in the coop may attend the courses free of charge.

CIDES functions are:

1. to provide its members with a savings mechanism and access to credit on easier terms than with the formal banking system.

⁹See annex #3 and 4 for specific staff functions and personnel profiles.

2. to encourage personal improvement through short courses and social atmosphere at FNCS.
3. to facilitate access of its members to other government or private services not provided by the cooperative.¹⁰

Promotion: Promotion of the cooperative for the purpose of getting new members is accomplished in large part by word-of-mouth. The cooperative does have brochures explaining its programs, but these are usually given to prospective members after they have come to the office for the first time. More formalized promotion in companies is also done by Fanny Garcia, the CIDES advisor who makes periodic company visits to explain CIDES and the advantages of their system to company management. Upon management's approval Fanny then attempts to promote CIDES with the workers. With this type of promotion, CIDES hopes to be able to attract at least 30 new members per company at a rate of one company per month. However, on the average, only 20 members per month have been joining.

Since CIDES must reach 1,500 members to become self sufficient, it is taking several initiatives to bring more members into the cooperative. Through its

¹⁰ While CIDES provides a facilitator role to members to help them identify services which the cooperative cannot supply, it wishes to be as autonomous as possible with as few links, especially to government as possible.

management of a revolving fund for SERVIVIENDA, one of its co-founders, not only does CIDES receive interest income, but also all SERVIVIENDA clients (who are very poor) who wish to buy housing through the CIDES/SERVIVIENDA revolving fund plan must become members of CIDES. This plan, then, will automatically "promote" about 300 new members in 1980.

This plus its company promotion and simply word-of-mouth promotion will enable CIDES to reach its goals for self-sufficiency within a year.

Membership Requirements: In order to belong to CIDES members:

1. Must be 18 years old.
2. Must not be affiliated with another savings and loan cooperative.¹¹
3. Must not be an invalid - must be able to work.
4. Must demonstrate interest in becoming a member.
5. Must pay an initial inscription fee of Ps\$50 (US\$1.20) and deposit Ps\$70 (US\$1.45) in a savings contributions account and at least Ps\$60/month thereafter the accumulation of which serves as the basis for his credit limit later.

¹¹ This is in part due to competition, but primarily to avoid members having too many obligations to different sources, thereby diminishing the risk to CIDES in terms of the credit function.

While interest and desire are stated to be important parts of the selection process, the most important requisites are to have paid the inscription fees, met the age level, and be employed. All inscriptions are done at the CIDES office with each prospective member individually.

Once a person fulfills the above prerequisites he then can become a "beginning member" (socio de inicia). This involves filling out a Tarjeta de Ingreso,¹² a simple data sheet with personal information, the type of business or work, the amount of income and the amount to be contributed monthly to the loan fund (aportaciones). The receptionist/cashier fills out a control card¹³ which is used to record savings and contributions.

There are two types of accounts that can be opened. One is a regular 12% savings account (deposito de termino fijo)¹⁴ and the other is a contributions account (aportaciones) which does not accrue interest.

The member has free access to his savings account (deposito de termino fijo) after a fixed time limit, but not to his contributions (aportaciones). This is because

¹² See annex # 6 for sample card.

¹³ See annex # 7 for sample sheet.

¹⁴ See annex # 8 for sample card.

the cooperative depends on the contributions accounts for the development and growth of its loan fund and this cannot be depleted through withdrawals. The loan fund constitutes the funds available to members for credit purposes. This account can only be drawn upon at the time a member decides to leave the cooperative.

The amount of a member's contributions to this account (aportaciones) eventually determines the limit of that member's credit, usually three times the amount of his contributions. This system makes it possible for the cooperative to secure at least 33% of any loan.

The minimum contribution per member is P\$1200 (US\$28) before he can be eligible for credit. And the growth of this fund must be constant demonstrating a sustained propensity to save. The person must also have been a member for at least two months in order to qualify for credit.

Credit: Most people join CIDES to get loans on better terms compared to banks, stores, distributors and money lenders. CIDES charges its members the extremely low interest of 12% per year on the unpaid balance of the loan calculated monthly. There is no doubt as to the advantage of this credit, which is subsidized by all the

cooperative members to those who borrow.¹⁵

During the first nine months of 1979, 205 loans were granted which broke down in the following manner:

TABLE No. 1¹⁶

<u>CATEGORY</u>	<u>Number</u>	<u>Total Amount</u>	<u>Average Amount/Loan</u>
Assumption	65	\$Ps 637,900 (\$15,010)	\$Ps 9,813.85 (\$231)
Production	27	\$Ps 167,700 (\$ 3,945)	\$Ps 6,211.11 (\$146)
Marketing SERVIVIENDA project)	66	\$Ps 1,404,500 (\$33,047)	\$Ps 21,280.30 (\$500)
Production	21	\$Ps 133,000 (\$ 3,130)	\$Ps 6,333.33 (\$150)
Production	26	\$Ps 578,500 (\$13,612)	\$Ps 22,250.00 (\$524)

As can be seen, overall loan amounts are very small. With highly negative real rates of return on the loans, CIDES simply cannot afford to support a large staff and spend a great deal of time on promotion, supervision, and loan analysis.

While the average loan to small businesses was US\$524, some loans were as small as Ps\$9,000 (US\$212), in one case to a "tarjetaria" - a woman who ran a small card stand on a seasonal basis - Christmas, Easter, and Mother's Day.¹⁷

¹⁵ Colombia's inflation rate is approximately 25% per year.

¹⁶ See annex #9 for CIDES lending history from its formation in March 1977 to the present.

¹⁷ For more complete descriptions of other businesses assisted see annexes #1 and 2.

CIDES uses a very simple credit process making it possible for people to receive their loans quickly. CIDES staff does not visit loan recipients nor do they do direct verification of loan use.

This is partly because they do not have the staff for this kind of activity, but also because it is not really needed in CIDES' estimation. The reason for loan analysis is normally to diminish risk and enhance payback, but CIDES has no problem in this regard. There have been some late payments, but never any defaults.

Furthermore, the guarantee mechanisms which CIDES uses not only cover a large part of any risk of lending, but also enable members access to credit where they would normally be ineligible.

Guarantee Plans: There are three types of guarantees used by CIDES including the traditional personal co-signer. Two, however, are particularly interesting since they eliminate the bulk of the elements of other plans which normally rely on traditional property, fixed income, personal co-signers for proof of solvency, etc. and replace those with elements which the members of CIDES can most readily provide.

1. Payroll Deductions (Libranza) for Empleados de Planilla" (Payroll Employees)

Companies often agree that provision of credit services are important and necessary yet there may be no plan for employees. CIDES, through its company promotion then tries to market the "payroll deductions" plan to the company managers. If the company agrees to the scheme it assumes the responsibility of guaranteeing the loan and of administering the payroll deductions from the salaries of company employees who are CIDES members and who have borrowed from the cooperative.

Upon receiving a statement for the current pay period from CIDES showing the employees name, account number, savings, principal, interest and running loan balance¹⁸ the company prepares a payroll form¹⁹ including normal deductions required by law plus a column (#9 of annex #11) which is the total amount of deductions for the company

¹⁸ See annex #10 for sample form.

¹⁹ See annex #11 for sample form.

(in agreement with CIDES annex #10). This column, when added up for all employee members of CIDES, gives the amount of the check which the company should send to CIDES.²⁰

There is no risk involved to either the company of CIDES in this case since the loans are covered by 1.) the employees income (payroll) and 2.) severance pay which can be held by the company should an employee quit or be fired.

About 250 members or 25% are under this plan.

While some companies are anxious to have CIDES provide its services to employees, there are cases in which managers do not want the bother of dealing with payroll deductions. Or they may simply lack the time or formal payroll systems to be able to implement the payroll plan. In these cases, company employees join CIDES as would any other person without the payroll deductions service.

2. In addition to company employees which comprise the bulk of CIDES membership, approximately

²⁰ It is interesting to note that through this plan not only are loans efficiently collected but also obligated savings are deducted and sent to CIDES automatically.

10% run their own businesses. Those CIDES members who are company employees not under the payroll deductions plan and those who are independent businessmen or informal sector entrepreneurs are grouped into the "empleado suelto" or "loose employee" category. These members may choose between two guarantee formats. They are:

1. A Personal Guarantee whereby cosigners who can guarantee solvency assume liability for the unsecured portion of the loan. (The traditional system).

and:

2. The "fianza solidaria" which is a group guarantee system under which groups collectively assume liability for the unsecured portion of the members' loans without any traditionally required proof of solvency.

Fianza Solidaria (Solidarity Guarantee): This group guarantee mechanism is of primary interest in the report since its organization in the CIDES context will be useful in the analysis of this type of guarantee system in general.

The fianza solidaria used by CIDES was designed by Fanny Garcia, Alvaro Perilla of the FNCS staff and two lawyers nine years ago. They recognized that the people they were most intent on reaching through the cooperative (CAS at that time) were not able to put up the normal property or financial guarantees required and for this reason set out to develop a mechanism appropriate to the needs of the target clients. The basis for the fianza solidaria is that given a clear understanding of the collective nature of the group guarantee, people will form into groups for the mutual benefit of the members. The peer pressure within the groups as well as its legal status will ensure that any member will pay off his loan otherwise the group members are held responsible collectively for loan repayment. Furthermore, until the delinquent member pays, the other members will not be eligible for credit further creating pressure to pay. Groups may be formed by:

1. People who know each other from their work (possibly in the same factory) and who have specifically joined CIDES with the idea of forming a credit group;

2. People who know each other from the same neighborhood or a group of friends from disperse neighborhoods; and
3. Families.

The members of the groups select themselves on the basis of who they feel are trustworthy and will be good risks.

Thus peer pressures will be stonger than in the case where groups are "formed" by project staff. According to a project staff member, clients recognize the implications of the fact that they have developed the group themselves and will be less inclined to renege on that responsibility by blaming project staff for internal group problems resulting from someone not paying his debt.

Groups are formed by five people.²¹ All members must come to CIDES to sign a legal document which is then registered with the Colombian National Tax Office.²²(CIDES, deals with the tax office directly and group members are required to deal only with CIDES.)

²¹ CIDES has tried many group sizes. According to Fanny Garcia this is the group size which has proved easiest to work with. It is small enough to be able to constitute easily yet large enough to cover CIDES risk through the collective savings of the members.

²² See annex #12 for sample.

This document states the names of the members of the group, the conditions under which the group is legally bound and the maximum limit of credit available to the group as a whole as determined by their collective contributions to the loan fund. Each time a member changes or drops out of the group or requests a change in the limit of credit to the group, a new document must be drawn up and registered. Slight costs are incurred in this process which are defrayed collectively by the whole group.

Once each group is formed, there is no required further contact between all the group members. This seems to be primarily because the "fianza solidaria" is only perceived by CIDES as a guarantee mechanism and not as a possible forum through which to provide additional services of FNCS such as human relations, community development, business management, nutrition, and health programs among many others. In this, CIDES and FNCS may be losing a powerful development tool.

Application for Credit: All loan applications are submitted individually to CIDES regardless of the type of guarantee program. The forms used are identical and include all pertinent data including co-signers.²³ The only difference is that when a member of a "fianza solidaria" (credit group) applies for credit his co-signer, another member of the same group, instead of providing personal solvency, commits the group to backing the loan as agreed when the group was legally constituted.²⁴

In the case of "empleados de planilla" who are on the payroll deductions plan the co-signer is a previously designated company official who approves the amount of credit on the basis of the employee's salary and accumulated severance pay as well as his savings at CIDES.

Once applications have been submitted with the co-signers signatures, the credit assistant reviews the application and makes recommendations for changes. Regarding the amount of the loan if there is a discrepancy with the applicants accumulated savings, for

²³ See annex #13 for sample document.

²⁴ It must also be pointed out that blocks 2 and 3 (Finca Raiz) and (Garantias) on the reverse side of the application are rarely used. Normally the company (payroll deductions plan) or one member of a "fianza solidaria" simply signs the Fiador or Cosigners block without any details.

example, the necessary changes will be made. The credit assistant then submits the application to the Credit Committee for final approval. Depending on the amount, loans are usually made for one year with monthly payments.

The Credit Committee, which is composed of cooperative members, meets once a week to review and approve or reject loans on the basis of the financial condition of the cooperative.

After Credit Committee approval, the applicant alone is asked to sign a pagaré (loan contract) with CIDES which states the amount, interest rate and other terms of the loan and constitutes a legal obligation for the applicant and his guarantors.²⁵ This document is registered with the Colombian National Tax office.

Collection: Loans are normally paid once a month depending on the size and purpose of the loan. Payments are made by the members at CIDES. CIDES does not have field collectors since they believe that the members must assume the responsibility to take the time and effort to live up to their obligations as part of the process of developing individual character.

²⁵ See annex #14 for sample document.

At the cooperative the receptionist/cashier fills in a credit control card²⁶ to record loan payment and gives the member a receipt.²⁷

This system of collection necessitates periodic trips to CIDES by members possibly inducing them to take advantage of courses and health services offered.

Late payments have not been a problem representing only about 5% of the number of loans outstanding.²⁸ Most members are punctual in their payments. Since interest is calculated on the basis of the unpaid balance, there is an important incentive for people to cancel their loans as quickly as possible.

CIDES appears to take the attitude that late payment cases should be treated leniently, since there may be very good reasons for delinquency. In these cases the credit assistant contacts the member to find out the causes of his lateness, at which time these reasons are related to the Credit Committee which makes a decision on whether or not to approve an extension.

²⁶ See annex #15 for sample card.

²⁷ See annex #16 for sample.

²⁸ I do not know what percentage of the portfolio this figure represents.

Where extensions are not warranted, after a week a penalty of 12% of the missed payment is charged.

To date there have been no unrecoverable loans, but in such a case provisions are that the case would be turned over for legal processing and specific collection procedures would begin. Also a fine of 10% of the initial loan balance would be charged.

In sum, CIDES is indeed providing a credit service to people who would otherwise have difficulty qualifying. The cooperative is also in a very enviable position in that it has largely covered its risk in the design of its credit plans through very simple procedures.

In the first place a third of any loan it makes is automatically secured by the regulation that only three times the amount of savings be granted to any individual loan applicant. And second, depending on the guarantee format the total unsecured portion of the loan is covered 1.) by payroll deductions or, by extension, severance pay if the person leaves work; 2.) by a cosigner, or 3.) by the collective savings of the group in the case of the "fianza solidaria."²⁹

The cooperative collects members' money into a savings pool, restricts the number of people who can

²⁹ See annex #17 for control record of loan from "fianza solidaria."

use the pool by minimum savings requirements as a prerequisite to receiving credit, and lends back to the owners of the money (the borrowers) at an advantageous rate of interest compared to banks, stores, suppliers, or money lenders. It furthermore invests other fixed time deposits of the members in high yield accounts gaining an interest differential, which can be used to increase loan or guarantee funds depending on the type of account invested in. The major trial for the cooperative is to continue to not only increase membership and the loan fund, but also to continue to provide the social services essential to maintaining CIDES' philosophical outlook.

Funding: CIDES' income is from interest generated by loans to the members, interest from loans to large corporations and deposits in banks. Recently CIDES has agreed to collaborate in SERVIVIENDA's effort to increase the sales of low cost homes in poor neighborhoods. CIDES receives income for their referral services, management of a revolving fund for SERVIVIENDA, and as a commission for houses sold.

Net income through all these sources reached Ps\$358,000 (US\$8,420) from January to September 1979. Expenditures for salaries, fringe benefits, payroll deductions for social welfare tax, maintenance, utilities, training courses, transportation, etc. totaled \$348,400.

This apparent surplus income was quickly dissipated, however, since part of net income was interest from a bank to CIDES. This money by law had to be put into a reserve fund to cover coop losses and as such was not available to CIDES. So income at the disposal of the coop was Ps\$26,000 less (corresponding to that type of interest income) or Ps\$332,000 (US\$7,810).

Even though balancing the budget was a major reason for CIDES linking up with SERVIVIENDA on the housing program, there is still a deficit.

CIDES received during the first nine months of 1979 Ps\$146,000 (US\$3,435) from the SERVIVIENDA project which also requires housing clients to become cooperative members. Without this sum, 41% of CIDES income through September, their financial situation would have been disastrous.

In addition to SERVIVIENDA collaboration, PACT (Private Agencies Collaborating Together) a consortium of private, non-governmental, non-profit development organizations provided a grant of Ps\$500,000 (US\$12,000) over three years to help pay salaries, fringe benefits, and other miscellaneous costs in the field of audio-visual aids, transportation, and the like. From March 1978 through May 1979 PACT had subsidized CIDES salaries and benefits by Ps\$392,000 (US\$9,224) or 78% of the total subsidy.

During the last two years, CIDES has gradually absorbed more responsibility for its payroll and now is paying the full salary of the four permanent full time CIDES employees and the SERVIVIENDA project social worker. PACT still subsidizes the director's and assessor's salaries.

CIDES management recognized that they must break-even by the end of 1980 when the PACT subsidy stops and they are making strides toward that end. The director is confident that they can attract 30 new members per month for the next year which would give CIDES sufficient membership and sufficient loan and term deposit funds to break even.

Project Impact of CIDES on Members:

Economic: general

1. Lovers the cost of credit to members by:
 - a) replacing higher cost "street loans" or supplier credit.
 - b) providing loans at interest with negative rates of return (internal cross-subsidization of interest by cooperative members) below other commercial and informal sources.
 - c) calculating interest monthly on the unpaid balance.

2. Mobilizes savings of the members:
 - a) requires people to save on a pre-determined schedule small fixed minimum amounts. Credit is then granted in multiples of their savings levels.

Economic: entrepreneurial: In addition to the above:

1. Loans for productive purposes allow entrepreneurs to increase their productivity by enabling them to stock sufficient inventories of raw materials to:
 - a) increase the length of production runs.
 - b) reduce frequent redundant business activities necessitated by lack of cash.
2. Credit helps reduce the costs of production through making it possible to obtain quantity discounts.

Social: Through FNCS, CIDES:

1. Lowers the cost of health care to members.
2. Increases members' skills through very basic skills training at very low cost.
3. Builds a sense of community and a deeper understanding of the members' socio-economic problems through various training activities.

IV. PROJECT ASSESSMENT

There is no doubt that the lay Catholics (Laicos) who run FNCS and CIDES are highly committed to addressing social needs as they see them. Both volunteers and staff are highly motivated and are drawn from a unique body of talent - usually middle and upper class professionals - who have made a very special personal commitment to improving the economic and social lot of poor people through the FNCS/CIDES program. This assures close philosophical compatibility and at least a minimum level of social commitment on the part of the people involved.

Relations between CIDES staff and cooperative members are cordial. More important there seems to be a genuine interest on the part of staff in the members. This could be the case because:

1. all personnel at FNCS/CIDES are also members of the cooperative and are personally interested in its functioning and,
- 2.) there is often a strong similarity between the backgrounds of the staff and newer CIDES members possibly fostering a sense of identity and empathy.

CIDES and FNCS are not providing training and social services in a vacuum. The Colombian Family Welfare and Social Security Institutes both offer free health and social services. The National Vocational Training Institute provides excellent skills training opportunities.

Even so, the difficulty of obtaining these public services is tremendous. Long lines, hours of waiting and impersonal nature typify public health clinics.

CIDES and FNCS fill a small part of the void between the limited supply of public services relative to demand for them with the fundamental difference that FNCS and CIDES are capable, because of their size and orientation, to personalize to a large extent all their services and continually monitor the needs and desires of members. This is a great advantage to being small. But CIDES will have to be innovative adapting its present design if it wishes to have any significantly large socio-economic impact in Bogotá.

At CIDES the routine work is done diligently. The accounting tasks are well defined and the work flow is smooth.

The atmosphere is relaxed. There appears to be a great deal of mutual respect between employees. There is an obvious respect for the hierarchy, but not in the sense of "bosses" and "subservients." To a large degree the respect shown, for example, to the director and advisor has its roots in the kind of people they are rather than the position they hold.

Future Plans

CIDES will continue to solidify its economic base in Bogotá during the next year as its subsidies wind down. This will mean increasing membership by 500 which the director says will not be a problem since the housing program (SERVIVIENDA) alone will provide at least 320 new members. In addition

the "company" promotion, which the director feels is fairly easy, will provide at least 20 members per successful promotion. If nine companies are promoted in addition to the housing program then CIDES will reach its goal. When the Bogotá branch reaches 4,000 members, it would probably open another branch in the southern part of the city. The director is certain that the cooperative could administer 10,000 members, if the objectives were strictly economic.

He reiterated however, that while growth is necessary, CIDES will always measure it in terms of both the economics and personal services for members. CIDES members are proud that they are not strictly numbers on an account or loan balance.

CIDES is very wary of the possibility of depersonalization of the cooperative through unlimited growth. They will not permit the cooperative to become a financial "octopus" and lose sight of its predominantly social objective.

For this reason, the by-laws of CIDES were written to allow CIDES to set up many branches throughout Colombia, under CIDES' name. Each cooperative would maintain a size which was large enough to be viable economically, yet small enough to continue to give the kind of personal services to its members it feels are imperative.

CIDES Bogotá would maintain centralized control of the directions, growth, and philosophy of each branch cooperative. CIDES Bogotá also sees itself providing other support services

to the branches in accounting, and human development courses.

There are fourteen branches of the FNCS throughout Colombia, eight of which could set up CIDES branches. To do this CIDES Bogotá would have to rely on continued subsidies on the short run to fortify its accounting and other back-up services. They are very clear, however, in their refusal to receive government funding. They insist on independence and will not risk government interference.

Currently the second CIDES Cooperative, still in embryonic form, is being formed in the city of Manizales. It will be a long time, however, until it becomes functional since it must first get a membership base and sufficient savings accumulated for the loan fund to become operational.

CIDES' director recognizes that the impact of the cooperative is limited by the absence of sufficient staff to do field work. He believes that CIDES should have much more direct contact with members on their own "turf." But the problem is not lack of recognition or desire rather that the costs to the cooperative would be prohibitive on a one-to-one basis.

In this context, final discussion with the director dealt with the possibility of CIDES increasing its impact in the immediate future by taking advantage of the grouping mechanism of the "fianza solidaria" which already exists. Instead of using the groups strictly as guarantees they could be used in any number of ways to provide skills training, social

consciousness, management assistance, and so forth.

Project Replicability

FNCS is running a socially oriented program which has recognized the economic needs of the beneficiaries. CIDES was formed out of the pragmatic recognition within the social context that savings mobilization and credit were two ingredients desperately needed by workers and their families. These options were not accessible to the great number of people in need, thus CIDES came into being.

The cooperative is predicated on a savings and loan format and in this context the project is replicable. But CIDES, being part of a broader context within FNCS utilizes training and health services which are not directly related to the cooperative. CIDES does not pay for the extra services - either FNCS or the individual participants do - but the services are offered as part of a CIDES package.

This kind of package would be difficult to replicate in other savings and loan cooperatives unless they were also linked to another organization which could help defray the costs of the social programming.

A major reason why FNCS can implement its social programming is that it utilizes a large amount of volunteer assistance in program management and support. Volunteerism can be replicated, but it is such an unsure part of the project design that to design volunteer management and support into a project

would be risky. In general, for the purposes of project design, the use of volunteers should be contemplated but not assumed.

Furthermore, since the moving forces behind the program are committed to social programs as members of a Catholic lay organization (Laicos), they exude a social attitude and dedication to these goals, upon which FNCS and CIDES are predicated, which is not generally replicable unless similar organizations are identified as the implementing agencies. These qualities should undoubtedly be strongly supported, stimulated and encouraged by program design and the project managers. This is surely an extremely valuable component of any program, but replicable programs should be designed around the most common programmatic denominators and not those which are least assured, such as relying on volunteer staffing levels to cut personnel costs.

Lessons Learned:

1. Credit:
 - Credit attracts people to other services of FNCS.
 - Credit saves people time through reduced frequency of redundant activities. (See annex 1 for short discussion of supplier credit.)
 - Consumer loans for appliances are most often subject to late payments.
 - Housing loans are the best since rents usually convert to house payments and people know their investment is appreciating. They will never

put that into jeopardy by defaulting.

2. Promotion:

-- Promotion through companies is an interesting and successful way to recruit credit union members. In lieu of other community organizations or grouping mechanisms, this form of "group promotion" has the potential not only to reach the consumer market, but also many company employees who may have part-time businesses in order to make ends meet.

From a cost standpoint, it is an efficient system of promoting potential cooperative members despite their disperse geographical location. The system is based on initial demand studies for CIDES' services.

3. Social Services and Loan Supervision:

-- The disperse geographical location of members makes field work of any kind impossible for the cooperative. From personal experience, the time and cost of such visits is absolutely prohibitive. Some use of the "fianza solidaria" grouping mechanism stipulating that members of a particular group must live within a given area (two or three contiguous neighborhoods, for instance) would encourage more intra-group relationships and make possible more CIDES/FNCS field work with more clients.

Most of the kinds of social services which FNCS provides could easily be done in the neighborhoods enabling FNCS to reach more of its current members directly as well as promote more members.

-- If social services were provided through groups, it may also be possible to do at least minimum loan supervision at the same time with several members with no appreciable increase in costs.

-- Because of overhead and personnel costs, health services should be provided at a central location. Good promotion of the services possibly through neighborhood meetings based on the "fianza solidaria" would stimulate increased usage of the services.

-- Logistically it is very difficult for CIDES to maintain contact with members, except through the mail. Given its' promotion techniques primarily through word-of-mouth and companies, membership will be disperse. To deal with this problem as it affects social and credit services one suggestion would be to stimulate sectional associations of members throughout Bogotá which would organize themselves into service groups again based possibly on the "fianza solidaria." They could draw on CIDES personnel to come to the meetings to provide short courses, skills training and credit supervision

requested. This kind of system could be promoted by using "Laico" or FNCS members at the community level.

A small cooperative such as CIDES will have problems defraying the costs of essential health services given by the cooperative. In order to avoid excessive subsidies FNCS/CIDES have pursued the following course of action:

1. FNCS installs essential equipment and small tools and supplies needed by the service.
2. Doctors, dentists, nurses, and lab technicians are hired as private contractors who provide contractually arranged services at very reasonable pre-established prices to members.
3. The proceeds of the visits are split between the contractors and FNCS.
4. The sponsoring organization offers the services to their members providing the base clientele for the medical staff's business.
5. Further clientele are offered health services through inter-organizational agreements with other small groups which, alone, cannot make the services available.
6. Services are also open to the public at lower prices than normal commercial rates but about double those of members.

This system: 1.) gives good business to young medical professionals who are establishing themselves, 2) provides low cost services to FNCS/CIDES members, and 3.) does this under contractual arrangement which avoids high subsidization of the project. The subsidy to the professionals is in the interest payments on any large equipment which needed to be bought - especially the dental chair and X-Ray machine.

4. Guarantees:

-- Arrangements with employees to make payroll deductions from members' paychecks provides a very safe guarantee. Severance pay as well as individual savings may be used as back up collateral.

The "fianza solidaria" group mechanism as organized and used in CIDES points up several facts.

-- Groups should be self-forming in order to maximize the sense of responsibility among the peers. The CIDES advisor pointed out that when staff "forms" the groups, the risk of default increases. This is because there is not a strong sense of responsibility in the group for its own formation and its own decisions on the reliability of the members. Thus it is easier for group members to blame project staff for poor decisions on who is or is not a reliable candidate for inclusion in a "fianza solidaria."

-- Further peer commitment for the loan and interest in the credit process could be fostered by more involvement of all the members in the application and approval process. Currently, only one group member in addition to the applicant need know of the loan applied for. No one else has a chance to question the size or purpose of the credit. In order to encourage fuller use of the "fianza solidaria" tool, it would be useful to require all group members to be present for the final approval of the loans or if this is cumbersome possibly a signature from each member would suffice. Currently it is perfectly conceivable that three of the five members know nothing of the loan they are "guaranteeing."

Under the current system there is no attempt to use the "fianza solidaria" for expanded social purposes. This would provide a good opportunity to bring people together for any number of purposes.

5. Collection:

-- CIDES boasts 100% payback with no supervision, technical, managerial assistance, or collection mechanisms. Three loans are late in paying back out of over 250 loans outstanding.

-- Interest calculated monthly on the unpaid balance encourages people to be punctual, if not even ahead of schedule on their payments.

6. Financing:

-- Negative real interest charged plus interest payments on the unpaid balance calculated on a monthly basis are very advantageous credit terms for the members - especially those who are well established. But this will eventually require that the cooperative seek outside sources of income through management of another organization's revolving fund or interest earning income from high yield investments.

-- Without outside sources of income small savings and loan cooperatives with an aim to working at the very bottom of the socio-economic scale will have to be extremely conscious of costs. Since providing small doses of credit for poor people is substantially more expensive than making larger loans to the middle class, savings and loan cooperatives which have started very poor tend to allow their membership to drift socially upward. The upper echelons of the lower class and the middle class have greater propensities to save and loan funds can grow more rapidly. Large loans can be made to wealthier people at given rates of overhead thus reducing marginal costs. This phenomenon has been seen at CIDES to some degree and in other credit unions in Peru, Ecuador and El Salvador.

7. Finally, and perhaps particularly relevant to organizations with strong social motivations, it is important to assure the continuity of goals and objectives by creating impersonal institutional ties with other similar organizations through their inclusion (as organizations - not individuals who happen to work in these organizations) on the board of directors. Undoubtedly organizations reflect the personalities and objectives of the people running them. Hopefully these will be consistent with the purposes and motivations of the organizations themselves.

The lesson from CIDES is that it is good to create institutional checks on individuals which do not cramp their creativity, but which do ensure that fundamental changes in the goals, objectives and methods of organizations are done knowingly with balanced perspective from outside. Otherwise, the fundamental nature of organizations can purposefully or inadvertently be changed by a particular individual or group's whim.

Annex #1 Case Study

Neighborhood Store

Don Campo Ardilo, with two other members of his family bought a row house eleven years ago in a low cost highly subsidized housing project in south Bogotá. Upon leaving a salaried position as administrator of a Bogotá pawn shop, he decided in March 1978 to start a small grocery store in his home to serve neighborhood needs. He sells a wide variety of products such as vegetables, potatoes, yuca grains (rice, beans), eggs, soap, paper products, candy and liquors.

The household is made up of Campo's mother, sister, brother-in-law, and two small children. Both the sister and brother-in-law are factory employees, one child studies in primary school, the other child is taken care of at home by Campo's mother who alternately does the housework and minds the store when Campo is on an errand.

The business is Campo's and as such the incomes from the store and his relatives are kept separate. Instead of paying "rent" for the store space, Campo helps support the household by providing some foods such as tomatoes, potatoes, and other vegetables as well as an equal share of the mortgage (reflecting no rent for the store) and utilities. The sister and brother-in-law buy eggs, bread, rice and beans (high cost items) from Campo who is apparently careful not to decapitalize

his business through home consumption of inventories and working capital.

He began the business with Pa\$20,000 (US\$470) borrowed from a "friend" at 5% interest per month and some small accumulated savings. Since Campo and his family jointly own the place of business, he had no additional expenses, such as rent, beyond an equal share of mortgage payments. The loan, then, was used entirely for initial inventory.

Campo decided to start his store because 1.) he owned the locale and 2.) because of the high turnover of basic food-stuffs and household consumer products. Even if the business proved not to be profitable, he would not lose anything on rents or improvements to the locale and he could recoup at least the full cost of inventory with relative ease. His loss at worst would be several months interest payment on the "street loan" and foregone income from his previous job. So the risk to Campo was relatively small and the barriers to entry were minimal.

As it turned out the business was a success. The major concern at the outset was to be able to supply the store with sufficient inventories. The Pa\$20,000 and initial capital partly took care of the problem. But more was needed to increase inventories and ease the perennial cash flow problem of young small businesses. Since he owned the place of business, Campo was immediately able to get supplier credit from distributors for those non-perishable products with lower turnover such as paper

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products and soaps. These suppliers deliver orders directly to the store, the charge being included in their list prices, which are slightly higher than in other outlets. Cash payments were made for soft drinks, milk, eggs, beer, vegetables, beans, cheese, and sausages.

Campo estimates that he spends 5% of Ps\$500 (US\$12) more on the Ps\$10,000 (US\$235) worth of supplies he purchases monthly from the distributor¹ than by shopping around in the central markets or other stores in center city where list prices may be lower. But he believes that between the time he would have to spend away from the store doing errands, transportation costs, and meals in town, he would easily spend Ps\$500. It was well worth it to him to pay Ps\$500 to the distributor in return for his services and not have to leave the store and cope with the problems of deliveries and credit. The additional Ps\$500 over list prices which Campo pays on credit is interest. However, at 5% the cost of this credit is equal to or even higher than for street loans.

When asked about the possibility of quantity discounts Campo's reply was unexpected. He recognized that in large quantities commodity prices normally fall. But in some cases, such as for rice, sugar, and beans to get quantity discounts one also has to buy in bulk. Given the choice he prefers to buy these

¹Payments are made on the whole balance by 30 day post-dated check.

commodities at higher prices. His point was that packaging individual portions at the store was a time consuming pain in the neck and purchasing packaging materials was a cost to be taken into consideration when assessing the benefits of quantity purchases. On the other hand, there are some products, such as soup rice, which only come in bulk and must be packaged at the store.

Furthermore, government price and standards inspectors frequently check store pricing and weights.² Mistakes can spell serious problems such as the revocation of licenses. Store owners are not liable for pre-packaged products if weights are not accurate, although any problems ultimately find their way back to the individual stores in the form of negative consumer reaction if such problems are detected no matter who is to blame.

Last, Campo did not buy some (expensive) items such as beans in large quantities despite the discounts, since turnover

²Other government regulations which Campo Ardila had to comply with:

1. Pay yearly industry and commerce tax of Ps\$800 (US\$19) to Chamber of Commerce for license.
2. Meet minimum fire standards.
3. Meet minimum health standards.
4. Pay trash collection fee: (Trash collection is a big problem for small businesses, especially neighborhood stores which produce a large amount of trash which if uncollected becomes a big problem between the store owner and the neighborhood.)

was only medium and he was wary of tying too much capital up in slow moving inventory.

Campo was not a CIDES member at the time he began his business. His sister, through her company, had joined and with four company colleagues had formed a "fianza solidaria." Campo learned of CIDES through her and joined.

He intergrated with a "fianza solidaria" and took out his first loan from CIDES for Pa\$ 20,000 (US\$470). Upon fully paying this loan he immediatly took out a second for Pa\$10,000 (US\$706). Both loans were used for increasing inventories of fast moving items.

Campo is now contemplating taking out a third loan which he will use for increasing stocks of slower moving products such as cookies, canned goods, and liquor.

Impact of Credit

Before his first CIDES loan, Campo's gross sales were between Pa\$60,000 (US\$1,412) and Pa\$80,000 (US\$1,882) per month. He now grosses sales of Pa\$120,000 (US\$2,824)/month. His profit rate has remained at approximately 20% of sales.

Credit has enabled Campo to increase his inventories and sales. Furthermore, it has made it possible for him to pay cash for inventories thus avoiding the higher interest charges of supplier credit relative to the very low cost interest (1% /month on the unpaid balance) which CIDES charges.

Annex 2 Case Study

Garment Factory: COSMOJEAN

Carmenza Olarte was a school teacher who decided that she could not afford to continue in her profession. Timoleón Trujillo, her neighbor, had a small tailoring shop with two sewing machines for home use. Business was mediocre.

Carmenza and Timoleón decided to pool their resources and begin a more industrialized garment factory. Timoleón supplied "knowhow," equipment, and work tables. Carmenza supplied Pa\$50,000 (US\$1,176) capital. The business opened in a rented location.

Carmenza is a CIDES member and through the cooperative received a Pa\$28,000(US\$659) loan. With Pa\$22,000 (US\$ 518) of her own savings she fulfilled her obligation.

The first step for the new company was to buy two high speed industrial sewing machines. The cost of the machines was Pa\$80,000(US\$ 1,882); Pa\$40,000 (US\$941) was required as a down payment. Carmenz'a capital was used in large part for this purpose.

The business functions on a "piece work" contract with one wholesale garment manufacturer to produce dresses. This large firm consumes COSMOJEAN's entire production and supplies all raw materials which are pre-cut. COSMOJEAN simply sews the pieces together.

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With the four sewing machines (two old domestic and two new industrial models), 3 seamstresses and Timoleón as supervisor COSMOJEAN produces a maximum of 450 dresses every 20 days.¹ They receive Ps\$50 (US\$1.18) for each dress giving them gross revenue of Ps\$22,500 (US\$529) per month.

Each worker receives a salary of Ps\$3,500 (US\$82) plus Ps\$280 (US\$6.60) apiece for transportation. This leaves Ps\$11,160 (US\$263) to make payments on debt, pay rent and pay both Carmenza and Timoleón. While they were hesitant to give figures, they specifically said that the business is just paying its expenses and a little salary to Carmenza and Timoleón.

With the equipment and personnel they have, COSMOJEAN is currently producing at maximum capacity. Timoleón believes that there would be no marketing problems with increased production since apparently the wholesaler will be able to consume any increases by COSMOJEAN in the near future. Thus the major constraint in Timoleón's belief is the lack of production capacity.

Timoleón believes that with more industrial sewing machines and more highly skilled operators the company could

¹ While I am not positive, it appears that COSMOJEAN works a five day work week, thus 20 (work) days is what is meant here, i.e., they produced 450 dresses a month.

greatly increase production, productivity and income. COSMOJEAN would like to become more independent and not rely exclusively on one market. To do this they will need to buy a cutting machine and they are simply not in a financial position to do so yet.

While Carmenza is learning the profession, her contribution has been capital. She plans to take over responsibility for administration and sales.

Carmenza is a member of a "fianza solidaria," the group guarantee mechanism used by CIDES. She had a constant relationship with only one of the four members. The others she sees sporadically at social gatherings with friends. Despite the sparse contact among group members, Carmenza said that in addition to obtaining credit, groups have assisted the individual businesses of the colleagues by referring clients to them. They are also capable of providing informal technical and managerial assistance utilizing the expertise existing among the group. Given their collective experience as a "fianza solidaria," Carmenza's group has also assisted, albeit passively, in the formation of other credit groups.

Annex #3

Staff Functions

- The Receptionist/Cashier is responsible for:

1. Receiving prospective new members and explaining CIDES Programs, entrance requirements and the linkages with all other FNCS social programs.
2. Collecting savings deposits, loan payments, and other charges for legal papers, taxes, and life insurance not included in interest charges on loans.
3. Making receipts for all cash transactions and cashiers checks in the case of payments to clients.
4. Making up the cash movement sheet for the day for the accounting assistant.
5. Doing references for clients for commercial credit.
6. Answering questions from loan guarantors regarding loan applications.

- The Credit Assistant is responsible for:

1. Receiving the loan application directly from the applicant.
2. Checking to make sure data on application agrees with data in the office.
3. Checking the loan amount applied for and reconciling this with best payment schedule according to clientele's capability to pay.
4. Verifying type of credit guarantee.
5. Verifying that member's savings - the basis for the loan amount - have been increasing consistently to avoid last

minute inflation of savings in order to increase the loan.

6. Making sure that all documents are signed properly.
7. Preparing the loan contract to be signed by the client.
8. Receiving from the cashier all payment receipts and checks for which should be credited to client's account.
9. Following up on late payments.

- The Accounting Assistant is responsible for:

1. Coordinating and supervising the CIDES office employees.
2. Reconciling all accounts to be sure they agree.
3. Making deposits.
4. Signing checks.
5. Carrying the General Ledger.

- The Messenger is responsible for:

1. Doing all errands for the office most of which are related to the official approval of documents at the National Tax Office.
2. Making daily entries accounting for members savings.

In addition to the above employees, CIDES also hired an accountant several hours a week to review and approve all accounting transactions. And, through the joint housing project with SERVIVIENDA a social worker has been hired to help train Cruzada volunteers for social work in the poor communities and

to do the initial educational work with housing clients. The objective is to provide clients a positive social environment through awareness building to back up the housing project.

Annex #4

Staff Profile:

FNCS Input:

CIDES Manager and FNCS National Director: Alvaro Perilla is an architect by profession and has a private office in Bogotá. He has been very active in FNCS activities over the last 20 years. As Director and CIDES Manager, he spends over half his time during the week in these activities, often spending weekends in his private work. As all members of FNCS, he has made a personal commitment to himself and the Catholic Church to work with the poor. He receives a very small stipend of Pa\$9,000/month or (US\$212) through a PACT, Inc. (Private Agencies Collaborating Together) subsidy for his work with CIDES.

CIDES Advisor: Fanny Garcia is originally from a rural area outside of Bogotá and for the last 18 years has been involved in many FNCS activities in Bogotá. She has worked for the last 16 years in cooperatives and social projects in poor neighborhoods. She has a part-time job as a shipping supervisor for a publishing company in the morning to supplement a Pa\$3,000 per month stipend, (US\$70), for her part-time work at CIDES which is covered by a PACT, Inc. subsidy. As Alvaro Perilla, she is a member of FNCS and has taken on a morally binding personal commitment to work in social development of the poor.

Normally FNCS members are strictly voluntary without remuneration for their services, but in the case of Alvaro and

Fanny, they put so much of their time into the project that a small subsidy is needed especially in Fanny's case, to make ends meet, and just barely at that.

FNCS relies on the extraordinary personal commitment of Alvaro and Fanny. If one had no knowledge of their actual relationship to FNCS and CIDES one would see Alvaro and Fanny as hard working, dedicated, full-time employees. They both seem to think of CIDES as their principal commitment, even though they are volunteers.

Fanny does not have independent income from which to support her FNCS involvement.

Full Time CIDES Employees:

Receptionist/Cashier: Nelly Perilla de Largo came to CIDES in November, 1977 nine months after it had been formed. An uncle, one of the cooperative's founding members, and small independent businessman recommended her for the job. Before coming to CIDES she worked with a travel agency as a secretary for 6 months, in a handcrafts retail store as a salesperson and manager (5 years), and in a large international hotel for one year. She has studied through the third year of normal school (equivalent of 10th grade of high school) then studied at a commercial institute where she got secretarial, retail, office systems, and further arithmetic training. Salary: Ps\$4,000 or US\$94 a month.

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Messenger: Luis Linarea came to CIDES in March, 1979 when Jorge Barrera took over the Credit Assistant job. Salary: Pa\$3,580 or US\$85 a month.

Part-Time CIDES Employees:

Social Worker: Lucrecia Castaño has a university degree in social work and came to CIDES when the collaborative housing project with SERVIVIENDA began. Her objective is to design a social assistance and awareness development program which complements the housing program and FICS educational goals. Salary: Pa\$4,000 or US\$94 a month, half time.

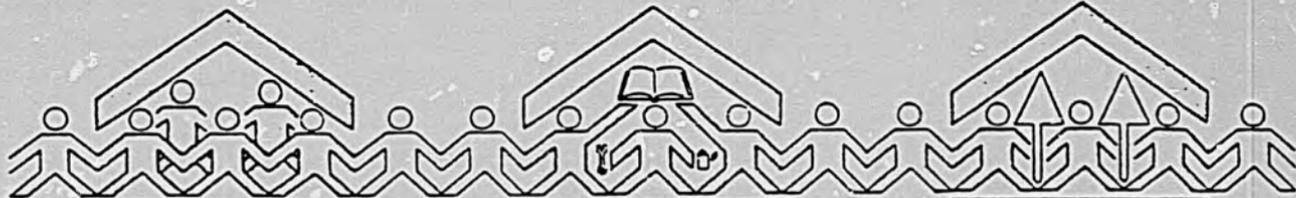
Accountant: Salary: Pa\$4,000 or US\$94 a month.
(Part-time) several hours per week.

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Accounting Assistant: Gabrielina Fuentes comes from a small farm in the department of Boyacá, north of Bogotá. Despite her fathers' wishes, she finally left home at age 11 to study with a Catholic Nun's group. The order worked closely with a worker's cooperative, now a very large financial institution in Colombia, the Caja Social de Ahorros, and it was through the Caja that Gabrielina later learned basic accounting as a cashier. She studied formally through the equivalent of 11th grade in high school. She lived, studied, and worked at the Caja's installations supervised by nuns, in an atmosphere similar to a convent. No salary was paid for her work while she was living at the Caja. Gabrielina has been manager of two branches of the Caja in the department of Boyacá. She came to CIDES when it was founded in 1977. Salary: Pa\$5,500 or Us\$130 a month.

Credit Assistant: Jorge Barrera has been with CIDES since August, 1977 with no previous experience. He began as the messenger, but as the cooperative grew he was given more responsibilities in the accounting area making daily payment entries on the Credit Control forms taken from the Cash Receipts, which are passed to him from the Receptionist/cashier.

As the work load increased, the Credit Assistant position was created in May, 1979. He got the job. Salary: Pa\$3,800 or US\$90 a month.



SERVIVIENDA

Con su "Plan de Vivienda Popular" responde a sus problemas de habitación.

- ¿Hay una unidad de un terreno propio o un terreno ?
- ¿Le ofrecen un departamento de un último piso de concreto?
- ¿Le ofrecen materiales de construcción a precio de costo?
- ¿Problemas de agua caliente o salidas comunitarias? Si, también le ayudan a resolverlos?
- ¿Tiene usted bajos ingresos mensuales?
- ¿Le ofrecen facilidades de pago en cuotas con un máximo monto inicial y bajísimos costos mensuales?

HOGAN ESCUELA

Con su "Plan de Educación para Adultos" responde a sus necesidades de educación, capacitación y formación comunitaria.

- ¿Desde leer y escribir hasta 3º año de primaria?
- Con cuadernos, cartillas y dictados?
- En su propio barrio o escuela y a horas de trabajo?
- Valor de la inscripción \$20.00 cada seis meses?
- Valor de las cartillas: \$70.00 cada una?

CON TARRIVA "CIDES"

Con su "Plan de Crecimiento Solidario" responde a sus necesidades de asociación y finanzas mutuas.

- Educación cooperativa.
- Facilitados de ahorro y crédito.
- Servicio médico, odontológico, rayos X, laboratorio. A buen precio.
- Unidad se inscribe con solo \$50.00
- Ahorro con cuotas \$60.00 al mes y ... dige

FORME YA SU GRUPO DE HOGAR-ESCUELA CON SUS AMIGOS DEL BARRIO O VEREDA. EN GRUPO HACE LA UNIÓN Y LA INICIATIVA. ¡VEA QUE BUENO ES PROGRESAR! ASÍ:

YO PERTENZCO A "CIDES" CON MIS MEJORES AMIGOS DEL BARRIO. ¡QUE BUENO PODÉRMOS AYUDAR MUTUAMENTE EN EL DESARROLLO ECONOMICO!

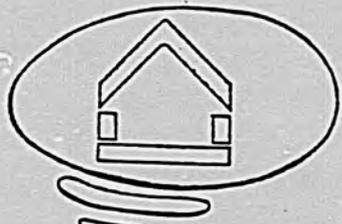
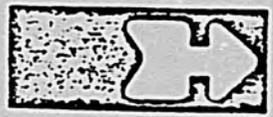
MAGASE YA A SU CASA PREFABRICADA, O ADQUIERA SUS MATERIALES DE CONSTRUCCION A PRECIO DE COSTO:



OFERTA

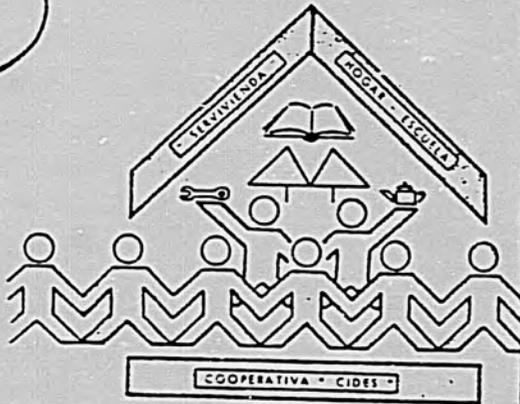
Este Programa de
VIVIENDA INTEGRAL
 Se ofrece a

- Juntas de Acción Comunal
- Cooperativas
- Casas de Compensación
- Promesas
- Sindicatos
- Clubes
- Fondos de Empleados
- Empresas Comerciales
- Comunidades Religiosas
- Instituciones sin ánimo de lucro
- Y personas naturales



VIVIENDA INTEGRAL
 Carrera 15 No. 46-42
 Apartado aereo 51681
 Teléfono 457583
 224786
 BOGOTÁ, D.E.

VIVIENDA INTEGRAL



ANNEY # 5.

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ANEX # 6
COOPERATIVA

CUENTA No.

TARJETA DE INGRESO

PROFESION	APELLIDOS	ESTADO CIVIL	NOMBRES	FICHA SACRAMENTO	C. de C.
LUGAR	NOMBRES CONTIGUOS		DIRECCION RESIDENCIA		
No. DE PERSONAS A SU CARGO	CEREBROS		ENTRADA DONDE TRABAJA		
TELEFONO	DIRECCION		CEREBROS		
TELEFONO	CEREBROS		TIEMPO SERVICIO		
CARGO ACTUAL	SUELDO MENSUAL \$		CERTIFICADOS		
QUE PAGA AL BOMBEAR \$ FOR LA PRESENTE SOLICITO SE ME ADMITA COMO SOCIO DE LA COOPERATIVA Y DECLARO QUE ME					
SOMETO A SUS ESTADUTOS, REGLAMENTOS Y ME COMPROMETO ASIMISMO EN CERTIFICADOS DE APORTACION UN MÍNIMO DE \$ MENSUALES					
CIUDAD Y FECHA					
PRESENTADO POR				PRIMA	
APROBADA EN NOMBRE DEL CONSEJO DE ADMINISTRACION DEL BIA				SOCIO COOP. CTA. No.	
A CTA No.				A CTA No.	
V. O. S. EL PADRINO				V. O. S. EL SECRETARIO	

ANNEX #6(b)

ANTE MI PRESIDENTE DE LA COOPERATIVA

Y EN PRESENCIA DE LOS TESTIGOS QUE FIRMAN CONMIGO, COMPAROCEO EL SEÑOR

DE NACIONALIDAD

DE ESTADO CIVIL

DE AÑOS DE EDAD, PORTADOR DE LA CEDULA DE CIUDADANIA No.

EXPEDIDA EN

DOMICILIADO Y RESIDENCIADO EN

QUIEN DECLARO BAJO JURAMENTO

QUE DESEA Y ES SU VOLUNTAD QUE DE ACUERDO CON LO DISPUESTO EN LA LEY, EN CASO DE FALLECIMIENTO SUS ANCPBS Y EL SEGURO QUE AMPARA LOS MIEMOS SEAN ENTREGADOS A:

NOMBRE

C. C. No.

PARENTESCO

SI EL ANTERIOR BENEFICIARIO NO ESTUVIERE VIVO EN LA FECHA DE MI FALLECIMIENTO DEBERAN SER ENTREGADOS AL SIGUIENTE BENEFICIARIO:

NOMBRE

C. C. No.

PARENTESCO

INTERMEDIO:

TITULO:

CUIDAD Y FECHA:

TITULO:

MUELLA DIGITAL

MI PRESIDENTE

Formulario Unimutual - 000 BY-70 30 0000 Prohibido su uso no autorizado

ANEX # 9



COOPERATIVA MULTIACTIVA DE DESARROLLO SOCIAL

PERSONAL: 8343

Bogotá, Correo 14 No. 47-38 - Teléfono 3223642

RELACION PRESTAMOS AÑO 1979 HASTA 30 de SEPTIEMBRE

<u>CLASE DE PRESTAMO:</u>	<u>No.</u>	<u>CANTIDAD</u>	<u>TOTAL CAPITAL PRESTADO</u>
Consumo	65	\$ 637.900.00	
Salud	27	\$ 167.700.00	
Vivienda	66	\$ 1.404.200.00	
Educación	21	\$ 133.000.00	
Producción	26	\$ 78.500.00	\$ 2.919.600.00
	<u>205</u>		

*(compra lote, materiales casa)
Asociación de prom. de BOGOTÁ*

RELACION PRESTAMOS AÑO 1978

Consumo	62	\$ 504.000.00	
Salud	49	\$ 200.000.00	
Vivienda	76	\$ 1.674.900.00	
Educación	11	\$ 109.500.00	
Producción	15	\$ 314.000.00	\$ 2.800.000.00

RELACION PRESTAMOS AÑO 1977 de MARZO 1977 (comenzó)

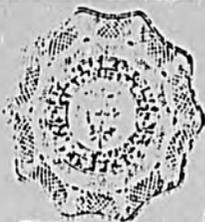
Consumo	36	\$ 234.731.00	
Educación	1	14.000.00	
Salud	27	82.700.00	
Vivienda	21	414.000.00	
Producción	2	90.000.00	\$ 835.431.00

CIDEA una realización de la Federación Nacional de la Cruzada Social
al Servicio del Ahorro-Crédito y Vivienda Popular

1744

ANNEX # 12.

AB 03603899



FIANZA SOLIDARIA No. _____

POR: \$ _____

NOSOTROS: _____

mayores de edad y vecinos de la ciudad de Bogotá, D. E., identificados como aparece al pie de nuestra firmas y quienes en el presente texto se denominarán: LOS FIADORES SOLIDARIOS; por medio del presente documento declaramos: PRIMERO: Que con base en las facultades previstas en los artículos del libro IV Título 25 del Código Civil y demás normas vigentes y concordantes sobre la materia, constituimos fianza solidaria y abierta por el término de un año prorrogable a voluntad de los portes a favor de la COOPERATIVA MULTIACTIVA DE DESARROLLO SOCIAL "CIDES" LTDA. DE CRUZADA SOCIAL, Sociedad Cooperativa con domicilio principal en Bogotá, D. E., hasta por la suma de:

_____ con el fin de asegurar el pago de cualquier obligación

que se constituya o se haya constituido en favor de la COOPERATIVA "CIDES" LTDA. y a cargo de todos o algunos de los firmantes. SEGUNDO: Que esta fianza solidaria garantiza a la COOPERATIVA "CIDES" LTDA., y hasta la concurrencia de la suma consignada anteriormente, toda clase de obligaciones ya contraídas o que se contraerán en el futuro a cargo de los firmantes del presente documento y a favor de la COOPERATIVA "CIDES" LTDA., directas o indirectas y por cualquier concepto contraídas por nosotros, individuos o conjuntamente con otra u otras personas o entidades garantizándose tanto el capital como los intereses corrientes y de mora, las costas, los respectivos honorarios del abogado y los demás gastos a que haya lugar hasta el pago efectivo total.

TERCERO: Que esta fianza solidaria asegura el pago de las obligaciones a cargo de los firmantes y codeudores solidarios y a favor de la COOPERATIVA "CIDES" LTDA., en la forma y condiciones previstas en los documentos correspondientes, puede hacerse efectiva contra uno, contra varios o contra todos los codeudores solidarios garantes de este documento y firmantes del mismo. Cuando dichas obligaciones no tengan exhibidos por cualquier causa y no se extingan por el hecho de que se amplien, cambien o renueven las obligaciones aseguradas por ella. CUARTO: Que la COOPERATIVA "CIDES" LTDA., podrá hacer efectiva la responsabilidad personal de los Codeudores Solidarios con solo presentar los títulos deudas contra los créditos inmatriculados a nuestro cargo y copia del presente documento. QUINTO: Que de manera expresa los Codeudores Solidarios, renuncian a favor de la COOPERATIVA "CIDES" LTDA., el derecho de nombrar depositarios de los bienes que hayan de embargarlos en el juicio o juicios, que conjuntamente o separadamente los promuevan para ser efectiva esta fianza, o la facultad de solicitar la liberación de los lotes de los bienes embargados en caso de remate; y el derecho de retractarse en el evento contemplado en el Segundo Inciso del Artículo 2363 del código civil. SEXTO: Que en caso de que por una acción real o personal se embargaren o secuestraren los bienes de los Codeudores Solidarios,

ANNEX 12(b)

la COOPERATIVA "CIDES" LTDA. podrá declarar, conjunta o separadamente extinguido el plazo estipulado para el pago de la obligación u obligaciones aseguradas con esta fianza lo mismo en el caso de incumplimiento en más de tres cuotas de las estipuladas en el pagaré que firma cada socio codudor al recibir su crédito o iniciar de inmediato la acción o acciones convencionales. SEPTIMO: Que, igualmente los Codudores Solidarios renuncian al beneficio de excusión que eventualmente lo respectaron las leyes y declaran expresamente que la Ciudad de Bogotá, D. E., en el lugar conveniente para el cumplimiento y pago de las obligaciones que aquí contraen. OCTAVO: Este documento respaldará todas las obligaciones a cargo de los Codudores Solidarios y a favor de la COOPERATIVA "CIDES" LTDA., que se creasen o se adquirieran durante su vigencia mientras todos los Codudores Solidarios no fueren relevados de su responsabilidad en forma expresa y por nota puesta por la COOPERATIVA "CIDES" LTDA., al pie de este documento. NOVENO: Que esta Fianza Solidaria se ha constituido por aceptación voluntaria de cada uno de los firmantes, por tanto el socio codudor que quiera retirarse de la COOPERATIVA "CIDES" LTDA., debe presentar su solicitud de retiro al grupo Solidario que pertenece el cual tramitado en la sede de la COOPERATIVA y de común acuerdo sueltico por escrito a la COOPERATIVA "CIDES" LTDA., la devolución de sus aportaciones siempre y cuando no tenga deudas pendientes con ésta, quedando la responsabilidad de las obligaciones en los demás miembros que integran el grupo. La vacante del codudor saliente debe ser llenada, mediante el ingreso al grupo solidario de otro socio. Para el efecto se firmará un nuevo documento por todos los codudores Solidarios. En caso de no ser sustituido de inmediato los miembros restantes del grupo solidario asumen la responsabilidad del codudor saliente. DECIMO: Que será de cargo exclusivamente de los codudores los gastos del papel sellado, Registro Nacional y los que ocasionen el otorgamiento de este instrumento.

ANNEX # 13
CIDES

COOPERATIVA INTEGRAL DE DESARROLLO SOCIAL



SOLICITUD DE PRESTAMO:

Cantidad: _____ Intereses: _____

Nombre del Jefe: _____ C.A. No.: _____ Fecha: _____ Fecha de recibo: _____

Cédula No.: _____ de _____ Dirección Residencia: _____ Teléfono: _____

Empresa donde trabaja: _____ Nombre del Jefe inmediato: _____

Dirección de la Empresa: _____ Teléfono: _____ Tiempo de Servicio: _____

Seguro: _____ Cargo que desempeña: _____ Tiempo: _____

Librencia Fianza Hipoteca

Hipoteca propia: _____ Nombre: _____ Teléfono: _____

Clase de negocio: _____ Dirección: _____

Fecha Real: _____ Dirección: _____ Teléfono: _____

Historia: _____ No. Escritura: _____ Fecha: _____ Registro Cultural: _____

Avalúo cultural: _____ Avalúo comercial: _____

OTROS INGRESOS POR CONCEPTO: (Detallar)

_____ \$ _____

_____ \$ _____

_____ \$ _____

EGRESOS:

Ahorro o inversión (Mensual) _____ \$ _____

Cuentas de amortización (Mensual) _____ \$ _____

Otros (Prestatarios) _____ \$ _____

_____ \$ _____

GARANTIAS:

No Cuenta: _____ Aperturas: _____ Cant. Original: _____ Saldo Pendiente: _____ Observaciones: _____

Con quienes ha tenido crédito: _____

Firma del Solicitante: _____

PLACOR:

Nombre Cédula No. de

Dirección Residencia Teléfono Dirección Oficina Teléfono

Empresa donde trabaja Tiempo de servicio Sueldo

Nombre del jefe inmediato Teléfono

Fecha de ingreso a CIDES Céd. No. Aportes Depósitos

Deudas pendientes con la Cooperativa Observaciones

Aportaciones continuas? Irregulares? Esporádicas? Está en cuentas? Ha aportado desde

FINCA RAIZ

Dirección Teléfono Municipio Registro catastral No.

Fecha Localización

Linderos Norte Sur

Oriente Occidente

Liberal SI NO Hipoteca 1er. grado Hipoteca 2da. grado Hipotecado

Dirección Teléfono

Avalúo catastral Avalúo comercial

GARANTIAS:

No. Cuentas	Aportaciones	Cancl. Original	Saldo Pendiente	Observaciones
.....
.....
.....

Con quienes ha tenido créditos?

RESERVADO PARA LA COOPERATIVA CIDES: INFORME CONFIDENCIAL DEL SOLICITANTE

Fecha de ingreso a Cides Aportes Depósitos Deud. pend. Cides

Préstamos anteriores Acreditados por Presentados por

Aportaciones continuas? Irregulares? Esporádicas? Está en cuentas? Ha aportado desde

APROBACION: Aprobada por Fecha

Aprobada por la cantidad de Resolución comité de crédito

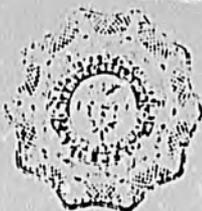
FIRMAS:

Presidente Secretario Vocal

Observaciones

ANNEX #14.

AB 03603/77



PAGARE § No. REF.

Nosotros

mayores de edad

y vecinos de

Identificados como aparañe el fin de

nuestras firmas, por el presente escrito, hacemos constar que pagaremos

a la COOPERATIVA MULTIACTIVA DE DESARROLLO SOCIAL, "CIDES"

L.TDA. DE CRUZADA SOCIAL, o a su orden en sus oficinas de la ciudad de

la suma

de

(\$) Milsena Corriente Colombiana, que de ella hemos recibido a título de mutuo co-

mercial, en un plazo de

meses, contados a partir de la fecha del presente pagaré,

con intereses a la tasa del

(%) por ciento anual, y por medio de

cuotas mensuales, iguales de

(\$) , cada una, que incluye amortización a capital e intereses. La primera cuota men-

sual será exigible el día

de

de 19

La segunda será

exigible el día

de

de 19

y así sucesivamente

las restantes el día

de cada uno de los meses siguientes hasta completar la suma que

corresponde a la totalidad del capital que adeudamos, más los intereses convenidos durante el plazo

mencionado. En caso de mora en el pago de una cualquiera de las cuotas, pagaremos intereses a la tasa

del

(%) por ciento anual, sin perjuicio de que por el solo hecho de mo-

ra, se extingue automáticamente el plazo concedido para el pago, y pueda la COOPERATIVA "CIDES"

L.TDA., o cualquier otro tenedor legítimo de este pagaré, demandar judicial o extrajudicialmente, el pa-

go de la totalidad del saldo insoluto de la deuda en ese momento, los intereses moratorios y los gastos

de cobranza incluyendo los honorarios de abogado, que desde ahora se estipulan en un diez (10%)

por ciento, del total del capital adeudado. En el evento de que por disposición legal o reglamentaria se

autorice cubrir intereses superiores a los previstos en este pagaré tanto ordinarios como de mora, la

COOPERATIVA "CIDES" L.TDA., los reajustará automáticamente, y desde ahora nos obligamos a pagar la

diferencia, que resulte a nuestro cargo, por dicho concepto, de acuerdo con las sueltas disposiciones.

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ANNEX # 17

FIANZA SOLIDARIA No. _____

HOMBRES	Cta. No.	Forma de ahorro	Aportes	Préstamos efectuados	Saldo Prést. a la fecha.
TOTAL.....					

POR: _____

Fecha: _____

RESPONSABLE: _____

FIANZA SOLIDARIA No. _____

HOMBRES	Cta. No.	Forma de ahorro	Aportes	Préstamos efectuados	Saldo Prést. a la fecha.
TOTAL.....					

POR: _____

Fecha: _____

RESPONSABLE: _____

Y. PROJECT IDENTIFICATION

A. Name and address of Project:

1) Banco del Pacífico/Guayaquil
Pichincha 332, Casilla 988

Guayaquil, Ecuador

Telephone: 528-176

2) Banco del Pacífico/Quito

Amazonas 720

Quito, Ecuador

Telephone: 542-566

B. Name of Director of the Department of Community Development

1) Guayaquil - Econ. Antonio Moreno Dillon

2) Quito - Lic. Pedro Emilio Pérez

C. Dates Interviews Held:

May 3, 7 and 11, 1979

August 5 - 18, 1979

D. PISCES Representatives:

Preliminary visits: Peter H. Fraser

In-depth study: William R. Tucker

E. Report Written by: William R. Tucker

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II. THE SETTING

Ecuador is a country of 7,715,000 people, 56% of whom live and work in the rural areas. Annual population growth is 3.3% (1962-1974) and inflation is in the low teens. "The explosive growth of the cities and the growing poverty of the agricultural sector characterize the pattern of Ecuadorian development in the past decade".

So states a study prepared by the Industrial Chamber of Pichincha (Ecuador) which analyzed the socio-economic situation of Ecuador. Agricultural production grew at a 3% rate from 1972 to 1977, slowing to 1.4% and 2.8% in 1977 and 1978. This compares unfavorably with the high population growth experienced during the same period of time. In contrast, the manufacturing sector grew at a 12% annual rate during these years. It is clear that this imbalance helped to cause a massive demographic shift as people left the farm in search of higher paying jobs in the city.

The same study detected five primary causes for the deterioration of the rural sector:

- 1) "political prices" on certain agricultural products which have not taken into consideration rising costs of production. The declining profits represent a subsidy from the rural to the urban sector;
- 2) deficient channels of distribution, causing low prices for the producer and high prices for the consumer;
- 3) the lack of a development program to increase the productivity of the country's farms;

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- 4) the lack of basic services and social infrastructure in the rural sector. (In 1977, 82% of the urban population in Ecuador had access to drinking water and 63% had sewage facilities. In the rural areas during the same year, the corresponding figures were 13% and 11%), and
- 5) the erratic application of the Agrarian Reform, part of which has resulted in a serious problem of subsistence minifundios.

Ecuador's development has focused on rapid industrialization: the oil revenues stemming from the country's geographical good fortune and its participation in OPEC hastened this development to the detriment of the traditional sector. After a decade of these activities, the country suffers from a stagnant agricultural base and swollen cities.

Guayaquil and Quito are the two major Ecuadorian cities and as such attract large numbers of migrants from the outlying rural areas. However, these cities are quite different in their manifestations of the social problems created by this migration: Guayaquil is located on the Delta of Guayas river, a hot, low-lying area in Southwestern Ecuador. Migrants have established marginal neighborhoods in the periphery of the city along the rivers and backwaters, constructing makeshift homes on stilts over the water. In Quito, however, located high in the Andes mountains, people often find living quarters in large communal houses. Fourteen families averaging five members each are often forced by their economic situation to live in one room per family; living conditions are poor and the use of water and sanitation

facilities is communal. One of the results of this housing problem is that the poverty of marginal people is somewhat more visible in Guayaquil than in Quito.

The migration mentioned above is clearly detectable in the small productive shops that abound in Quito and in Guayaquil. During a recent study in Quito, it was found that 45% of these "micro-business-people" came from rural areas surrounding the city. The entrepreneurs who migrate initially tend to secure jobs as laborers, become specialized in a skill and then decide to set up their own shops, motivated either by a desire to earn more or simply to work independently. The importance of these shops insofar as the economic health of the country is concerned is clear: in 1977, small and micro-businesses contributed an estimated 30% to the Gross National Product of Ecuador and, more significantly, generated in the same year 253,000 new jobs representing 76% of the total number of jobs created in the manufacturing sector.

The following study describes the Banco del Pacifico - a private bank which lends money to very small productive shops so that the owners may produce more, earn more and generate new jobs.

III. Project Description

A. The Organization

The Banco del Pacifico is a private bank with an operational philosophy geared towards development. Breaking with the traditional banking structure in Ecuador, in which owners direct the banks' funds to relatively riskless creditors - primarily very large national and international enterprises - the Banco del Pacifico has a broad-based

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ownership and seeks less traditional clients for its banking services. An example of this philosophy is the willingness to open very small savings accounts, an action which increases operational costs but which attracts new savers into the commercial banking community. Since its founding seven years ago, the Banco del Pacifico has grown to become the second largest private bank in Ecuador and expects to head the list in another three years.

A more dramatic example of the Bank's operational philosophy - and the focal point of the current study - involves the Bank's response to the government's requirement that 20% of the value of available loan funds held by the private commercial banks be earmarked for developmental purposes. The banks have the choice of buying government bonds at 6% interest for the corresponding value or managing the same amount themselves, enabling them to charge 9% interest for the development loans.* Most banks have decided to buy the government bonds so that they may concentrate on their regular business: the few banks which manage the funds themselves find fairly large "small businesses" which qualify for these funds. The Banco del Pacifico, in contrast, has aggressively responded by setting up a Department of Community Development which is responsible for locating micro-businesses and for offering them loans so that they may grow. Since the initiation of the Department's activities, the Banco del Pacifico has constantly maintained its development loan portfolio over and above the 20% required by the government.

*

At the time of the study, interest rates paid into savings accounts were 6% per year and commercial bank loans were 12% per year. Since that time, commercial bank loans have jumped to 16%.

The Banco del Pacifico became involved in popular credit several years ago after learning of the UNO project in Recife, Brazil (Uniao Nordestino do Pequenas Organizacoes) which had been set up by ACCION International/AITEC in 1971. The Brazilian methodology was greatly simplified and implemented by the Bank, initially in Guayaquil and later in Quito. The Bank is primarily interested in making credit available to people for their extremely small businesses. The objectives of the program are to increase personal income of the business owners and to create new jobs.

In Guayaquil, the Department of Community Development is headed by an economist and has five university students who work part-time with individual businesses. In Quito, the Department of Community Development is headed by a sociologist and consists of four part-time university students who are the promoters. Also, other Bank personnel assist in the handling of the paperwork which results from the approval of loans.

B. The Beneficiaries

1. Description of Micro-businesses

Since the micro-business program operates within the official guidelines of the Financial Funds Mechanism of the government, only those businesses involved with the transformation of raw materials into final products can be considered as possible beneficiaries. As far as the size parameters are concerned, the owner must work either alone or with a maximum of five assistants. The fixed capital of these shops may reach US \$2,000.00, with monthly sales as high as US \$1,200 for the larger businesses. The most prevalent types of shops work in carpentry, shoe production and clothing. According to a recent survey

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of 40 micro-businesses carried out in Quito, these producers average 18 years of work experience, work an average of 11 hours a day and have started their own shops primarily due to the dual desire to work independently and to earn more money.

Micro-businesses tend to integrate themselves into the economic life of their neighborhood, selling their products locally as much as possible and hiring from the immediate vicinity. The primary economic benefits of these shops is their capacity to expand quickly after an influx of capital, resulting in higher earning for the owner and the creation of new jobs. (Several years of experience working with micro-businesses in Brazil, Ecuador and Colombia demonstrate that one job can be created for every US \$1,000.00 loaned to these shops. This is a small fraction of the fixed investment needed to create a job in large businesses.)

The following are examples of the types of micro-businesses assisted in Ecuador:

- 1) a shoemaker, living in a large, old multifamily building, who has only a bench, some raw materials and some tools;
- 2) an upholsterer, working with his wife, who has a little shop with one sewing machine in their two room apartment;
- 3) an older lady, making decorations for homes and gifts such as cloth flowers, who lives with her daughter in a relatively nice home;
- 4) another shoemaker with a very small rented shop opening onto the street, who has one older man as an assistant. He is knowledgeable of his weekly expenditures for

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- materials and is preparing to expand his business with a newly bought second-hand sewing machine, paid for by a Bank loan. His clients are his neighbors;
- 5) a woodworker operating by himself, who had received a loan from the Bank at the encouragement of his wife, has purchased wood and tools with the money and has subsequently increased his income. He hopes to get a second loan and eventually take on an apprentice;
 - 6) a family of tailors, who divided their living quarters with a cloth in order to create a tiny work area, who have two sewing machines and eventually want to buy a third since they are not able to handle all the work their neighbors give them;
 - 7) a shoemaker who is working with his son in a relatively large but thoroughly disorganized shop.

2. Problems of Micro-businesses

The most pressing problem is the lack of capital to start a business. A makeshift shop must be built, machinery must be bought and, probably most difficult of all, electricity must be installed. If an individual is able to overcome these barriers and establish his or her business, there still exist many obstacles to growth:

- a) poor working conditions which reduce efficiency. In addition to the lack of adequate work space, light and organization, the shop must also share its area with the living area of the family;

- b) high rotation of personnel, probably due in part to the poor working conditions. Also, once the laborers become proficient in their task, they tend to migrate or search for higher paying jobs;
- c) dependency relationships for marketing the finished goods. The use of marketing intermediaries, in many cases street vendors, is often the only practical alternative for these businesses for selling their goods. Furthermore, if the micro-producer deals directly with a buyer, it is frequently the case that he or she also receives the needed raw materials from the same buyer. This dependency reduces profits: while it is possible to cover costs and maintain equipment, it is difficult to save or to reinvest, which is essential for growth;
- d) as a result of the inability to reinvest, the producer finds him or herself with old and inefficient machinery which often breaks down. While increasing production costs, these machines decrease production capacity and affect quality, thereby reducing income from sales;
- e) due to a lack of necessary machinery, the micro-businessperson must often contract third parties to complete the production process, causing an increase in costs and a disruption in the work flow;
- f) the lack of reasonably priced credit, which is considered by the Bank to be the biggest problem of the micro-entrepreneurs;

- g) the time consuming search for raw materials which must be purchased in small quantities with cash at no discount;
- h) the wait for buyers to pay their bills once a sale has been made, causing a continual cash-flow problem;
- i) the fact that the owner is responsible for accomplishing everything him- or herself. Although most often trained as manual laborers, micro-entrepreneurs must plan production levels, contract workers, purchase raw materials, constantly secure working capital, etc. Although a 10-hour workday is common among these businessmen and women, they often lack basic understanding of how to organize themselves and their businesses;
- j) limited exposure to basic education and broadening cultural experiences. Since the majority of the micro-entrepreneurs have but a grade-school education and live in marginal neighborhoods, a degree of timidity tends to develop. This puts them at a disadvantage when dealing with better educated and more sophisticated businessmen; and
- k) inflation. Due to the poor bargaining position of the micro-producers, raw material and labor costs tend to rise faster than an acceptable increase in the sales price of the finished product. If a solution is not found, the producer will earn less and less for the time invested in the business until it is no longer feasible to continue.

3. Credit Availability

Due to the difficulties mentioned above, most micro-businesses fail in the first two years of existence. Nevertheless, some do succeed.

For example, the micro-businessmen and women in Ecuador do have access to some lines of credit:

- a) commercial stores selling household goods, such as refrigerators, stoves, etc. These stores have an aggressive sales strategy providing liberal credit although at high interest rates. The importance of this is that the owner of a shop can get a good credit reference if debts are conscientiously cancelled;
- b) sellers of machinery also sell on credit, but debts must be cancelled in 12 months. The monthly payments are often too high for the micro-producer;
- c) businesses can sometimes sell their receivables for a discount of 5% or more;
- d) sellers of raw materials will sometimes offer a line of credit to a producer they have known for a long time. There are no interest charges but payment must be made in 30 days. A problem here is that the seller decides what materials are to be purchased, generally choosing inferior quality materials that have been selling poorly;
- e) money lenders are readily available who charge 10% a month or more for their money; and
- f) the Development Bank of Ecuador has a line of credit, but the paperwork often requires hiring an expediter who will handle the red-tape for a steep price. Because of this the Development Bank is often not considered as a viable alternative.

C. The Banco del Pacifico Program

Directors of micro-business programs agree that loans play a vital role in the expansion of these enterprises. Most of these directors also feel that one or more complementary services are called for, enabling the entrepreneur to learn how best to handle the loan. There are four general areas of business-related assistance that are often incorporated into micro-business programs:

- 1) Management Assistance: consultants give advice to businessmen and women on a one-to-one basis. Since micro-business problems are not as complex as those of larger corporations: university students, and even highschool graduates, can be trained to provide this service;
- 2) Managerial Education: groups of micro-businesspeople meet to discuss topics in business administration in a classroom situation and with an instructor;
- 3) Technical Assistance: an expert is called in to provide a specific service, such as designing a better way or making a chair or utilizing raw materials; and
- 4) Technical Training: the employer and/or employee participate in a workshop which will teach them a certain skill, such as making a mold on a lathe.

An interesting aspect of the Banco del Pacifico program is that none of these types of assistance have been incorporated into the program methodology. The entire emphasis is on quickly assisting the micro-entrepreneur with credit. A micro-businessman or woman can obtain a 2-year loan for the purchase of raw materials, a 3-year loan for the purchase of machinery, or a 5 year loan for the construction of install-

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tions. Construction loans have a grace period equal to the time that the construction takes. Annual interest rates are 9% and payments come due every six months.

This is how the project works in Guayaquil:

- 1) Detection: the city is divided into sectors and the promoters speak with each micro-business. There is no mass promotion since the Bank does not have the capacity to process all of the applications which would result;
- 2) Initial Visit: Once a business has been detected a questionnaire is completed to find out basic information about the business (side 1 of Annex 1);
- 3) Loan Proposal: if there is interest, a loan proposal is completed (annex 1, side 2), enabling the Bank to approximate cash flows and loan limits;
- 4) Inspection: a promoter, with more experience, visits the business to check on information (such as machinery owned, etc.) that was included in the credit proposal;
- 5) Loan Approval: a savings account in the Bank is opened with the funds from the loan;
- 6) Supervision: the business is visited by the promoters once every three or four months;
- 7) Collections: businessmen with late payments outstanding are visited on a regular basis.

In Quito, a somewhat different system is used:

- 1) Initial Visit: the entrepreneur visits the Bank, having heard of the program usually through acquaintances. There is no census;

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- 2) Visit to the Business: a promoter meets with the entrepreneur at the shop to explain the Bank's requirements for approving a loan and to get to know the person better in his or her work environment;
- 3) Investment Plan: once the businessman or woman takes the necessary papers to the Bank, the same questionnaire (annex 1) is completed on both sides. During this visit, the promoter determines the approximate costs and profit of the business.
- 4) Economic Analysis: the promoter calculates the maximum amount that the person should receive using the figures obtained during the last visit to the shop. Estimates are made for future sales and profits.
- 5) Verification: once the economic analysis has been prepared and the references checked, the Director of the program visits the business to verify the information and to discuss the investment plan;
- 6) Loan Approval: a memorandum is passed to the Bank's general manager recommending that the loan be approved, the necessary papers are prepared, the check is written and a savings account is opened;
- 7) Supervision: as in Guayaquil, irregular visits are made to the shops once the loan has been approved. There is no strict schedule for visits;
- 8) Collection: businessmen with late payments outstanding are visited on a regular basis.

In both cases, the process takes an average of only 10 days when Bank operations are running smoothly. There are times, however, when the Bank suffers from a generalized short-term liquidity problem, forcing all new loans to be temporarily delayed with added emphasis placed on collecting late payments. This affects the small credit program as well.

As a result of this simple methodology, the cost per business attended is very low. A small part-time staff can rapidly process each loan request, leaving the recipient with the responsibility to pay off the debt on his own, without much supervision; this at the risk, however, of a higher probability of loan failures due to the lack of the supervision and the management assistance. The Bank has experimented with several mechanisms to reduce these risks:

- 1) Selection: The Bank has developed general guidelines for the selection of micro-businesses that will receive loans. In addition to the limits on size previously mentioned, the individual cannot have an existing checking account in any bank, since it is assumed that people with such accounts are already in a position to secure loans; the shop must be organized and have a "working environment"; the products must be of acceptable quality; and the needs, frustrations and hopes of the individual must be discussed with the promoter in the shop itself in order to form an idea of the micro-entrepreneur as a responsible individual.

In addition to these general guidelines, the following three steps represent specific requirements of the Bank:

- a) documentation: the potential loan recipient is given a list of the minimal requirements for receiving a loan during the initial visits of the promoter to the shop. These requirements are (i) an invoice showing the value of the goods which are to be purchased, (ii) two written personal references, and (iii) two written commercial references. If the businessman or woman cannot obtain these documents, he or she is ineligible for the loan;
 - b) a positive credit history: the Bank determines the degree to which the businessperson accepts financial obligations by calling the potential client's landlord, stores where he or she has purchased goods on credit and other businesses with which he or she operates; and
 - c) a solvent co-signer: this is determined by requiring a written statement from the co-signer's bank informing the Banco del Pacifico of the management of the co-signer's account. The Bank recognizes this last requirement as being the most difficult to fulfill, but insists that loans should only be given to businesses with good references.
2. Controls over Loan Use: In similar programs micro-entrepreneurs have spent loan money on housing, schooling and consumer items rather than on the expansion of their businesses as planned. Since such use of the loan increases the bad-debt risk, the Bank rarely gives unrestricted credit to micro-businesses, at least for the first loan. The Bank has implemented the following safeguards:

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- a) the first loan is small. US\$1,500.00 dollars is the maximum, with the limit being removed or made less rigid as the recipient pays back the loan on time or ahead of schedule;
- b) in Guayaquil, part of the loan is deposited in the client's newly opened savings account. When the client returns with cancelled invoices proving the correct investment of the money deposited, the balance of the loan is signed over;
- c) in Quito, checks are often made out to the suppliers of the goods that the client intends to buy. If the loan is to be used for paying workers, the money is deposited in the savings account.

In both cities, the new savings accounts play an important role in educating the clients in banking practices. Since the opening of checking accounts is deliberately postponed, the entrepreneur must enter the Bank to deposit or withdraw funds, causing him or her to become gradually accustomed to the environment. A person who does not feel uncomfortable about entering the Bank is probably less likely to default. An added advantage of the savings accounts is that it is difficult to overdraw: it is much easier to write a bad check;

3. Strict Collection Procedures: once the client receives a loan, it is treated as any other loan of the Bank; there is a clear understanding that the bank is serious about collecting late payments.

The following represents a list of the most important changes that have occurred in the methodology of the program in Quito. All changes reflect attempt to improve and accelerate the loan process:

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- 1) the explanation of the program during the initial visit to the shop has been modified. The promoter discusses with the businessperson a series of consecutive loans instead of one loan. This is (a) to encourage the businessperson to extend his or her time horizon far beyond what he or she has become accustomed to, and (b) to increase the probability of successful repayment on the loan. If the individual knows that he or she will continue to receive loans if care is taken with his obligations, chances are the percentage of late payments will decrease;
- 2) at first, only the "Entrevista" side of the questionnaire in Annex 1 used to be completed during the initial visit with the entrepreneur, the idea being that the "Solicitud" side would be completed when the solicitor went to the Bank. The problem was that the businessmen did not go to the Bank. Therefore, both sides of the questionnaire are now filled out at the same time. Once the businessperson talks about what he or she would do with a loan, he is more liable to follow through with the idea;
- 3) the questionnaire in Annex 1 is no longer completed during the initial visit to the shop. The businessperson is told that two written personal references and two written commercial references must be taken to the Bank. The questionnaire is completed only when these papers are secured. This modification ensures that the program works only with those individuals who are truly interested in the loans; and
- 4) the promoters do an economic analysis of the shop and discuss the investment plan with the owner. This reflects an interest on the part of the promoters to become more involved in provid-

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ing some form of management assistance to the loan recipients.

D. Results

Late payments on outstanding loans are approximately 7% of the total loan portfolio for micro-businesses; control over this line of credit has been successful. Over US\$1,000,000.00 dollars have been loaned to over 900 business owners during the more than three years that the programs in Guayaquil and Quito have been functioning. Many have already received a second loan.

A study was carried out to determine the effect that the loans have had on the micro-businesses. The conclusions are especially interesting due to the nature of the Bank's programs; i.e. lack of any complementary services.

A primary reason for the growing international interest in micro-businesses is their supposed capacity to generate jobs and increase family income at low cost as they change from informal shops to small, organized businesses. Therefore, it is useful to compare the results of the Banco del Pacifico's program in terms of employment generation and income gains with those of another micro-business program that does offer two complementary services to the businesspeople: management assistance and appropriate education in business administration. Such a program exists in Cali Colombia.*

Providing extra services will inevitably increase operational expenses, but additional costs are justified if the benefits are proportionately greater. A sample of 73 businesses in Guayaquil and 40 in Quito,

* DESAP of the Carvajal Foundation (Program for the Development of Small Businesses)

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all of which had received loans from the Bank, was taken to determine the number of jobs that had been created and the increase in personal income. The data from Ecuador were compared with 68 micro-businesses that had received loans through the program in Cali.

COMPARATIVE RESULTS*

	Quito	Guayaquil	Cali
No. of Businesses	40**	73**	68***
Average No. of Workers before Loan	2.0	2.3	3.1
Average No. of Workers after Loan	2.35	2.7	4.4
% Increase in No. of Workers	17.5%	20%	42%
Real Net Increase in No. of Workers	14.0	31	93 new jobs
Average Loan Value	US\$1,087	US\$1,200	US\$1,450

* It is not the purpose of this analysis to determine which of the two systems mentioned is better; such a determination is hampered by several important variables: cultural ideosyncracies, the availability of credit (DESAP, for example, did not have access to a ready line of credit in its second year of operations), favorable or unfavorable macro-economic conditions, past experience on the part of the recipients with other lending programs, etc. It is the opinion of the author that both systems are valid and effective.

** Random sample taken from a total universe of 900 businesses assisted by the Bank in Quito and in Guayaquil.

*** Total number of businesses assisted by DESAP.

As expected, the DESAP program in Cali generates more employment per business assisted than the Banco del Pacifico's programs in Quito and Guayaquil. However, the Bank's programs have assisted considerably more microbusinesses than the DESAP program, generating in the process an estimated 375 new jobs, four times more than the DESAP program. As far as raising incomes is concerned, the data from Quito indicate that family incomes have increased from US\$50 to US\$139. In Cali, the corresponding figures can be estimated from sales figures: average sales have increased from US\$1,078 to US\$2,076. Assuming conservatively that

10% of this increase translates into income gains for the owner, there is a gain of US\$100 per business assisted, which differs little from the Quito results.

The Banco del Pacifico has spent a total of approximately US\$125,000 in operational expenses for its two programs in Quito and Guayaquil. Since an estimated 375 new jobs have been created, it is calculated that the investment per new job is about US\$330. The corresponding figure from the DESAP program should incorporate projections for the coming year (1980); since an Inter-American Development Bank loan will provide needed funds (US\$500,000) so that the program can process loans. Operational costs of DESAP will be about US\$80,000 per year; it is expected that 200 micro-businesses will receive loans, management assistance and appropriate education per year, generating employment at the same rate as in the past. Therefore, it is projected that 275 new jobs will be created each year at an investment of US\$293 per job.* The virtual equality of these investment figures indicates that micro-businesses do, in fact, accomplish social gains in terms of employment generation and increased personal incomes at a low cost.

E. Funding

The operational expenses of the Department of Community Development are covered internally with Bank funds. Although the university students are not considered as Bank employees, they receive a monthly stipend of about US\$150.00. Monthly costs are approximately US\$2,500.00.

The Bank has loaned approximately US\$1,000,000.00 to micro-businessmen. At the 9% yearly interest on the loans, income is US\$90,000.00, US\$30,000.00

* This result is based on projections assuming an aggressive expansion of the DESAP program and, therefore, it should not be considered to be conclusive at this point in time.



more than what the Bank would be receiving had it invested the same amount of money in the government bonds at 6%. This income covers the yearly operational costs of the Department of Community Development. The cost to the Bank is the real loss of purchasing power of the loaned money due to the 12% inflation rate. However, this loss would have occurred with the government bonds as well. In effect, the program has reached a breakeven point as far as costs are concerned.

F. Future Plans

The Banco del Pacifico is one of the few private sector financial organizations engaged in a popular lending project and it is the only private commercial bank with such a project that was visited in Latin America. It is satisfied with its involvement and is committed to continuing with the program.

Given the Bank's interest in the project, CENAPIA (Centro Nacional de Promocion de la Pequena Industria y Artesania), the World Bank and the Banco del Pacifico are going to channel US\$15 million into the program with the objective of increasing project coverage.

CENAPIA will provide needed courses to the micro-entrepreneurs. Such education would represent an important complement to the Bank's line of credit; whereas a rapid line of credit may solve the short-term needs of micro-businesses in general, courses in business administration are necessary to encourage long-term growth and efficiency. The micro-entrepreneurs already know how to produce, since many have learned their trade as workers in other businesses, but rarely does one find a micro-business owner who has already implemented administrative controls. As a result, available resources are not maximized: inventories are larger than necessary, the turnover on receivables is too slow, machinery is allowed to

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lie idle, etc. The sum of these separate administrative inefficiencies causes a shortage of readily available working capital, consequently promoting the belief that a loan is needed. Furthermore, when a loan is actually requested, micro-businesspeople tend to concentrate more on securing a specific sum of money (generally more than is really needed) instead of defining a specific project first and then calculating how much money should be requested to finance that specific growth project. It is for these reasons that effective and appropriate courses in business administration should be offered to the owners of these businesses to complement their skills in production.

Finally, the Banco del Pacifico will coordinate the construction of a micro-industrial park and commercial center involving 50,000 locales. This is the major thrust of the loan and represents an interesting experiment in micro-business development. Since a serious problem of these entrepreneurs is insufficient space for their shops, the results of this effort will be meaningful in terms of effective strategies for promoting long-term micro-business development.

IV. PROJECT ASSESSMENT

The Bank has implemented a flexible and inexpensive line of credit for micro-businesses. It has decided to forego evaluations of results and other internal control mechanisms to reduce costs. The fact that the businesspeople only pay their quotas twice a year translates into a direct savings for the Bank in terms of paperwork and manpower. As is natural for a bank, their primary control mechanism is the list of late payments.

The people involved in the project are highly motivated, a characteristic of all the good projects that were observed. Yet a highly qualified expert in small businesses is not required to direct the program; it is simple enough to be staffed with non-experts and part-time university students. This is important in considering the replicability of this project.

An important consideration for loan programs is that there is a certain "seriousness" when involved with a private bank. In this sense, programs involved with lending money to micro-businesses should strive to develop an image of a bank, treating the loan recipients as responsible individuals with certain binding and contractual obligations. The relationship with the micro-entrepreneurs is both businesslike and courteous in the Banco del Pacifico programs. Control over late payments is strict and insistent, removing any paternalism from project implementation. This is vital if psychological growth is to occur within the individual, which should be one of the offshoots of a successful loan program. The individual eventually becomes less timid and more self-confident.

An interesting lesson that can be learned from the Bank's program

is that micro-entrepreneurs can successfully handle loans with payments due every six months. The Bank made its decision on payback schedules with an eye on internal consideration. Traditional thought has held that since micro-producers at this level of business activity are not accustomed to saving or the planning beyond the coming weeks, a liquidity problem would result every six months as they were forced to halt production to secure funds to fulfill their obligations with the Bank. The Banco del Pacifico has apparently proven that these individuals are capable of a sufficient degree of financial planning and that monthly or quarterly payback schedules are not necessary. This differs from the poorer PISCES population, with which more regular payments are recommended.

As far as this poorer population is concerned, it is apparent that the financial needs of micro-businesses are greater than the more general PISCES target group: average loan values for these shops are US\$1,000 instead of US\$100. Therefore, it could be argued that micro-business owners are "too wealthy" and should not be considered as potential beneficiaries of a PISCES project. If future beneficiaries are to be defined in terms of loan values, there can be no counter-argument to the above criticism. If, however, the focus of the PISCES experiment is defined in broader terms, for example the economic and social development of the urban poor, micro-businesses may not only be included but could eventually come to play an important role in the global effort.

Employment generation and increasing family incomes must have a high priority in urban development programs. Community progress will never occur without a sufficient amount of work and money for the individuals within that community.

Programs which provide very small loans with little management training and which concentrate complementary efforts on community development tasks may set the stage for more successful entrepreneurs to "graduate" into programs such as the Banco del Pacifico and DESAP projects once their level of business and awareness of specific business needs are more developed.

In conclusion, it may be advisable to think of the PISCES population as those urban workers who are too small, poor and powerless to be reached by the great majority of existing government and private programs. The type and amount of assistance may vary according to the level of PISCES population considered, however, micro-businesses clearly fit into this broader category.

ANNEX #1 (side two)

SOLICITUD DE CREDITO

Cantidad Solicitada Cantidad Aprobada

Forma de Pago:

Destino del Préstamo: Maquinaria

Materia Prima

Otros

Referencias Comerciales:		Referencias Bancarias:	
Art.	Año	a)	No. Cta. Cte. o Ahorro
Art.	Año	b)	No. Cta. Cte. o Ahorro
Art.	Año	c)	No. Cta. Cte. o Ahorro

Garantía:
Nombre:

Dirección:

Teléfono Cód. Ident. Céd. Trib.

Referencias Comerciales:		Referencias Bancarias:	
Art.	Año	a)	No. Cta. Cte. o Ahorro
Art.	Año	b)	No. Cta. Cte. o Ahorro
Art.	Año	c)	No. Cta. Cte. o Ahorro

Proveedores Principales	Forma de Pago	Dirección	
.....
Cientes Principales	Forma de Pago	Dirección	
.....
Acreedores Actuales	Motivo	Dirección	Valor
.....
.....

Lugar y Fecha

Firma del Solicitante

COMENTARIOS: Experiencia de Crédito

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I. PROJECT IDENTIFICATION

A. Name and Address of Project:

Asesores para el Desarrollo (ASEPADE)
Edificio La Armeria, 2nd floor; Barrio Abajo
Tegucigalpa, Honduras
Telephone: 22-7120

B. Name of ASEPADE Director: Juan Ramon Martinez

C. Other key people interviewed at ASEPADE:

- Celina Kawan Castillo
- Nora Midence de Martinez (Director of the market project)
- Belinda Galvez de Midence (Formerly in charge of market loans)
- Enrique Midence (currently in charge of market loans)
- Narda Melendez F. (in charge of education)

D. Other key people interviewed:

- at Catholic Relief Services:
 - Thomas Mulhearn - Director
 - Carole Antonicich - Assistant
- at the Hondurian Federation of Savings and Loan Cooperatives:
 - Analdo Castillo Guiza - General Manager
- at the Savings and Loan Cooperative of the San Isidro market:
 - Solomon Taves - Manager

E. Dates interviews held: April 4-6 and Sept. 5-14, 1979

F. Researched and written by: William R. Tucker

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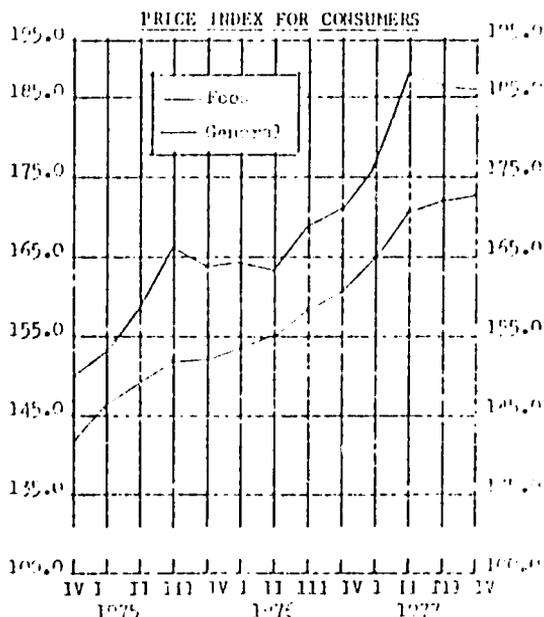
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II. THE SETTING

Honduras, with approximately 70% of its 3,000,000 inhabitants living in rural areas, depends to a great extent on its agricultural production. Although this sector constitutes only 32% of GNP, it provides jobs to 60% of the economically active population and generates 65% of the country's exports, of which coffee, bananas and meat are the primary products. A brief overview of the economy is presented in Annex I.

Although the current government has had a certain degree of success with agrarian reform, there is still a high level of rural-to-urban migration: the two principal cities of Honduras, Tegucigalpa and San Pedro Sula, have experienced an increase in population of 73% and 86%, respectively, between 1950 and 1974. In addition to the inevitable unemployment (for the country as a whole it is estimated at 9%, but calculated at 37.5% if under-employed farm workers are included), prices have been rising, especially for foodstuffs:



Source: "Honduras en Cifras", 1975-1977, Banco Central de Honduras

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The economic situation may deteriorate further since it is estimated that in 1983, a full 38% of the country's projected 4,000,000 inhabitants will be city dwellers. Yet with the cities growing so rapidly, why do the women who sell fruits and vegetables in their market stalls unanimously agree that sales are less than those of a year ago?

The answer is complex, since the price elasticity of foodstuffs must be low. Nevertheless, a significant variable must be the fact that although the general opinion is that Honduras is a wealthier country than five years ago, there is a recognized problem of income distribution which puts most of the money in too few hands. Many Hondurans feel that they have less purchasing power than before. As relative incomes decrease, they may be suffering a lowering in the nutritional quality of their meals as they opt for less costly items. Any decrease in the purchase of fruits and vegetables detrimentally affects the market women, who already find themselves on the fringes of subsistence living.

ASEPADE (Asesores para el Desarrollo - Consultants for Development) is an organization which is currently working with fruit and vegetable vendors in three of Tegucigalpa's seven markets. The rest of this document will explore program goals, methodologies and results, and will attempt to portray the socioeconomic situation of the market women themselves.

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III. PROJECT DESCRIPTION

A. The Organization

ASEPADE, a private non-profit organization, initiated activities in May of 1977 with the following five objectives:

- 1) to contribute to the national development process by gaining an understanding of problems that may interfere with the application of public or private sector developmental initiatives;
- 2) to contribute to the development of Honduran professionals within the field of development in an attempt to lessen the dependency on international human resources;
- 3) to offer services of advising, investigation and education to governmental and private agencies which may require them;
- 4) to support the growth of grass-roots organizations through technical assistance; and
- 5) to serve as an information bank of social works being carried out in the country through the use of publications.

Although the organization has received several small contracts for specific studies and special educational courses the primary effort to date has been expended on the market women's program.

The global objective of this project is to improve the socio-economic situation of the market vendors. There are three mechanisms through which it is hoped this objective will be achieved:

- 1) a loan fund which will liberate the vendors from exploitative money lenders;
- 2) courses which will attempt to educate the vendors in social as well as economic matters; and

- 3) the creation of a cooperative of market vendors so that they may eventually control the loan fund and organize the courses themselves.

To initiate the project, ASEPARE carried out a preliminary study of the market vendors in November of 1977 to determine their needs. On the basis of this study, a donation for US\$7,575 was requested from Catholic Relief Services, which was subsequently approved. This donation provided funds for (1) a loan fund - US\$1,250 -; (2) initial installation expenses - US\$25 -; and (3) salaries for one year - US\$6,300 -. The project began in September of 1978 with one social worker responsible for the educational aspects of the program, one loan administrator, one accountant working one quarter-time and one project working half-time.

B. The Markets

Tegucigalpa, the capital of Honduras, currently has eight markets, seven of which are for retailers (San Isidro, Las Americas, Colon, San Pablo, El Kennedy, Namechepa and San Miguel) and one for wholesalers (El Mayorero). The Municipality of Tegucigalpa is constructing two new markets (El Belen and El Alvarez), planning the expansion of the wholesalers' market, and the privately owned market (Las Americas) is currently increasing its capacity. There are approximately 2,500 stalls of all types in these markets and the current construction will create an additional 3,000 stalls. Most of these are planned to be occupied by the 690 vendors who illegally occupy Colon park and the estimated 1,100 vendors who currently sell on the streets.

Although it is clear that the importance of these markets is growing, there may be some doubt as to the efficacy of expanding the wholesalers' market. Some trucks carrying produce from the countryside by-

pass the wholesalers' market and drive directly to the retailers' market. This benefits some vendors since they are able to purchase the fruits and vegetables directly from the driver at lower prices than from the wholesalers, but in larger quantities than before and on a cash basis. However, the disadvantage is that the reduced number of trucks arriving at the wholesalers' market provides an opportunity for the monopolization of a product by one or a small group of wholesalers allowing higher sales prices to be charged to the market women who must continue to shop at the wholesale market, since they do not have sufficient working capital to buy directly from the trucks. This activity is apparently much more pronounced in San Pedro Sula than in Tegucigalpa. The expansion of the wholesalers' market would include prohibiting trucks from driving directly to the retailers' markets. All produce would be directed to El Mayorero, thereby theoretically providing a sufficient amount of competition among the truckers to eliminate profiteering. At least in the case of Tegucigalpa, it is possible that the good intention behind the plan would actually cause higher costs for the vendors since there would no longer be a way to eliminate one link in the long distributional chain and possibilities of price collusion among the wholesalers would be more pronounced.

The following are normal components of the distribution chain for fruits and vegetables.

- 1) a buyer in the country purchases the produce from many small farmers;
- 2) a truck owner buys the produce from this person and drives it to the Mayorero market;

- 3) a wholesaler buys from the truck owner and delivers the produce to the Las Americas market;
- 4) the fruit and vegetable vendors with stalls buy from the wholesalers; and
- 5) the street vendors buy from the vendors at the fixed stalls. Consumers buy from either the vendors with fixed stalls or from those in the streets.

There are however, several alternatives to the above flow of goods:

- 1) vendors with money, time and contacts have purchased directly from the small farmers. This, however, is rare.
- 2) as mentioned earlier, some trucks by-pass the Mayorero market. To take advantage of lower prices, a vendor must have enough money to buy in larger quantities and must be willing to arrive at the market at 3:00 a.m. and wait for the trucks to arrive. The surplus produce they buy is re-sold to other vendors, meaning that the vendor herself becomes a wholesaler as well as a retailer.

A final point about the channels of distribution is that the wholesalers who sell to the vendors in the morning are willing to finance - at a cost - the purchase of vegetables until that afternoon to give the vendors a chance to sell them. There is no real risk involved for the wholesaler since the women who buy on credit have been buying every day for several years.

Within the entire market environment, there exists a clear economic hierarchy, the wealthiest being those selling clothing and shoes. Following these come the vendors of meat, then poultry and eggs, then grains and finally the vendors of fruits and vegetables. This final category

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can be divided into three sub-categories: those who have fixed and legal stalls, those with fixed but illegal stalls (the Colon market) and those who illegally sell on the streets. This last group represents the poorest of all.

Money lenders operate throughout the markets. They supposedly have official cards authorizing their activities but who apparently do not maintain the stated maximum interest rates and who therefore have no legal recourse if a loan recipient does not pay. The relationships between the money lenders and the vendors are complex, since the vendor cannot do business without sufficient working capital, yet many realize that the interest rates are too high. Nevertheless, in the case of an emergency, or simply to buy school supplies, the money lender is available with ready cash.

The lenders walk through the markets, some every afternoon and others less regularly, collecting from the vendors and looking for new customers. The loans are generally for 20 to 30 days, with interest rates as high as 20% per loan. The loan is paid back on a daily basis and a new loan is received once the previous one has been fully cancelled. If for any reason a vendor cannot make the full daily payment, no fine is collected immediately. Although ASEPADE believes that the money lenders collect late interest payments at the end of each lending period if there have been delays, the vendors who were asked did not agree. However, since the money lenders maintain all records, it is possible that the vendors do not realize that they pay late-payment fines. What is important is that no fine is charged on the day that a vendor cannot fulfill his or her financial obligation. Finally, no collateral is demanded by the lenders when dealing with

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people requiring greater amounts of money.

A further source of funds, at least for the vendors at the San Isidro market, is the Savings and Loan cooperative. At present, there are approximately 390 active members, mostly owners of larger stalls selling shoes and clothing. The loan limit is US\$6,000 for six months at a 2% per month interest rate. (Commercial interest rates are 1.3% per month.) Loans to members are a function of the savings deposited in the cooperative.

Although at least one participant in the ASEPADE program also receives loans from the cooperative, which must be repaid on a daily basis, most loans have monthly payments due to the larger amounts of money. The recuperation rate on the loans has been very slow in the past and there is a certain degree of mistrust of the cooperative, especially after a fire in the market supposedly burned all of the money of the members.

There is yet another source of funds for the members of the San Isidro market, and that is the Association of Vendors. (Similar organizations in the other markets are called "Patronatos".) All but 40 vendors are active members of the Association, which has an elected president, vice-president, treasurer and a collector. US\$0.50 is charged each month for the treasury, of which 10% goes to the collector. The objective of the Association is simply to work for the good of the affiliates. If the market needs repairing, for example, the president talks to the corresponding authorities. Financial assistance is provided for emergencies such as the death of a vendor: money is provided for the funeral. There are three assemblies each year, during which

the market is closed. The vitality of the Association is a good indicator of the possibility of success in achieving the goal of a cooperative within the ASEPADE program since it is clear that the vendors can organize themselves if they understand the benefits of doing so.

C. The Beneficiaries

The ASEPADE program initiated activities in the Colon, Las Americas and San Isidro markets. In these three markets there is a total of 1,524 vendors of all types, 455 of which are vendors of fruits and vegetables. The program selected 50 from these 455 and the first loan was approved in September of 1978. A socio-economic study was done, which sheds some light on these initial beneficiaries:

Age

65% of the women are between 36 and 55 years old, which demonstrates that there are few young vendors (5% less than 25 years old). This is probably due to the fact that (1) it is a hereditary occupation since in the majority of cases the mothers were also vendors, and (2) the market environment tends to be hostile towards younger vendors.

Schooling

39% of the vendors never went to school and as such are illiterate. This is significant in that it affects the design of appropriate educational materials.

Family Situation

19% of the women are legally married and another 50% are involved in what might be considered common law marriage; 29% are single mothers and 2% are widows. Although there appears to be a low incidence of women com-

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pletely on their own, the reality is that in the majority of cases the man leaving the woman with the responsibility of maintaining the household. 68% of the women have more than three children. 29% have more than six.

Housing

66% of the vendors do not pay rent, which means that they either live with relatives or in a house that has been temporarily lent to them. Few own houses. 68% of the houses in which they live have electricity, 53% have drinking water and only 29% of the houses have sanitary services. There is an average of seven people in each house, which is high given the size of the houses.

Work

74% have worked as vendors for more than five years; 50% for more than ten. The following brief examples outline an average day, every day of the week, of two market women:

Francisca starts preparing food at 3:00 in the morning for a group of people who pay her US\$85 a month for the service. She finishes at 5:00 and quickly cleans the house before leaving for the market, arriving there at 6:00. She buys the produce she plans to sell that day and arrives at her stall by 6:30, paying the person who carried the fruits and vegetables for her. She will leave the market between 3:00 and 4:00 that afternoon. Once she arrives at home, she spends two more hours cooking for the group, finishing at 6:00. Between 6:00 and 9:00, she handwashes and irons clothes for the family. Sometimes, to bring in a little more money, she will make clothes.

Rosa Candida gets up at 2:00 a.m. and organizes the meals for her family. She arrives at the market by 3:30 to take advantage

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of the lower prices available from the trucks bypassing the wholesalers' market. By 6:30 every morning, she delivers a large order of fruits and vegetables to the Social Security Institute, where they will pay her the same afternoon. She returns to the market by 7:00 to buy produce for her stall, where she will stay until 6:00 p.m.

Other women will arrive at the market by 7:00 and stay till 5:00, but it is clear that their responsibilities make harsh demands on their time and energy.

D. The Economic Characteristics of the Stalls

It is extremely difficult to fully grasp the daily flow of cash through the market stalls due to the fact that the vendors maintain no written records, there is a confusing blend of cash and credit purchases on their part and they can occasionally be somewhat reluctant to fully share their knowledge of financial dealings with outsiders over an extended period of time. Nevertheless, an attempt was made to understand in better detail the nature of the business of selling fruits and vegetables in the market places.

A simple questionnaire was prepared (Annex 2), which was implemented over a period of 15 days to a group of 9 market vendors selected at random from the ASEPADE list of beneficiaries. The objective was to ascertain daily sales and expenditures in an attempt to determine the true financial situation of the participants.

Problems of accuracy naturally arose given that all of the information was collected, albeit on a daily basis, from the memories of the vendors. Daily sales, for example, were calculated by counting the cash-

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on-hand at the end of every interview, adding up all expenses for the day, including purchases, and subtracting the cash-on-hand from the previous day.* Therefore an omission in expenditures would deflate the sales figure. Nevertheless, the study was useful not for providing precise data concerning the cash flows of the vendors, but rather for the insight that was gained and certain trends that were uncovered.

Approximately 85% of all outflow is for business related expenses, the remainder being utilized for consumption, medical charges, clothing, school items, etc. Of the total business related expenses for the 9 vendors (US\$5,123,00 for 15 days), only US\$25.00 (0.5%) relate to interest payments for loans received. Consequently, it is apparent that lowering the interest rates charged to the vendors by the money lenders will not significantly increase available working capital. In fact, according to the study, it would be surprising if the vendors actually noticed the change since the money lender rates would still only represent 2% of their total expenditures if they were to continue borrowing money from them. It also seems possible that statements regarding the excessive exploitation of the money lenders may be extreme as far as these market vendors are concerned.** However, the point should be made that given the total estimated living expenses of the vendors (US\$148/month, including US\$62.00 for housing), a decrease in interest costs from 20% to 5% per loan translates directly into a

*Daily Sales = Cash-on-hand + Total Expenditures - Yesterday's Cash-On-Hand

**This point is made cautiously. A major part of the damage done by the moneylenders may be in the area of collection of guarantees (which are often the deeds to houses) in the case of default. Interest rates would be less important. More study is needed on their activities before removal of censure is contemplated.

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10% increase in disposable income. Therefore, although it is clear that benefits do result from lower interest rates, care must be taken in drawing the conclusion that a credit program whose only objective is to give an interest break alone will significantly benefit, financially, the market vendors of Tegucigalpa.

Since 66% of the working capital needs of the vendors is used for the purchase of foodstuffs, substantial economic benefits can accrue if the purchase prices can be lowered: a 2% decrease in the prices that the vendors must pay for the fruits and vegetables would cause a slightly better improvement in disposable incomes, on the average, than the reduction of interest rates; a 10% decrease in the purchase price would cause incomes to rise 59%!* It is for this reason that ASEPADE's efforts towards creating a cooperative are so important: if the vendors were to purchase the foodstuffs together in larger quantities, some discounts should result. A certain amount of education would also be required here since vendors with loans occasionally continue to buy the produce on credit, which raises their costs.

A final point concerning the economic characteristics of the stalls pertains to the time of the vendors, which is abundant during the day as they wait for buyers. An effort should be made to teach the vendors secondary activities that they could do during the day: many vendors mentioned sewing as an alternative. Since selling fruits and vegetables is a passive activity, the women could actively use their time making clothes for eventual sale or personal use. Once again, this could be an important

*Current disposable incomes average US\$148/month. Current expenditures foodstuffs average US\$875/month. A 10% decrease in expenditures (\$87.50) raises incomes to US\$235.50/month.

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function of the cooperative. Reducing costs is often a good strategy for increasing profits; branching into other remunerated activities and markets is another and, in this case, probably more effective strategy for bringing about an improvement in the economic conditions of the beneficiaries.

E. Project Activities

1) Program Development

ASEPADE started the project in the following manner:

- a) Initial Inventory - the three markets of San Isidro, Colon and Las Americas were visited and an inventory of existing stalls was made.
- b) Initial Explanation of Project - each fruit and vegetable vendor was approached and given an explanation of the future program. Although there was a certain degree of suspicion at first, this was overcome as project goals were detailed.
- c) Motivation - further individual interviews were held and a preliminary questionnaire was completed which collected basic data (name, address, number of children, literacy, etc.). A general meeting took place during which the future program was described in greater detail to the group.
These first three stages took one person one month to complete.
- d) Selection - it was projected that available funds would be adequate for 50 women who would each receive a loan of US\$25. Therefore, a selection of final beneficiaries was made using the following criteria:

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- i) low income;
- ii) have a fixed stall (the government is trying to remove the street vendors);
- iii) be a seller of fruits and vegetables (which represents the poorest of the market);
- iv) live in the capital;
- v) have an identification card;
- vi) preferably be an unwed mother;
- vii) have worked in the market for at least one year; and
- viii) at least 50% should be literate (due to the objective of developing a self-run organization).

Once the 50 beneficiaries were selected, a loan document was signed by each one and the revolving credit fund was put into operation.

Since ASEPADE now has more than a year's worth of experience with the vendors, the following process is used to select new beneficiaries:

- a) Initial Contact - very little effort needs to be spent on promotion since ASEPADE is known in the markets and the vendors make the first contact.
- b) Recommendations - current beneficiaries are asked whether or not they feel the new candidate should be allowed to enter into the program.
- c) Investigation - if the recommendations are positive, the new candidate is asked to complete a questionnaire (Annex 3), the data on which will be studied during the selection.
- d) Selection - the selection is less rigid than it was at the

start of the program. Vendors of grains may now be included, an address within Tegucigalpa is no longer a requirement, a vendor need not occupy a stall for a full year before being admitted, and the 50% literacy requirement has been waived since too many women would be rejected. ASEPADE feels that there are already enough literate women in the program who would be capable of running a cooperative. Finally, priority is given to those vendors working with money lenders.

The above selection process takes approximately three days, after which the applicant receives her first loan.

2) Program Mechanisms

- a) The Loan Fund- loans of US\$25 were provided to the initial 50 beneficiaries. The payback period was ten days at 2% (as compared to 20% charged by the money lenders for 20 to 30 days). Collections are made on a daily basis (including Saturdays and Sundays), with payments being noted on a card that the vendor keeps and the corresponding card that the ASEPADE collector maintains. Once a loan is repaid, the vendor automatically receives a new loan the following day.

The table on the following page presents the flow of funds since the start of the program.

The declining number of approved loans and beneficiaries is due to a problem of liquidity of the loan fund: it was quickly found that \$25 did not satisfy the needs of the vendors,

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<u>Month</u>	<u>Approved Loans</u>	<u>Bene- ficiaries</u>	<u>Amount Loaned</u>	<u>Amount Collected</u>
October 1978	92	50	US\$2.950	US\$2.041
November	72	50	2.962	2.886
December	60	41	3.480	2.674
January 1979	58	39	2.817	2.809
February	46	37	2.615	2.744
March	55	38	3.137	2.937
April	40	35	2.350	2.538
May	41	39	2.850	2.874
June	73	51	4.537	4.384
July	83	54	5.789	5.859
August	68	55	5.450	5.318

forcing them to request additional funds from the money lenders. Loans were made to the better-paying vendors, further tightening the liquidity of the project. Exacerbating the problem is the fact that December is a time of high sales since Christmas shoppers buy more expensive fruit (pears, grapes and apples). The women need larger loans in order to purchase these fruits. To partially alleviate this problem, ASEPADE (1) lent US\$1.000 to the loan fund (of which \$500 has been repaid); (2) eliminated all women who were not as prompt in their payments (taking, for example, 25 days instead of 20), thus allowing higher, more effective loans to be approved to the remaining women; and (3) raised, following the approval of the beneficiaries, the interest rate from 2% to 5% per loan in order to in-

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crease the loan fund at a faster rate. As of August 31, 1979, US\$1,650.07 have been collected in interest, more than doubling the initial loan fund. As a result, there is greater flexibility in the approval of loans.

The current loan guidelines are as follows: the first three loans to a new beneficiary are for US\$25 for ten days each. If the recipient repays the loans without excessive delay, she receives three loans of US\$50 for 15 days, followed by three loans of US\$75 for 15 or 20 days until she reaches the loan ceiling (currently US\$150 for 20 days). Again, these guidelines since the need for flexibility is recognized. Nevertheless, the payback period is set at 20 days to ensure that loan recipients utilize the money as working capital instead of for some purpose outside of their business activity.

A second source of loans based on savings is being initiated through the ASEPADE program. The program beneficiaries are being encouraged to save a nominal sum on a daily basis in two savings plans: one plan disburses the savings at Christmas, a time when the women need extra money not only for their stalls but also for their families, and another allowing loans to be granted with a maximum value of twice the total amount saved by the individual in that plan. These loans need not be used as working capital for the stalls. The savings program began in September, 1979 and no loans

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have been granted so far under this system.

Finally, ASEPADE has begun to experiment with different types of working capital loans: to provide a sufficient amount of funds to one vendor who wished to expand her stall, a 30-day loan of US\$100 was granted which would be paid back in one installment at the end of the loan period. The experiment was successful.

b) Educational Courses

ASEPADE believes that an effective strategy for improving the quality of life of the vendors must include appropriate educational courses with the dual objective of (1) teaching them how to increase their income from the stalls, and (2) informing them of the advantages of cooperation, thus preparing them for the future cooperative.

The initial mechanism for giving the courses involved group meetings with all 50 beneficiaries. Six-hour courses dealing with project information, human relations and sales, proper handling of fruits and vegetables, etc. were given. Technical assistance was provided by the Family Welfare Institute of Honduras whenever needed.

Given the difficulties of educating large groups of people with little previous schooling experience, it was decided to work with smaller groups of vendors for each course, thus increasing effectiveness as well as costs.

A further educational mechanism is a bulletin printed each

month by ASEPADE for the market women (Annex 4). Interest has been so high that ASEPADE must print extra bulletins for those people who do not yet participate in the program.

Illiterate beneficiaries ask their neighbors to read their copy out loud. It is through this bulletin that ASEPADE hopes to further educate the vendors in such areas as nutrition, health and cooperativism.

ASEPADE is aware of the difficulties in providing courses to the market women. Attention span, interest, ability to be away from their stalls and simply being tired are important factors affecting success. Appropriate materials also represent a problem since outside experts who teach certain areas often do not fully comprehend the economic situation of the listeners and who therefore suggest inappropriate solutions to their problems. Nevertheless, ASEPADE is confident that relevant educational materials can be combined with an effective presentation to produce courses that will benefit the market women.

c) The Formation of a Cooperative

Since creating an autonomous organization is an important goal of ASEPADE, they involve the women in the decision making process to a great extent. A committee of four beneficiaries has been formed, which is responsible for suggesting improve-

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ments in the program and informing the remaining vendors of new efforts to be discussed with the entire group.

The idea of the savings plans, for example, came from one of the vendors during a committee meeting. Since a seat on the committee is a temporary one, all the women will have an opportunity to serve.

Some of the educational courses emphasize the practical benefits of cooperation: the course on family budgeting, for example, will encourage the vendors to prepare their own lunches instead of buying them made at the markets. A group of four or five women would share a small stove. Savings would result, thereby providing an effective demonstration of the benefits of working together. Other possibilities include pooling funds each morning, enabling produce to be purchased in larger quantities at discount prices. It is through such practical demonstrations, in conjunction with more generalized lessons each month in the bulletin and during courses, that ASEPADE plans to promote and eventually develop a cooperative.

F. Future Plans

ASEPADE plans to increase the number of beneficiaries in Tegucigalpa from 50 to 100, simultaneously expanding into the Kennedy and San Pablo markets. A two-year donation of approximately US\$50,000 is being solicited from the Inter-American Foundation, which, if approved, will provide the necessary funds to finance the expansion. In addition

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to implementing the same loan procedures as are currently used, the following educational areas will be taught:

- 1) the work of the vendors: analysis of how their work is structured and how to improve its management;
- 2) human and social development: human dignity, motivation, self-evaluation, search for alternatives;
- 3) home economics: family budgeting, distribution, nutrition, health, hygiene, preparation and conservation of foodstuffs; and
- 4) organizations: cooperatives, unions, other forms of associations.

Since (1) the levels of illiteracy limits the effectiveness of working in large groups, (2) periodic and systematic meetings are difficult to organize given the type of work involved, and (3) the type of education considered by ASEPADE to be most needed (i.e. cost control, sales, investment strategies) calls for individual assistance, educational methodologies will be modified. Additional social promoters will be hired who will be responsible for working with 20 to 25 vendors, both in groups during courses as well as individually.

Finally, the number of beneficiaries receiving loans will increase to 150 during the second year of the possible IAF funded expansion, and a pre-cooperative of the vendors will be formed. It is projected that in three years the program will be self-sustaining with a legally recognized and fully functioning cooperative.

As far as replicating the program in other areas of Honduras, ASEPADE eventually hopes to set up a program in San Pedro Sula and perhaps other

cities. As a prerequisite of replication, however, a study of local conditions must be carried out to determine those special characteristics of a region that would have an effect on the project. For example, it was mentioned earlier in this document that intermediaries in San Pedro Sula played a much more prominent role in setting excessively high prices for produce: a program in that city might conceivably concentrate more on searching for alternatives within the distribution channels as a mechanism for improving the economic situation of the vendors.

IV. ORGANIZATIONAL ASSESSMENT

Workflow

The staff of two are busy, but efficiency could be improved. The accounting system, for example, has a substantial degree of double work: one suggestion made will save the person in charge of loans 40% of his time per week without affecting system reliability. Such duplication can be expensive.

Sense of Commitment

Very high. Pay is low and the hours are very long, including Saturdays and 3 hours on Sunday for the loan collector. Also commitment must be present in order to enter the markets every day. Incidentally, the one change of staff was by management decision since she was being too paternalistic towards the vendors. This has been the only turnover.

Degree of Autonomy

The most important decision that is made is whether a new woman should be admitted into the program. Although the director looks at the questionnaire, the social promoter makes the decision.

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Staff

The promoter and loan coordinator have the equivalent of a high school education with a specialized field of study. The promoter is a black un-wed mother and the loan coordinator is a white 28-year old semi-accountant. Given the simplicity of the tasks to be carried out on a daily basis it is clear that such a program does not require high skill levels for staff or a very great competency in a technical field.

Empathy

There is good rapport between the promoter and the vendors. The loan collector is new and has not developed much of a rapport with the beneficiaries.

The main weakness of the ASEPAPDE program, however, lies in its educational initiatives. They apparently don't take their own advice about listening to the vendors since the ideas that come from them do not mesh with the pre-conceived notions of what should be taught. Although health, personal hygiene, nutrition, etc. are important and necessary topics to be taught, after talking with the vendors I came to the conclusion that those topics dealing with the economics of the stalls are both inappropriate and unwanted. First, the business aspects of the stalls do not really lend themselves to scientific management procedures: any semi-structured accounting system, for example, is pointless because the women will never do it; furthermore, they already control their accounts with their apron pockets, as explained in the text. But the main argument against such courses is the fact that the vendors never mention them when asked what they would like to learn: cooking, sewing, flower arrangements. They want to learn these things

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in order to have an additional source of income.* Improving the management of the stalls will increase their incomes only marginally unless they start selling to restaurants (an ASEPADE idea). The vendors are looking for secondary activities as alternatives and ASEPADE appears not to be responding. Given the amount of non-productive time the vendors have available as they wait for customers, stimulating secondary activities appears to be a viable way to generate additional incomes, possibly having substantial impact on their earnings.

Project Results:

The training courses which are so important to ASEPADE haven't really changed anything. After 12 months, one would expect that the stalls of the beneficiaries would be better organized and have a nicer presentation than the others, but this is not the case. Money has, however, been saved due to the lower interest rates on the loans. Some of the women must be participating in the program precisely because of the lower rates, rather than for other more "social" motivation, and ASEPADE accepts this. Finally, the formation of cooperative will most likely present serious organizational difficulties since the idea was initially raised by ASEPADE. If anything has been learned about cooperatives, if it is totally created and managed by individuals outside the cooperative it has already taken the first step towards eventual failure. While ASEPADE is attempting to provide practical demonstrations of the benefits of cooperation in order to stimulate interest in the cooperative, this may not be enough. Most of the women are happy with the program and put up with the occasional meetings (17 out of 55 participated

*

This finding coincides with those of the training survey done in San Salvador by PRIDECO/FEDECCREDITO. See report in this volume.

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In the last one). But when I asked one woman who had been with the project since the beginning if she was wealthier than a year ago, she said, quite simply, "No". She may have remained at the same level due to ASEPADE's original policy of providing loans of equal amounts of \$25. Now, however, new guidelines periodically increase the loan amounts and payback period giving more possibilities for business expansion.

Lessons Learned:

Lessons can be learned from the ASEPADE experience about effective strategies for initiating this type of program, as well as mistakes which should be avoided: They are:

Credit

1. Supplier credit is made available to the vendors through wholesalers on the basis of trust developed over years of dealing together. Repayment is not a problem. "Appraisal based" credit mechanisms are in evidence in varying forms in several different programs described in the Latin American case studies as well as several of the Asia cases. Personal relationships and basic trust between clients and creditors can be utilized successfully by credit programs dealing with very poor people who lack normally accepted collateral.
2. Working capital loans are important in order for vendors to reduce their costs by decreasing interest payments. However, greater cost reductions can be obtained through pooling capital by the vendors in some form of group- possibly a buyers cooperative--allowing vendors to get quantity discounts or by-passing wholesalers and other expensive supplier credit sources.

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3. Credit which is providing sufficient benefits to the entrepreneur will become self-promoting eventually having the effect of reducing agency costs for this service or enabling the agency to expand its coverage.

4. Very rapid analysis of loans to the very poor can be done quickly and processing need not be a lengthy task nor expensive to administer.

5. Repayment of loans to vendors (and by extension to informal sector entrepreneurs in general) initially should be calculated on a daily (or other short term) basis reflecting the frequency of income of the vendors so that they will know exactly how much must be saved on the short term in order to pay off the loans punctually.

Savings Mobilization for Low Income People

Through credit programs once people have cash flexibility and are not as strapped just to make daily purchases for their businesses or food, they seem to be prone to entering savings and loan programs. Once they can see the way clear to save a small portion of their earnings they will be more willing to listen to ideas such as formalized savings based credit.

Training

1. Market vendors may prefer other types of education rather than management or administrative training since often their principal desires are to learn other skills as complements their vending activities which will generate additional income.

2. Training for largely illiterate people should be done in small groups. If large groups are used many people will not assimilate the materials.

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Personnel

Staff does not have to be made up of highly trained people to carry out the daily functions of the organization. What is most needed is a basic level of competency coupled with a good level of commitment and interest in the task to be done.

Mistakes

Mistakes which can be made in this type of program according to project staff include:

- 1) a paternalistic attitude;
- 2) too much confidence in the vendors;
- 3) a feeling of superiority on the part of the program staff;
- 4) the creation of high expectations, since the project is not going to solve all of their problems.

Strategies

Key strategies for working with the vendors, outside of the all-important preliminary study, can all be focused into one: the necessity to include the beneficiaries in the decision making process from day one so that they may develop the idea that the project belongs to them. If this is achieved, the same beneficiaries will dictate those operational strategies which will have the most success. From the organization's point of view, it is a philosophy of actively responding to needs as constantly defined by the beneficiaries.

A comprehensive program would also include strategies to help the vendors branch off into other economic activities. A doubt must be entertained concerning the global efficacy of providing assistance to a select group of vendors in a relatively small market: benefits for some

may cause damage to others. An example is a special loan given to a beneficiary enabling her to buy a certain vegetable in larger quantities, later reselling it to other vendors and, finally, to the public. In effect, she has eliminated, for herself, one link in the distributional chain since she has become an intermediary. This should increase her income, but if we assume that the total level of sales of that vegetable in that market is relatively constant over time, her increased purchases could cause decreased purchases of another vendor who had previously placed herself in the position of an intermediary. The global benefit would be zero.

Although such negative impacts have not been detected, they represent a potential problem for the design of future programs. It is for this reason that secondary economic activities should be emphasized in such programs of market vendors: time is plentiful, and any substantial increase in income of one group in the marketplace due to favorable lending programs could conceivably cause detrimental results to other groups within the same marketplace. The fact that sales are stagnant in Tegucigalpa is a further argument for branching into other activities.

Excessive concentration on the business of buying and selling foodstuffs may be inappropriate if increasing disposable incomes is a project objective. No matter how efficiently the vendors learn to run their business, they will still have plenty of usable time on their hands.

In conclusion, the project is a good one which could be replicated. Major adaptation would involve gearing the education program more directly towards the well-thoughtout desires of the beneficiaries, and a rethinking of the cooperative idea, which has very good motives and is an interesting possibility, but which deserves a great deal of care in effective implementation.

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A N N E X 1

ECONOMIC TABLE OF HONDURAS 1975 -1977

(Real Variation in Percentages)

	1975		1976		1977	
G N P	Fall in activity	-0.5	Recuperation	5.6	Consolidation	8.3
CONSUMPTION	Important Increase	7.9	Acceptable Increase	7.9	Sustained Increase	5.9
TOTAL INVESTMENT	Moderate Increase	5.8	Considerable Rise	13.2	Continued Dynamism	10.1
PUBLIC INVESTMENT	Satisfactory Rise	8.2	Greater Increase	14.1	High Increase	17.1
EXPORTS	Continued Fall	-7.0	Strong Recuperation	10.4	Contraction	-1.9
IMPORTS	Contraction	-4.2	Slight Increase	0.6	Increase Consistent with Economic Developments	13.5
BALANCE OF PAYMENTS	Strong Surplus	---	Greater surplus	---	Strong Surplus	---
PRICES	Considerable Increase	8.1	Less Inflationary	5.0	Renewed Inflationary Pressures	8.6

Translated from: "Honduras en Cifras" 1975 - 1977 Banco Central de Honduras

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FLUJO DE EFECTIVO DIARIO DURANTE LOS DÍAS DEL LEVANTAR A.
VALOR EN DOLÁRES (CADA DÍA DE US \$1000)

ANEXO 2.3.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	TOTAL
I- SALDO ANTERIOR	3.00	3.05	1.40	2.50	6.35	5.15	1.50	9.50	17.21	11.75	2.75	0.50	0.22	8.10	19.24		3.00
II- INGRESOS	7025	1315	5390	12415	5100	13110	3770	24510	2507	7500	4233	11517	4295	10007	7600		138471
VENTAS	7025	1315	2190	9415	5100	13110	3770	24510	2507	7500	4233	11517	4295	10007	7600		113000
PRESTAMOS RECIBIDOS	-	-	-	-	-	-	-	100.00	-	-	-	-	-	-	-		100.00
OTROS INGRESOS	-	-	2500	3000	-	-	-	1000	-	-	-	-	-	-	-		115.00
III- DISPONIBILIDADES	7330	4690	5580	12665	5743	13323	4120	25233	4230	8675	10507	11627	5317	10514	11544		135771
IV- EGRESOS	7330	4550	5210	12030	5572	13473	2170	24110	30.50	29.00	10.00	100.00	45.00	88.90	97.30		21715
CAMERA DE RESERVA	5100	4150	2900	10020	4400	11500	1320	17410	14.00	55.00	9540	133.97	30.00	70.50	4020		102200
ALQUILER DE PUERTO	240	240	0.60	0.60	0.60	0.60	0.60	1.20	0.60	0.60	0.60	0.60	0.60	0.60	0.60		7.20
GASTOS DE TRANSPORTE	240	150	130	2.10	130	310	0.30	4.50	0.30	2.80	2.60	2.30	1.50	2.60	2.20		31.60
GASTOS DE EMBAQUE	0.60	-	0.60	-	1.20	0.60	-	0.60	1.20	1.20	-	0.20	-	-	0.80		4.50
CURTOS ALCANCE	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	0.33	7.00	0.33	-	7.00		25.33
OTROS GASTOS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
ALIMENTACION	3.00	6.70	4.30	2.40	5.70	7.10	3.00	1.50	3.20	10.40	5.00	6.90	6.60	9.20	5.20		91.30
GASTOS MEDICOS	-	-	-	-	-	2.20	-	0.90	-	-	-	-	-	-	-		3.10
COMRA BOTA	-	-	-	-	-	-	-	41.00	-	2.00	-	-	-	-	-		43.00
UTILIZ. EQUIPOS	0.50	1.00	-	-	-	2.30	-	-	-	-	-	-	-	-	-		3.80
OTROS REAJUSTES	-	-	-	2.00	0.15	0.20	-	0.20	0.25	-	0.15	-	-	-	0.30		3.35
ALICEROS	-	-	-	-	-	-	-	5.00	-	-	-	-	-	-	-		5.00
V SALDO DE EFECTIVO	3.05	1.40	2.50	6.35	5.15	1.50	9.50	17.21	11.75	2.75	0.50	0.22	8.10	19.24	18.05		19.05

VALOR EN COLONIAS: LPS. 1.00 = USC \$ (0.50)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
I.- SAÍDO SUPERIOR	8.40	25.87	30.94	71.13	28.44	28.94	180.82	135.57	36.70	29.35	25.70	17.57	3.72	7.12	7.42		8.40
II.- INGRESOS	26.87	147.85	187.94	60.06	109.80	272.85	48.60	216.98	32.99	52.65	40.22	55.57	48.55	04.00	31.20		1501.17
VENAS	26.87	147.85	187.94	40.06	101.10	272.85	48.60	216.98	32.99	52.65	40.22	55.57	48.55	04.00	31.20		1501.17
PRESTAMOS ASEPADE	-	-	-	-	-	200.00	-	-	-	-	-	-	-	-	-	-	710.00
OTROS INGRESOS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	200.00
III.- DISPONIBILIDAD	75.27	123.72	218.88	121.19	138.24	304.82	229.42	352.55	69.64	82.00	65.92	75.14	52.27	96.12	41.62		200.00
IV.- EGRESOS	49.40	142.75	147.75	102.70	179.25	121.00	93.85	315.85	40.35	56.30	53.35	74.45	45.15	85.77	25.47		1509.57
COMPRA DE PRODUCTOS	16.00	98.50	54.00	5.01	21.50	31.00	6.00	240.50	21.57	29.00	23.00	74.45	45.15	85.77	25.47		1511.91
ALQUILER DE PUESTO	0.60	0.60	0.60	0.60	0.60	0.60	2.60	1.20	0.60	0.60	0.60	0.60	0.60	0.60	0.60		731.00
GASTOS DE TRAMITES	0.75	1.65	2.65	2.80	0.90	2.05	0.60	7.00	0.55	0.30	1.30	1.60	1.30	1.00	0.50		96.00
GASTOS DE EMPAQUE	1.20	2.20	2.20	0.80	0.20	0.10	2.40	1.40	0.10	-	0.20	-	1.30	1.50	0.20		35.00
LUZAS ASEPADE	10.50	10.50	10.50	10.50	10.50	10.50	10.50	21.00	12.50	10.50	10.50	10.50	10.50	10.50	0.50		158.00
OTRAS LUZAS	10.00	18.00	63.00	6.00	65.00	30.00	15.00	13.00	1.00	12.00	-	11.00	-	10.00	0.50		158.00
ALIMENTACION	10.20	10.70	14.55	11.75	9.20	14.50	6.75	70.00	4.59	3.15	7.00	8.70	9.35	5.30	2.40		129.14
GASTOS MEDICOS	-	-	-	0.60	-	-	-	-	-	-	-	0.50	-	-	-		0.90
COMPRA RODA	-	-	-	60.00	-	-	50.00	2.00	-	-	-	-	-	-	-		112.00
OTROS EGRESOS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		0.60
OTROS GASTOS	0.15	0.63	0.25	3.75	1.45	0.25	-	6.25	-	0.25	0.70	2.75	-	0.25	3.25		24.40
AHORROS	-	-	-	-	-	2.00	2.00	3.50	1.50	0.50	-	10.00	1.00	-	1.00		21.50
V.- SALDO DE EJERCICIO	25.87	30.94	71.13	28.44	28.94	180.82	135.57	36.70	29.35	25.70	17.57	3.72	7.12	7.42			7.12

ANEX 2.4

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FLUJO DE EFECTIVO POR PERIODO 10 DIAS DEL EJERCICIO C.

VALORES MONEDAS (COP. 1000 = 1000000)

ANEXO 2.5

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
1.- SALDO INICIAL	72.50	7708	77.63	14.94	4254	2714	1209	5329	2.77	5.00	12.70	1.35	15553	77.63	11.04		5256
2.- INGRESOS	12.33	109.19	24.22	8.20	7934	34.65	57.51	67.12	61.00	92.92	131.02	310.18	42.12	41.02	101.24		1399.11
VENIMAS	8.73	109.19	24.22	8.15	7934	34.65	57.51	67.12	61.00	92.92	131.02	310.18	42.12	41.02	101.24		1199.11
DESCUENTOS BANCARIOS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		200.00
MISCOS INGRESOS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
3.- DISMINUCIONES	117.23	176.23	101.90	99.45	121.53	123.99	121.60	120.56	63.97	97.97	143.77	315.57	172.14	24.22	13.74		1452.61
1.- EGRESOS	4015	106.14	64.04	56.94	9274	101.20	56.21	117.79	58.77	85.77	143.24	151.24	11399	1.2	9.49		143723
CAMBIO DE MONEDA	2455	22.20	40.85	27.50	50.10	23.70	48.35	97.75	34.20	64.50	116.00	775.0	955.0	1.20	4.91		71.125
MANTENIMIENTO DE BIENES	1.75	1.75	1.75	1.75	1.75	3.50	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75		250.0
GASTOS DE TRANSPORTE	1.10	1.70	0.30	1.60	5.00	3.70	2.70	2.10	2.60	2.60	1.15	1.20	2.50	1.20	1.20		20.00
GASTOS DE ENTARDE	-	1.14	1.14	1.24	1.14	1.20	1.14	1.14	1.20	0.57	1.14	1.15	1.14	1.20	1.14		14.00
MANTENIMIENTO	10.50	10.70	0.70	10.50	0.50	11.00	10.50	10.50	10.50	10.50	42.00	13.11	10.50	10.50	10.50		402.00
MANTENIMIENTO	-	6.00	50.20	-	30.00	6.75	-	-	5.00	-	4.50	5.00	-	9.00	-		91.00
MANTENIMIENTO	2.20	2.20	3.40	3.40	3.20	1.50	0.90	-	0.50	5.20	2.50	2.90	2.50	3.50	3.00		240.00
GASTOS MEDICOS	-	-	-	-	-	-	-	1.30	-	0.15	0.30	0.15	-	-	-		1.90
COMIDA BODA	-	-	-	-	-	-	-	-	-	-	-	-	-	1.00	-		1.00
MANTENIMIENTO	-	-	-	-	-	-	0.12	-	-	-	0.15	-	-	-	-		0.27
MISCOS GASTOS	-	-	0.35	10.35	0.35	0.35	3.25	3.25	2.85	-	0.30	0.34	0.30	1.00	0.40		20.00
PREMIOS	-	-	-	-	-	-	-	-	-	-	-	200	-	-	-		200.00
4.- SALDO DE EFECTIVO	7708	77.63	14.94	4254	2714	1209	5329	2.77	5.00	12.70	1.35	15553	77.63	11.04	5.20		15.24

CP: 1.10 = 11.10.00

ANEX 2.6

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	TOTAL
Saldo Inicial	4.15	48.20	31.65	41.60	33.45	21.95	22.15	22.60	24.75	239.61	111.51	455.60	221.10	270.10	422.10		
RENTAS	129.20	11.20	49.50	19.60	72.45	21.25	113.45	223.20	121.60	1025	12.24	57.15	42.45	4.10	15.35		14.15
RENTAS DE ALQUILER	—	—	—	—	—	—	—	223.20	—	—	—	—	—	—	—	—	223.20
RENTAS DE ALQUILER	—	—	21.00	—	—	—	—	—	—	—	—	—	—	—	—	—	21.00
RENTAS DE ALQUILER	141.95	29.20	29.60	69.40	125.90	52.25	146.60	259.20	312.91	2492.4	1239.6	123.21	72.31	109.10	13.35		270.10
RENTAS DE ALQUILER	25.25	42.25	29.25	35.95	94.95	19.15	118.00	15.05	27.70	127.70	52.00	15.35	49.05	57.95	14.25		94.210
RENTAS DE ALQUILER	22.00	20.00	3.00	19.00	45.00	—	13.00	5.00	56.00	93.00	36.00	17.50	57.00	29.00	4.00		933.45
RENTAS DE ALQUILER	0.45	0.45	0.45	0.45	0.90	0.45	3.60	0.45	0.45	0.90	0.45	0.45	0.45	0.45	—		59.00
RENTAS DE ALQUILER	2.20	—	—	1.00	1.00	—	2.40	0.70	1.20	1.20	1.50	1.45	—	1.30	—		15.00
RENTAS DE ALQUILER	2.40	1.20	—	—	1.20	—	1.00	—	1.00	1.20	1.20	0.10	1.20	—	1.00		15.45
RENTAS DE ALQUILER	10.50	10.50	10.50	10.50	21.00	10.50	31.50	—	—	1.20	1.20	0.10	1.20	—	1.00		11.20
RENTAS DE ALQUILER	—	10.00	—	—	—	—	—	—	—	10.50	10.50	10.50	10.50	10.50	—		171.50
ALIMENTACION	5.90	4.60	6.50	5.00	11.35	7.95	7.45	4.60	2.15	11.70	7.00	5.00	6.50	7.40	4.15		120.00
RENTAS DE ALQUILER	—	—	—	—	—	—	0.70	—	—	—	—	—	—	—	—		101.20
RENTAS DE ALQUILER	—	—	7.00	—	—	—	—	—	—	—	—	—	—	—	—		7.00
RENTAS DE ALQUILER	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		3.00
MATERIALES	0.30	1.20	1.20	—	14.50	0.30	1.25	4.30	1.20	4.00	1.20	—	—	—	—		30.00
MATERIALES	—	—	—	—	—	—	—	—	—	10.00	—	—	—	—	—		10.00
Saldo de Efectivo	48.20	31.75	41.60	52.45	40.40	51.20	32.10	24.45	22.60	111.51	455.60	221.10	270.10	422.10	170.10		19.81

hca

VALOR EN GENERAL C.P. 1.00 = 11 8.0.50

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	TOTAL
INGRESO GENERAL	5.10	5.50	213.20	185.53	172.36	27.19	29.11	20.29	19.47	21.01	20.21	11.63	19.05	19.61	22.50		510
TOTAL INGRESOS	24.25	23.75	11.13	22.28	15.05	21.00	20.00	24.45	23.64	21.65	19.17	20.15	23.17	21.00	42.00		175.10
VENIDAS	24.25	23.75	11.13	22.28	15.05	21.00	20.00	24.45	23.64	21.65	19.17	20.15	23.17	21.00	42.00		1185.10
PERCEPCIONES	-	202.00	-	-	-	-	-	-	-	-	-	-	-	-	-		200.00
OTROS INGRESOS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
DISPENSACIONES	29.35	24.25	224.83	219.21	193.24	126.21	122.14	53.27	167.16	42.61	29.21	31.73	42.20	57.11	125.00		690.72
TOTAL EGRESOS	23.15	21.55	391.30	404.45	110.85	37.10	42.35	34.30	36.15	21.25	21.35	19.70	24.25	25.05	51.00		1173.25
COMPRAS PRODUCTOS	2.40	9.00	10.00	20.00	20.00	-	70.00	-	160.00	1.00	-	-	2.00	15.00	30.00		159.40
ALQUILER DE CASA	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45		7.45
CASAS DE FAMILIA	0.60	0.60	1.20	1.00	0.50	1.50	0.60	1.30	1.70	0.60	0.60	1.60	0.60	0.60	1.00		12.90
CASAS DE EMPLEO	2.40	1.20	-	1.10	-	0.20	2.10	-	3.30	1.60	-	-	3.00	1.10	1.10		12.20
CURTOS ASESORES	10.50	10.50	10.50	10.50	10.50	10.50	10.50	21.00	10.50	10.50	10.50	10.50	10.50	10.50	10.50		170.00
OTRAS COSAS	-	-	-	-	60.00	-	-	-	-	-	-	-	-	-	-		60.00
ALIMENTACION	1.20	4.40	7.10	7.10	6.90	10.60	12.90	5.00	2.90	6.40	1.40	1.90	6.40	4.40	2.40		106.20
CASAS MEDICAS	1.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-		1.00
COMPRAS RAPAS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
OTROS PRODUCTOS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
ALICATOS	0.30	3.40	0.25	0.20	0.40	0.30	1.20	4.30	1.20	0.30	2.40	2.25	0.40	2.00	0.60		16.60
ALUMINIO	-	-	-	-	2.00	1.00	1.00	2.00	-	1.00	1.00	1.00	1.00	1.00	1.00		13.00
TOTAL EGRESOS	5.50	21.30	185.05	177.36	22.14	29.11	24.29	19.47	21.01	20.31	10.13	19.05	19.61	22.50	17.50		17.50

ANEX 2.7

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UNION EN COLONIAS (LPS. 1.00 = US \$1.50)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	TOTAL
T-SKOD INTERIOR	12.00	10.20	15.40	131.20	115.19	37.10	69.45	12.60	95.68	99.05	163.70	116.25	55.75	15.25	231		1070
III - INGRESOS	187.20	203.15	207.00	125.49	219.41	146.2	233.15	67.03	103.00	411.02	156.05	123.45	140.95	131.5	219.20		2442.55
VENTAS	187.20	203.15	207.00	125.49	219.41	146.20	191.15	67.03	103.00	411.02	156.05	123.45	140.95	131.5	219.20		2442.55
PRESIANCE ACEPTA	-	-	-	-	-	-	-	-	-	200.00	-	-	-	-	-		200.00
OTROS INGRESOS	-	-	-	10.00	-	-	49.00	-	-	-	-	-	-	-	-		59.00
IV - INGRESOS EXTERNALES	97.20	223.75	226.15	211.19	225.47	197.40	302.60	129.63	192.65	510.10	349.75	340.50	196.20	150.1	227.2		3755.25
V - EGRESOS	136.00	192.20	139.75	157.20	51.55	10.45	240.00	33.95	99.60	346.00	192.70	294.55	176.35	127.1	191.20		2702.25
MANUA DE PERSONAS	109.00	165.00	94.10	117.00	24.00	49.00	160.00	22.00	59.00	303.00	94.00	222.00	147.20	75.00	160.00		2022.00
ALQUILER DE PISO	2.30	2.30	2.20	2.20	4.00	2.30	4.00	2.20	2.30	4.00	2.30	2.30	2.30	2.30	2.30		41.40
GASTOS DE TRANSPORTE	-	3.15	0.25	3.15	4.15	1.20	3.00	0.45	1.00	5.00	2.10	3.15	2.30	2.40	2.50		25.55
GASTOS DE FAMILIA	-	4.50	-	-	3.00	-	-	2.10	-	3.25	-	-	-	1.90	-		15.75
ENCARGO ACEPTA	10.50	10.50	10.50	10.50	21.50	10.50	21.00	-	-	-	-	-	-	-	-		152.00
OTROS GASTOS	-	-	-	-	-	-	-	-	-	-	10.50	21.00	10.50	10.50	10.50		152.00
ALIMENTACION	9.50	9.60	9.60	10.80	15.00	9.15	30.90	6.70	7.00	18.00	6.50	6.70	10.85	9.10	12.90		123.05
SANIDAD MEDICA	-	-	-	-	5.00	-	-	-	-	-	-	2.00	-	-	-		7.00
COMPRAR KODA	-	-	-	-	-	42.00	-	-	-	-	-	-	-	-	-		42.00
OTROS GASTOS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
OTROS GASTOS	5.30	0.20	13.00	12.10	1.70	0.45	10.50	0.40	0.30	2.50	0.70	1.40	0.40	1.20	2.00		31.90
OTROS GASTOS	-	-	-	-	-	1.00	2.00	-	-	1.00	0.50	1.00	1.00	1.00	1.00		7.50
OTROS GASTOS	40.00	40.00	131.20	115.49	20.00	69.45	12.60	95.68	99.05	163.70	116.25	55.75	15.25	231			3200

ANEX 2.0

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FLUJO DE EFECTIVO DIARIO DURANTE LOS 14 DIAS DEL VIAJE G.

VALOR EN DOLÁRES (LPS. 100 = 11920,50)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	TOTAL
INGRESOS INICIALES	5068	606	1665	4935	3925	5825	4675	11035	3200	2762	1403	2771	272	2743	1463		5068
- INGRESOS	4811	5599	4775	615	3425	7125	2411	3310	2527	2140	2215	5201	4745	2161	271		11035
Vanilla	4211	5599	4775	615	3425	7125	2411	3310	2527	2140	2215	5201	4745	2161	271		606
Influenza Acepac	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OTROS TRÁFICOS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DISPONIBILIDADES	12811	6265	6240	5550	2201	12725	2275	6335	2777	6102	10113	2975	5315	5503	1253		74262
TV. EJERCIO	12205	4540	1505	1225	4465	6245	1040	3135	2765	4297	6265	5605	2975	4040	3241		71049
COMPRA DE PRODUCTOS	11309	1509	-	-	2500	-	2301	1400	3000	2000	4400	1900	1400	2300	1400		21100
UTILIDAD X PUESTO	245	245	245	245	245	245	245	245	245	245	245	245	245	245	245		220
GASTOS DE TRANSORTE	150	290	290	120	290	195	295	215	230	245	290	245	245	165	245		1240
SEÑAL DE EMPAQUE	-	-	-	-	-	-	100	-	200	-	300	150	-	-	-		750
OTROS GASTOS	250	1050	1050	1050	1050	2100	1050	1050	1050	1050	1050	1050	1050	1050	1050		15500
ALIMENTACION	210	420	590	300	440	850	400	600	350	445	400	400	465	560	430		1550
GASTOS MÉDICOS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
CAMPA 2014	-	1000	-	-	-	-	-	-	-	-	-	-	-	-	-		1000
GASTOS ESCOLARES	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
OTROS GASTOS	220	235	230	110	240	2110	250	225	260	114	260	210	230	220	270		3459
ALHORROS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
VALOR DE EFECTIVO	606	1665	4935	3925	5825	4675	4025	2201	2927	1403	2771	272	2743	1463	271		3915

ANEX 2.9

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VALORES EN COLONES (1950-1951)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	TOTAL
I- Saldo anterior	16.40	419	2470	3363	10.10	14.95	2725	3550	124	20.10	11.63	17.92	1332	1212	3254		7.781
II- Ingresos	106.15	485	2258	5032	49.6	2420	110.80	399	4111	30.00	14.79	49.60	51.5	2372	131		1645
Ventas	106.15	485	2258	5032	49.60	2420	110.80	399	4111	30.00	14.79	49.60	51.5	2372	131		1645
Préstamos	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	649.50
otros ingresos	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	200.00
III Disponibilidades	121.55	895	5728	2295	59.70	4915	13745	39.49	4942	5018	2642	5052	2797	2124	2140		-
IV Egresos	105.59	5410	2415	72.55	4475	3150	10295	91.25	3920	3955	25.50	23.20	14.85	170	1594		264.90
Compra de productos	41.00	29.00	11.00	55.00	31.00	16.00	45.00	14.00	14.00	14.00	11.40	21.45	-	52.00	137.00		573.75
Alquiler del sueldo	0.45	0.45	0.45	0.45	0.45	0.45	1.35	0.90	0.45	0.45	0.45	0.45	0.45	0.45	0.45		2.10
Alquiler transporte	0.45	0.45	0.30	0.30	0.30	0.50	0.90	0.60	0.30	0.30	0.40	0.75	0.30	0.50	0.30		4.10
Alquiler de Embarse	3.00	-	-	-	-	1.00	3.00	0.20	-	1.10	-	1.20	-	-	1.50		10.40
Quotas ASESABE	11.80	10.50	10.50	10.50	-	-	31.50	11.00	12.50	10.50	10.50	10.50	10.50	10.50	10.50		164.00
otros cuotas	-	-	-	-	-	-	14.00	-	-	7.00	-	-	-	-	-		21.00
Alimentación	3.10	3.80	3.20	3.30	3.20	3.10	1.00	4.20	3.20	3.20	3.60	3.20	3.40	3.20	3.00		55.00
Saldo Médica	1.20	-	-	-	-	-	-	-	-	-	-	-	-	-	-		1.20
Compra ropa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
utilidad escolar	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
otros gastos	0.40	0.20	0.20	0.40	1.50	0.45	0.50	1.35	0.25	1.40	0.15	1.05	0.20	1.15	0.10		8.55
Ahorros	10.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-		10.00
V Saldo de Efectivo	41.00	3470	3223	1.10	14.95	2725	3550	124	20.10	11.63	17.92	1332	1212	3254			10.00
																	57.00

ANEXOS 2-10

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ANNEX 3

ASESORES PARA EL DESARROLLO
ASEPADE

GUIA DE INVESTIGACION

NOMBRE: _____
MERCADO: _____
MUESTRO: _____

1. Tiempo de vender en el mercado
 - a) _____
 - b) _____
 - c) _____
 - d) _____
2. Que cantidad de dinero invierte diariamente en compra de producto.
L. _____
3. Cuanto gana usted diariamente en las ventas.
L. _____
4. Trabaja con prestamistas.
Sí _____ No _____
- a) Que cantidad le prestan
L. _____
L. _____
- b) A que interés le prestan
- c) Cuanto paga de reditos diariamente.
L. _____
L. _____
- d) Plazo para pagar
 - 15 días _____
 - 20 días _____
 - 25 días _____
 - 1 mes _____
 - 0 mts _____especifique _____
5. Que cantidad de dinero necesita para trabajar.
L. _____

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5. Ha pensado dejar de trabajar con prestamistas.

a) Motivos _____

7. Le gustaría ingresar a nuestro Proyecto

Si _____ No. _____

Razón _____

8. Estaría dispuesta a asistir a reuniones y cursos.

No _____ Sí _____

Razón _____

9. A que hora podría asistir.

10. A que hora le gustaría que le cobraran.

FECHA DE LA ENTREVISTA.

INVESTIGADOR. _____

xof.

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Asepade



ANNEX 4

La Camarista
Boletín Informativo

Nº 4

Agosto 1979

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Editorial

ESTIMADAS AMIGAS:

El 28 de septiembre cumplimos el primer año de haber iniciado con ustedes, nuestro proyecto de "Préstamos para Vendedoras del Mercado".

Gracias a la participación decidida de ustedes y al apoyo financiero de Catholic Relief Services, podemos decir que estamos juntas trabajando en este Proyecto que sin duda vendrá a mejorar las condiciones de vida de todas las que participan en él.

Un año después, vale la pena recordar que uno de los principales objetivos del Proyecto es "crear un sistema de préstamos que las libere de los prestamistas". Este objetivo y los otros que tiene el Proyecto, únicamente podemos lograrlo con la participación efectiva de cada una de ustedes.

Nos queda mucho por hacer y mucho que aprender, todo esto solo será posible con el deseo, la voluntad, la cooperación y el compañerismo de todas ustedes.

Este otro año que iniciamos en este momento, requiere el esfuerzo de cada una de nosotras. Esperamos contar con su valiosa colaboración ya que sin ella, el proyecto no tendrá éxito, ni razón de existir.

DAILY CASH FLOW SUMMARY OF VENDORS

Line Item	Figures in Lempiras											Los 2.00/US1.00
	Vendor	A	B	C	D	E	F	G	H	I	J	TOTAL
I. Beginning Balance		3.00	8.40	53.50	14.15	5.10	10.00	80.00	15.40	51.70		241.25
II. Income		1,384.71	1,501.17	1,399.11	978.81	685.68	3,748.25	668.62	849.50	1,904.07		12,119.92
Sales		1,169.71	1,281.17	1,199.11	758.81	485.68	2,491.25	668.62	649.50	1,553.41		10,257.26
Loans ASEPADE		100.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00		1,500.00
Other Income		115.00	20.00	—	20.00	—	57.00	—	—	150.66		382.66
III. Cash on hand		1,387.71	1,509.57	1,552.61	992.96	690.78	2,758.25	748.52	864.97	1,955.77		12,361.17
IV. Expenditures		1,369.63	1,501.90	1,437.33	973.65	673.25	2,722.25	710.40	808.40	807.37		12,000.07
Raw Materials		1,083.66	731.00	961.55	590.00	259.40	2,073.00	411.00	502.85	784.73	65.8	7,846.19
Rent of Stall		9.60	9.60	28.00	10.80	7.65	41.40	7.20	8.10	41.00	1.3	163.35
Transportation		31.00	25.00	30.95	15.65	12.90	35.65	12.40	7.10	41.10	1.7	211.75
Packaging		6.50	15.20	16.32	11.70	18.20	13.75	7.50	10.40	20.59	0.1	1,120.16
Payments to ASEPADE		85.32	158.00	222.00	178.50	178.50	158.00	158.00	169.00	242.00	12.9	517.00
Other loan payments		—	264.00	98.00	10.00	60.00	64.00	—	21.00	—	4.3	922.46
Food		96.30	139.64	37.72	101.20	106.00	183.05	63.50	55.40	137.65	7.7	36.60
Medical Expenses		3.10	.90	1.90	.70	1.00	7.00	—	12.00	10.00	.003	36.60
Clothes		43.00	112.00	1.20	.00	—	56.00	14.00	—	—	1.9	233.00
School Materials		3.80	.60	.27	5.00	—	—	—	—	—	.001	9.67
Other expenditures		3.25	24.46	37.62	32.90	16.60	81.90	34.89	12.55	24.30	2.2	166.57
Savings		5.00	11.50	2.00	10.00	13.00	9.50	—	10.00	2.00	.005	72.00

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I. PROJECT IDENTIFICATION

A. Name and address of Project:

- 1) Ecuadorian Social Development Institute (INEDES)
Calle Andalucia 414 and Cordero
Quito, Ecuador
Telephone: 528-457

B. Name of INEDES Director: Dra. Isabel Robalino

C. Other People Interviewed:

- Teodoro Peña - Director of the Department of Urban Promotion
- Alejandro Corral - Area Head for Cuenca
- José Castillo - Area Head for Loja
- Frederico Muñoz - Promoter in Cuenca
- Máximo Castro - Promoter for Loja
- Fernando Verdesoto - Promoter in Quito and Ibarra

D. Dates Interviews Held: October 1-11, 1979

E. Report Researched and Written by: William R. Tucker

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II. PROJECT DESCRIPTION

A. The Organization

INEDES was founded in 1964 as a service to help "popular groups" and worker movements integrate themselves more fully into the socio-economic mainstream of Ecuador. It is a private and partially political foundation which proposes to:

- 1) promote systematic studies which apply Christian principles to the process of development and organize, with the same objective, work groups and educational courses;
- 2) train professionals in the formulation of demonstrative, integral models which will have a multiplier effect in social as well as economic terms; and
- 3) offer solutions to national problems through the execution and assistance of specific development projects.

The Department of Urban Promotion (DPU) of INEDES is responsible for promoting the specific development projects and as such, was the focus of the present study.

The DPU concentrates on the promotion of popular organizations, the most common form of which is the cooperative. INEDES concludes that there are two primary reasons for choosing this type of organization:

- 1) socially, the members are involved in the decision-making processes and are therefore responsible for their own success or failure, as well as the fact that non-economic problems can be solved by people working together; and
- 2) economically, people pooling their resources can accomplish more than if they choose to continue independently, especially in

the case of housing cooperatives. Furthermore, in the case of production cooperatives, the workers own the capital stock of the enterprise: ownership sharing models benefit the worker since his capital grows if the business develops successfully.

The DPU views participation, mutual help and self-run management as being the key elements in the achievement of efficiency and stability in a community organization. Participation is vital since it involves the beneficiaries in the definition of their problems and true necessities, as well as the determination of objectives, methodologies, etc. The mechanism of mutual help incorporates each member in the formation of the organization and in collective actions, be they land preparation for the construction of houses or the participation in a course. Finally, self-management implies the ability of the organization to choose, manage, organize and evaluate those projects which will benefit the community.

The history of the DPU, however, demonstrates that problems with methodologies may arise even if the above three elements are incorporated into the over-all strategy. In 1971, the Department was created under the name of the Secretariat of Urban Services (SSU). At this time, INED-S decided not to concentrate on housing cooperatives since they tended to dissolve once their objective had been accomplished. Since INEDES preferred programs with a higher degree of continuity, the SSU focused its efforts on production groups. Eight existing groups were selected (2 lottery sellers' groups, 3 brick production groups, 1 craft group, and 1 food cooperative). The number of members in these groups varied between 6 and 15. The principal mechanism for assisting the organizations was in the form of soft loans, paid in advance of any concrete investment

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plans and in the spirit of "good faith." Contractual relationships were not formed.

It is necessary to emphasize the approach used by the SSU with the beneficiaries: the image created was one of an institution, with certain political objectives, that wanted to "help." The loan recipients gradually disappeared and US\$50,000 were lost.

INEDES decided that a more businesslike image was preferable when operating with credit mechanisms. It is important to develop among the clients that repayment be expected and will be enforced. Also, when working with money, contractual relationships are better than acting under good faith.

The second stage of the DPU's development started in 1974, during which the SSU was terminated and the Ecuadorian Center for Urban Services (CESU) was created. Although CESU was initiated by INEDES, it operated independently. Several key elements in the methodology of the SSU were changed in an attempt to improve results:

- 1) larger production groups were selected;
- 2) a more formal relationship with the beneficiaries was established; and
- 3) business mechanisms were utilized to determine project feasibility before loans were provided.

During this period, offices in Loja, Cuenca and Riobamba were set up. Viable production groups were located through the Ecuadorian

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Center for Classist Organizations (CEDOC), a political entity which promotes cooperative development. Courses on cooperativism and start-up loans were provided by CESU to seven cooperatives initially. A total of US\$80,000 was lent to these organizations the majority of which was subsequently repaid.

Although a higher degree of success was achieved with CESU than with the SSU, problems developed. CEDOC was still actively involved with the groups it had formed, and an ideological dispute with CEDOC seriously affected the cooperatives, consequently disrupting CESU's programs. Furthermore, CESU was apparently unable to locate additional viable production groups willing to accept technical assistance and education along with the loans as a requirement of CESU support. Since CESU would not provide funds without the complementary services, an impasse was reached. It is at this point in 1976 that the Department of Urban Promotion (DPU) was established.

Given the paucity of appropriate production groups to work with, the DPU decided to form its own groups. Due to the difficulties of motivating people to produce communally, it decided to form housing cooperatives as a first step, since the lack of adequate housing was the deepest felt need of the projected beneficiaries. Cooperatives would be formed, individual's savings would be channeled into one fund, land would eventually be bought, the members would work together preparing the land thereby experiencing the practical benefits of cooperation, and shops would be created to provide cement blocks, tubes, doors,

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etc. for the construction. These shops would serve the triple purpose of (1) reducing construction costs, since the members themselves would work there; (2) provide stable employment for the underemployed; and (3) develop the basis for more formal production groups once the construction of the houses was completed.

Although the DPU still works with three production groups from the CESU era, primary emphasis is placed on the housing programs as mechanisms for generating employment through the development of new production groups. Area offices are currently operating in Loja and Cuenca/Azogues in the south, and Quito, which also covers Ibarra, in the north.

A general description of the steps in the DPU methodology follows as well as a review of the current situation in each area, involving in some cases, both housing cooperatives and older production groups.

B. The Programs

1) The Housing Cooperatives

To initiate a cooperative, a specific sector (e.g. people who work in the markets, municipality workers, etc.) or particular geographic area is selected and a study is carried out using the questionnaire shown in Annex 1. In addition to collecting base data about the target group, the objective of the study is to personally explain the idea of creating a housing cooperative and to invite the interested people to a general meeting.

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The general meeting is used to explain in greater detail the purpose of forming the cooperative, describe the steps through which the members will pass before receiving a house, and list the advantages that participation in the cooperative can offer, the primary one being housing at reduced cost due to buying large blocks of land instead of small parcels, and member participation in land preparation and construction in production groups.

If interest is generated, a pre-cooperative is formed during which provisional directors are elected and the specific steps through which a housing cooperative must pass are explained. The first action involves the initial capitalization of the cooperative: the amount to be provided by each member is decided by the Assembly itself. Appropriate monthly payments are also decided on to complete the savings plan. It is explained to the members that a high level of savings will enable them to purchase the necessary land for the construction in a shorter period of time.

The following step involves the legalization of the cooperative with the corresponding public institutions. Official directors are elected as are the necessary committees. Monthly meetings are held to inform the members about the level of savings, as well as to maintain motivation and cohesion within the group.

After a number of years of saving (depending on the level of monthly deposits and, consequently, on the relative poverty of the members) a tract of land is purchased. If the land has not been developed, the cooperative organizes the work, with technical as-

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assistance from INEDES, that can be done by the members working together on weekends. The land must first be leveled, streets marked and the area divided into individual lots. Sewage systems, electricity and water are then brought in. At this stage, shops for producing the cement tubes and blocks are started, thus providing work for underemployed members as well as reducing material costs for the construction. (Cement blocks produced by the production groups will be 40% cheaper.) Woodworking shops are added to provide doors, window-frames, staircases, etc. for the houses. Finally, the construction begins.

Once the houses are completed, a raffle is held to determine who will occupy which house. From the beginning, no one knows which lot will eventually belong to him.*

Finally a community center is built to hold cooperative meetings so that other problems that can best be solved by working together can be discussed. As was previously mentioned, the DPU's strategy for creating the housing cooperative is to form cohesive groups so that other problems, specifically under and unemployment, can be solved. The fact that the members have houses is secondary, so the community center is vital to maintain continuity. It is at this point also that the shops are initially set up to bolster the construction and begin to operate as independent economic entities within a cooperative framework.

It is obvious that the longest period of time occurs during the

*See Annex 2 for a discussion of the houses.

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savings stage. Approximately two months elapse between the initial contact with the projected beneficiaries and the naming of the directors. From that point on, years pass before the cooperative has enough money to purchase land.

Area Situations:

The city of Loja, in the south of Ecuador, with its 350,000 inhabitants, has an estimated 300 jobs in the industrial sector: the city lives off of commercial activities. INEDES has operated in Loja since 1975 and has had the following experiences with five housing cooperatives, all initiated in 1975:

- a) The "Clodoveo Jaramillo of Loja" Cooperative run by a priest, was formed with the help of INEDES and eventually included a total of 800 members, varying in profession from high school instructors to doormen. INEDES organized occasional courses on cooperativism and provided contacts and assistance for the legalization processes. In 1978, the cooperative decided to buy land. INEDES objected to the purchase since there was insufficient land for all the members: the purchase was made anyway and 200 of the poorest members, along with the DPU in Loja, broke contact with the cooperative.
- b) The "La Inmaculada" Cooperative run by a nun, was formed with the help of INEDES and eventually included a total of 400 members, primarily market vendors. At the nun's suggestion, the cooperative decided in 1977 to buy land. The DPU opposed the idea since the land was far from the city in a

hilly area, making construction more difficult. The cooperative persisted, the DPU broke contacts, and the purchase was executed in 1978. The cooperative currently wants to work with INEDES once more, primarily for the contacts the DPU has with the new regional director of the Ecuadorian housing Bank. INEDES is willing to help.

The following three cooperatives will combine resources to buy a large tract of land currently being developed by the Municipality:

- c) The "La Zarza" Cooperative started when the DPU in Loja heard of the local government's plans to develop a large tract of land. The approximately 15 families that lived on the land at that point in time were contacted by INEDES and encouraged to form the cooperative. In about three months time, a total of 180 members were participating in the savings program, mostly street vendors. Monthly savings started at US\$6.00 were later increased to US\$8.00. Current savings amount to US\$44,000.00.
- d) The "Yaguarzongo" Cooperative was formed by market vendors with DPU assistance. The savings rate is the same as that for the above cooperative, with the total balance currently US\$35,000 (since this cooperative started after the Cooperative La Zarza).
- e) The final cooperative formed with DPU assistance is called the "United Front of Municipal Workers and Employees". There are 70 members and the savings rate is the same as the above two cooperatives. To date, they have saved a total of US\$28,000.

It is the DPU's plan to increase total savings at the three cooperatives so that they will be in a position to buy the entire tract of land

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once the Municipality has finished developing it. Unfortunately, although the old municipal government was in favor of the INEDES plan, nothing was made official. The new administration wants to sell the land in parcels to the highest bidder once the infrastructure is in place, effectively removing the cooperatives as potential buyers. INEDES plans to oppose this strategy and even mentions the possibility of forced seizure. It is unlikely, however, that events will reach this stage since INEDES has a key contact with the newly elected government: the current Vice-President had worked in the Department of Investigations of INEDES for the past several years. It is reasonable to assume that a more pacific solution to the problem in Loja will be found.

The city of Cuenca is larger than Loja, with a greater concentration of industry and also a university. The DPU works with the following community organizations:

- a) FUNCIPIC (Program of Popular Housing of the Church of Cuenca), which is involved in the program of the San Vicente de Paul Conference, the objective of which is to promote popular housing. INEDES is currently organizing the construction of 39 houses for an equal number of families that live in a single, delapidated house in the center of the city. Entire families live in small rooms. Money from the church has been used to purchase land and build new houses for those people. (The photograph accompanying this document portrays the houses being built. Each structure consists of two living units and is the principal design of INEDES.)

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The houses are being built by outside labor and it is estimated that the final purchase price will be US\$5,600, an apparently low price but actually quite high. Half of the people will not be able to afford the US\$56.00 monthly payment, so subsidies will have to be found. It is hoped that wealthy individuals will be able to be located who will finance the difference between what the occupant can pay and the real monthly payment. A further difficulty with this program is that the people do not want to move from their present location: they pay no rent and they are close to their work places, i.e. the streets of the center of the city. They have not actually participated in the program to any great extent, the drive coming from INEDES and the members of the San Vicente de Paul Conference, who own the run-down house in the center of the city.

- b) The Cooperative Ribera de Tomebamba was formed in 1975 with the help of INEDES. There are currently 158 members, with a maximum capacity of 200. There used to be a greater number of members, but the cooperative, in June of 1979, decided to capitalize at a faster rate and called for a lump-sum payment of US\$200.00 from each member. 30% of the members were unable to make the payment and dropped out of the cooperative. In September of 1979, land at a favorable price became available and the cooperative decided to buy. Unfortunately, a second "extraordinary" payment of US\$200.00 was required, forcing still more of the poorest members out of the cooperative. Individuals who wish to join the cooperative at this time must deposit the two

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extraordinary payments as an entrance fee. The purchased land cost US\$160,000: US\$48,000 was the initial deposit, with US\$32,000 coming due in December of this year (1979); US\$80,000 will be due in December of 1980. Construction should begin in 1981. FUNVIPIC will finance, at favorable interest rates (7% vs. the commercial 12%), the difference between what the cooperative needs to pay its obligations and what can be saved by its members. INEDES has provided assistance in organizing the cooperatives, gave an 8-hour course to 50 members on cooperativism in March of 1979, and is also in charge of collecting the monthly payments by the members.

c) The Housing Cooperative of Chacabamba is located in Azogues, a town thirty minutes outside of Cuenca. There are currently 60 members, of which 40 are active and who will be the immediate beneficiaries of houses. Each member deposits US\$8.00/month in the cooperative, which is little more than a symbolic gesture given the outside help the cooperative has received. Promoción Humana has provided machinery to make cement blocks and a very soft loan of approximately US\$14,000.00 for building workshops at the construction site; MISERIOR of Germany will donate about US\$16,000.00 for buying tools; the Church will donate the land for the shops and will sell its land to the cooperative for building the houses (although work on the land has already begun, no price has been set); a tractor was borrowed from the local government to level the

land for the houses. The members of this cooperative are poorer than those of other cooperatives assisted by INEDES in Cuenca: several are micro-businessmen, many weave hats for a living, some are widows with children. The president and manager of the cooperative are both businessmen (shoemaker and carpenter) and see the possibility of using their houses as guarantees to secure working capital loans. Work is currently underway to build the workshops that will provide cement tubes and blocks, doors, windowframes, staircases, etc. for the construction. Once the houses are completed, it is expected that the Church will purchase all of the production from the workshops for future construction projects.

The final housing cooperative with contacts with INEDES is located in Ibarra in the north of Ecuador and is called the "July 12" Cooperative. It has been in existence for two and a half years, has approximately 300 members, has recently purchased land for US\$100,000.00 at a very favorable price, and is preparing to set up the cement-block workshop as a prelude to the construction.

The contractual relationship that INEDES maintains with these cooperatives is exemplified in the agreement found in Annex 3, which stipulates payments to be made by the Cooperative "July 12" to the DPU for services performed. In this particular case, INEDES is charging US\$12,000.00 for negotiating the purchase of the land, planning the construction and organizing its completion.

2) The Production Cooperatives

As mentioned earlier, the Department of Urban Promotion also works with three production cooperatives, two in Loja and one in Cuenca. Although these organizations were not formed by INEDES, the DPD entered into contact with them to provide certain technical assistance and courses to strengthen the cooperative spirit.

The largest and most successful cooperative is called CIACO (Industrial Complex of Cooperative Association - Complejo Industrial de Asociac(6) Cooperativa), which produces high quality furniture for offices and homes. The work of INEDES with CIACO can be broken down into the following categories:

- a) promotional activities, consisting of courses about cooperativism and human relations*;
- b) technical education, coordinated through the Ecuadorian Service of Professional Education (SECAP), which involved the use of wood-working experts to improve the quality of the furniture;
- c) direct technical assistance by INEDES personnel in the areas of accounting and financial planning; and
- d) financial assistance. US\$40,000.00 was secured through the Cooperative Bank in 1978, US\$120,000.00 was donated by the Inter-American Foundation three years ago, and INEDES itself lent US\$12,000.00 to the members of the cooperative to help

* The History and Origins of Cooperativism; The Principles and Goals of Cooperativism; Ways of Organizing and Running Cooperatives; Information about the Legal Aspects of Cooperatives; Information Concerning the Rights and Duties of the Members of Cooperatives.

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capitalize the organization.**

It should be mentioned that CIACO was about to fold before receiving these funds: quality was poor, members were leaving the cooperative to work in the competing, privately owned furniture factory, there was no working capital and few markets. One of the principal problems was that the cooperative was being managed as a social entity as opposed to an economic enterprise with social ends. The organizational structure was strengthened with the influx of capital and the cooperative started to grow. At the start of the process, there were 30 members and 70 non-member workers; there are currently 67 members and 97 non-member workers and markets are expanding.

The production cooperatives in Loja are much smaller than CIACO. The Industrial Tailor Cooperative of Loja (CICOL) has been in existence for fourteen years. The current manager has been with the cooperative for five years, which is the longest of any of the present members. INEDES started working with the cooperative in 1975 when it had 18 members. INEDES gave courses on cooperativism, organized and became responsible for the accounting and helped secure loans for the cooperative through the Ecuadorian Development Bank (US\$38,000.00 in 1977 and is currently trying to get a second loan for almost US\$10,000 for two years at 10%). A major problem of the cooperative was that people would become members, learn the job and then leave, either to

**The loan was made directly to the members so that the balance sheet of the cooperative would show only the increase in capital, thereby improving the debt to equity ratio, enabling the cooperative to secure larger loans for working capital.

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work independently or as employees of others. INEDES has contracted a specialist for the cooperative to improve quality and increase sales throughout Ecuador. There are currently 16 members of the cooperative

The second production cooperative is called the San Jose Cooperative and is made up of 16 carpenters. When INEDES began working with the organization, there were problems with the quality of the furniture, so INEDES contracted on a short-term basis a specialist to train the members. Also, courses on cooperativism were given. INEDES plans on using this cooperative for providing some of the doors, window-frames and staircases for the housing programs in Loja. According to the manager of the cooperative, the main problem of the enterprise now is the lack of working capital for buying wood and additional machinery. INEDES, to date, has no plans to provide financial assistance to the cooperative.

It is worthwhile discussing that while INEDES is not a financial intermediary per se, it does occasionally lend funds under the title of start-up loans (creditos de arranque). These funds can be used for either initiating new businesses, such as the workshops for the housing programs, or for initiating expansion programs. Since none of the housing cooperatives has yet reached the stage where the workshops are functioning, all funds under this activity have been channeled into existing organizations. These funds were previously mentioned in the case of CIACO; the two production cooperatives in Loja have also received loans from INEDES (US\$12,000.00 each). The DPU hopes to obtain funds for the start-up loan facility not only for the workshops which should be coming on-stream during the next 12-18

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months in several areas, but also for financing the start-up costs of Popular Supply Centers (CAPS), which will be discussed under "Future Plans".

C. The Beneficiaries

Two socio-economic studies, all carried out by the regional office in Cuenca, provide an overall view of the beneficiaries of the INEDES programs:

1) The FUNVIPIC program will benefit 39 out of a group of 54 families. Although 15 families have removed themselves from the program (some purchased other houses), all data referring to the beneficiaries are based on a population total of 54. The average family size of this particular group is six people, ranging from month-old babies to people over 73 years old. Of the total sample (314 people), 124 (39%) are students and 38 (12%) are young children. The remaining people are employed as follows:

Domestic Help	40	12.7%
Private Employees	37	11.8%
Small Business and Handicrafts	52	16.6%
Public Employees	9	2.9%
Teachers	8	2.5%
Day wage earners	<u>6</u>	<u>1.9%</u>
TOTAL	152	48.4%

Average income is approximately US\$116/month (minimum wage= US\$120/month). No rent is paid other than US\$2.00/month for electricity; the use of water, bathrooms, electricity and washstands is collective; the house they share is falling down. (See Annex 4)

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2) The cooperative CIACO has promoted the creation of a housing pre-cooperative for 21 of its members, and a socio-economic analysis of these beneficiaries sheds some light on the overall situation of the other workers. There is a total of 95 people affected by this project, 55 of which have some economic activity (18 are students);

Members of CIACO	21
Domestic Helpers	14
Private Employees	7
Manual Laborers	4
Miscellaneous	9

Average family income is US\$224/month, of which 80% is earned by the CIACO members. 16 of the 21 families live in rented rooms with collective use of bathrooms, water and electricity. The beneficiaries would be able to pay an average of US\$30.00/month for their own housing. (See Annex 5)

D. Funding

The Department of Urban Promotion maintains regional offices in Cuenca and Loja, with the head office located in Quito. The organizational arrangement of the regional offices is detailed in Annex 6. Each regional office spends US\$1,600/month, including salaries, rent and miscellaneous expenses. Payments to outside consultants approximate US\$28,000/year. Expenses increase 20% per year, with the latest total expenses reaching US\$90,000.00. INEDES eventually wants to have a total of six regional offices throughout Ecuador and projects an annual budget of US\$175,000 once all are function-

ing, hopefully by the end of 1980.

Income for the DPU has come primarily from the beneficiaries (25%) and from MISERIOR of Germany (75%), donations from which commenced in 1974. There are no fixed rates as far as charges to the beneficiaries are concerned; a study is carried out to determine local rates charged by the professionals of the area and a discount is given due to the social nature of the project. In addition to yearly donations by MISERIOR, the organization "Bread for the World" has donated US\$95,000.00.

Future financing plans include the creation of a financial institution whose profits will be utilized for funding development programs of the DPU. Start-up capital will be raised locally and a return will be expected by the investors. The bank will operate in a competitive manner, and the profits that are expected to be earned will, hopefully, be sufficient to liberate INEDES from the necessity of requesting donations from international organizations on a yearly basis.

E. Future Plans

In addition to expanding its offices into other regions of the country, the Department of Urban Promotion of INEDES has plans to develop Popular Supply Centers (Centros de Abastecimiento Popular - CAPS) in six cities which will lessen the costs of such necessities as foodstuffs, clothes, school materials, as well as certain industrial raw materials by purchasing the goods directly from the producers and selling them to the final consumer. Start-up loans will be required to finance the initial inventories, but it is expected that the CAPS will be self-financing once established.

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Secondly, INEDES has a certain degree of interest in promoting individual businesspeople who have not integrated themselves into cooperative ventures. Since INEDES readily recognizes the difficulties of organizing effective community enterprises, it is open to the possibility of either incorporating into the DPH or promoting a new and separate foundation (which is more likely), which will work with these independent entrepreneurs.

F. Lessons Learned

- 1) Cooperative housing projects may not have the intended long term effect of generating sustained collaboration or cooperative effort in other business or socially related areas. INEDES housing cooperatives in the early 1970's tended to dissolve once the houses were delivered to the clients despite efforts to develop a strong client participation through mutual assistance and self-run management schemes. The attempt to use the housing cooperatives for other social and economic ends is an extremely worthwhile objective, but often very difficult to manage and a very slow process.
- 2) Employment generation goals are difficult to reach through the housing cooperative vehicle. Production groups to provide needed construction materials, window, and door frames, for instance, take a great deal of time to bring into operation, since they are initially totally dependent on the beginning of housing construction for their markets. They also seem to require substantial outside subsidies for start-up. This type of project does not affect incomes nor employment for many people, especially on the short term. Other projects show that when production units are set up to supply an assured market they often simply can not compete on the outside

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as is often planned when that market dries up.

3) Since participant financed housing projects take so long to get off the ground, many of the poorest people must leave the cooperative. This is often because the costs of land and construction during the initial savings period of two or three years escalate to a degree that the cooperative under its savings schedules even given their cost projections may not be able to buy the land much less construct the housing units without requiring additional large payments from the members to complete the fund.

4) Housing projects have a tendency to try to relocate the poor from center city to more peripheral locations. (This is often politically motivated.) But great care must be taken before relocation plans are implemented. While real concern may be for improving the housing conditions of the poor, relocation is often not a popular idea with the informal sector entrepreneurs or center city employees, since the costs to them increase dramatically from having additional transportation, food, and other costs incurred by being long distances from their workplaces.

As seen in other cases often cooperative housing projects incorporate plans for small enterprise development in their overall objectives. Housing designs may even include workspace for small businesses. But relocation may change the whole business ecology of these small economic activities. People find themselves at large distances from their suppliers and markets which can put these small entrepreneurs in an even more precarious economic situation than before.

- 5) The production cooperatives mentioned in this study tend to be ideologically oriented toward a specific political group. Projects which rely on political alliances may be in danger of momentary collapse due to shifting political currents and changes in political leadership, especially with regard to educational assistance, cooperativism, and so forth. In the case where one organization forms cooperatives and another gives credit and technical assistance, it is important to be sure that there are no serious under the surface philosophical or ideological points of contention with regard to the non-credit assistance. Otherwise the project is in danger of folding due to ideological disputes. Those invariably most hurt in the process are the cooperative members.
- 6) Any organization, whether socially or economically oriented must portray a strict economic position with regard to repayment if it is to run a successful credit project and wishes to be sure that clients understand that the money lent is a loan and not a grant. Soft loans provided to production, service cooperatives, and in general to any individual or organization, strictly on "good faith" and with no investment criteria or contractual arrangements between the parties, is likely to fail. INEDES created an image in the early 1970's of an organization with good intentions which wanted to "help". But along with that image it apparently gave the impression that it was not going to insist on loan repayment. The result, as could be expected, was that a large sum of money was lost.
- 7) Finally, as money gets tighter from international donors, small private projects will have to begin to think more about ways of financing their operations through income earning funds. Heavy subsidies simply cannot be relied on to support economic development activities

in the magnitude needed to have any substantial impact. (There is currently a tendency in other credit projects to begin to charge more competitive interest rates on loans in an effort to become more self-sufficient.)

III. CONCLUSIONS

INEDES is first and foremost an organization dedicated to the promotion of popular organizations. Since much of the new government's political platform was based on the further development of these production groups, and since the new Vice-President of the country, and his economic advisor, were both INEDES employees before assuming political office, it can be assumed that the current direction of INEDES will continue even more aggressively than before.

The primary objective of the Department of Urban Promotion within INEDES is employment generation. The principal mechanism it has chosen to utilize in order to achieve its objective is the formation of housing cooperatives, the solidification of the members through a lengthy savings program and through courses on cooperativism, and finally the creation of production groups which will supply building materials during the construction of the houses and which will then sell in the open marketplace once the construction is completed. The housing cooperatives with which INEDES currently works were all formed in 1975 and have yet to reach the stage where new jobs have been created in the production groups. More importantly, it has yet to be proven that the production groups will be competitive, viable enterprises once the construction for the housing cooperative ceases. It should not be forgotten that INEDES stopped working with

housing cooperatives in 1971 due to the fact that the groups dissolved once their objective - i.e., housing - was achieved.

Nevertheless, INEDES is committed to improving the conditions of the vast marginal population of Ecuador through the use of cooperative associations. It believes that the integration of individuals in community efforts is the only effective means for people to obtain the necessary economic and political leverage to improve their standard of living. Although the housing cooperatives imply long delays in the achievement of objectives, once they are finally reached, the beneficiaries have the ability to make real advances. The DPU is aware of the pitfalls in this type of effort. Modifications of strategies will be made until the most effective methods of achieving project goals are found.

ANNEX 2

HOUSING DESIGNS

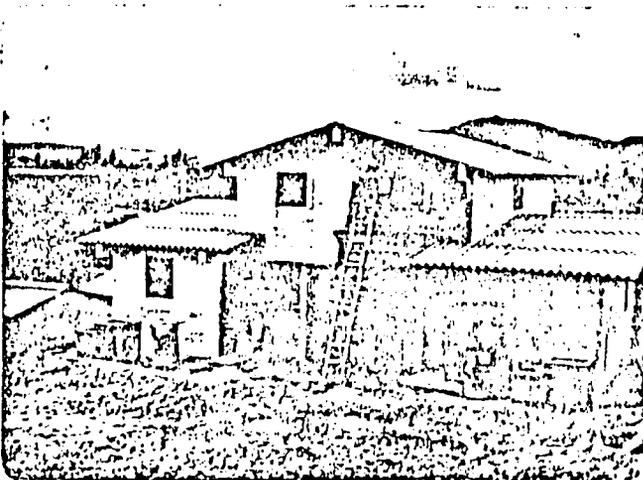
The INEDES design for housing has six distinct levels within the overall plan for the house:

- Level 1: the basic house, with a kitchen-dining area, bath, one bedroom and the walls in place for a second-story bedroom directly over the downstairs bedroom. The house plan on the following page details the outline of the basic design. The kitchen-dining area is one-story and the bedroom side of the house is two story.
- Level 2: the second story bedroom is equipped with a floor for habitation. Since the walls are already in place, no further construction is required.
- Level 3: the single story living room area is added.
- Level 4: the remaining two story bedroom area is constructed.
- Level 5: the upper floor of the new bedroom area is floored in. The photograph accompanying this document shows two level 5 houses being completed. Duplexes are built to lower construction costs: the two story wall is shared by both houses

Annex 2 continued:

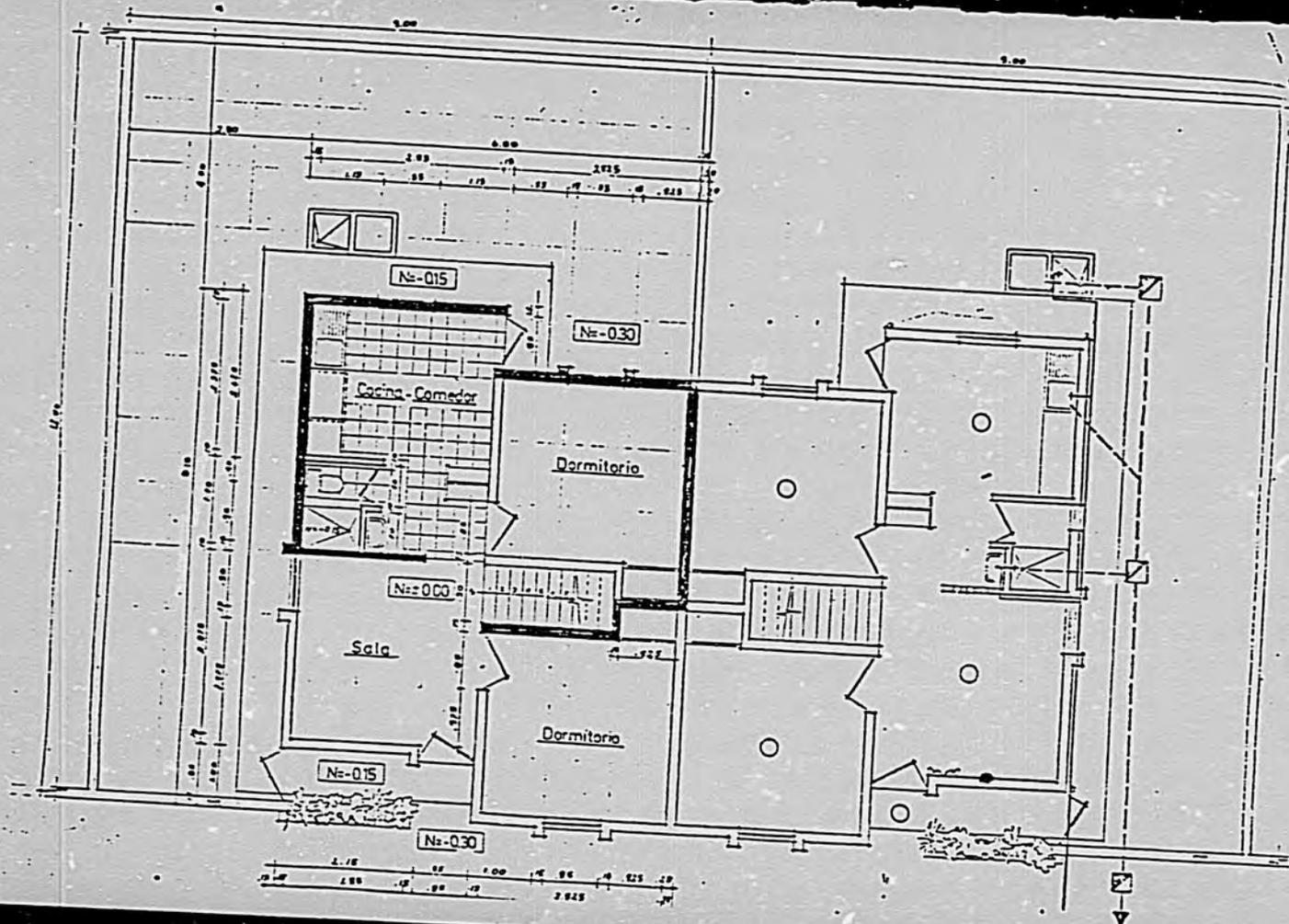
Level 6: (not shown on the plan) a workshop is built alongside the livingroom area.

Although the area director in Cuenca believes that any plan under level 5 does not solve the full housing problems of the people, the national director of the DPO feels that the best strategy is to build, with outside labor, and deliver the houses at level 1. This reduces the economic pressures on the new inhabitants by giving them a much less expensive house, and enables them to expand their living quarters through their own efforts and at their own rate.



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ANNEX 2 (cont.)



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INSTITUTO ECUATORIANO PARA EL DESARROLLO SOCIAL

OFICINAS

QUITO, ECUADOR

7.

CUARTA.- INDES declara haber recibido la cantidad de \$ 93.710.30 como pago de la asesoría y gestiones correspondientes a la primera etapa.

QUINTA.- Las acciones que INDES realizará, según lo acordado en el presente convenio, se efectuarán con el aporte de la Cooperativa y sus socios y siempre mediante acciones conjuntas de tal manera que signifiquen un proceso de aprendizaje para que la Cooperativa pueda auto,calentarse.

Para constancia se firman las partes en cuatro ejemplares.


Mateo Andrés Flores
PRESIDENTE DE LA COOP.
NATIVA DE VIVIENDA #12
DE JULIO


Sr. Teodoro Peña C.
DIRECTOR DEL DEPARTAMENTO
DE PRODUCCION URBANA DE
INDES

Milton Tebar
GERENTE DE LA COOPERATIVA
DE VIVIENDA #12 DE JULIO

PROGRAMA DE VIVIENDA POPULAR DE LA IGLESIA DE CUENCA
(FUNVIPIC).

A. PROYECTO CONFERENCIA SAN VICENTE DE PAUL.

RESULTADO DE LAS INVESTIGACIONES SOCIO ECONOMICAS, REALIZADAS
CON EL GRUPO BENEFICIARIOS DE LAS CASAS "LOPEZ" Y "LIRA".

FECHA DE INVESTIGACION: Enero/78 a Mayo/79
 INVESTIGACION CUANTITATIVA: Enero a Marzo/78
 RESPONSABILIDAD: INEDES- CUENCA.
 INVESTIGACION: Federico Muñoz Y. María Barzallo P.
 JEFE DE AREA: DR. Alejandro Corral B.
 DIRECCION EJECUTIVA: Arq. Teodoro Peña C.
 INSTITUC. PROMOTORAS: FUNVIPIC, INEDES, CONFERENCIA SAN VICENTE DE PAUL.
 POBLACION: 54 familias.
 TIPO DE ANALISIS: Conformación social y económica de familias que han recibido beneficio de la Conferencia San Vicente de Paul, y participan en FUNVIPIC.
 FINALIDAD: Información del Archivo existente, Tomar decisiones para el financiamiento.

1. IDENTIFICACION DE LOS BENEFICIARIOS

1.1 El Proyecto

El Proyecto Conferencia San Vicente de Paul, parte integrante del Programa de Vivienda Popular de la Iglesia de Cuenca, mediante el asesoramiento del Instituto Ecuatoriano para el Desarrollo Social (INEDES), ha integrado a 54 familias de escasos recursos económicos, de las cuales se muestra en el Cuadro siguiente:

ALCANCES (Marzo/76-Junio/79)	No. de FAMILIAS
- Adquirirán su propia vivienda:	39
- Hubieron la oportunidad de alquilar en la Casa López y adquirir vivienda con sus propios esfuerzos:	5
- Ancianos aún sujetos de befe.	6
- Retirados:	6
JEFES DE FAMILIA BENEFICIADOS:	54

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1.2 Población beneficiada:

El Proyecto beneficia a 54 familias según la Información de las fichas Socio-económicas, de las cuales 156 personas son hombres y 164 mujeres, dando un total de 320 personas.

POBLACION	No. PERSONAS	%
Hombres	156	48.75
Mujeres	164	51.25
TOTAL	320	100.00

1.3 Estado Civil de los Jefes de familia:

Casados:	32	59.26%
Solteros:	7	12.96%
Viudos:	10	18.52%
Divorciados:	1	1.85%
Separados:	4	7.41%
	54	100.00%

1.4 Estado Civil del total de las personas que son beneficiadas:

EST. CIVIL	No. PERSONAS	%
Casados:	73	22.82
Solteros:	226	70.62
Viudos:	14	4.37
Divorciados:	2	0.62
Separados:	5	1.56
TOTAL	320	99.99

1.5 Migración:

De las 54 familias encuestadas:

Sólo el 15% son nativos del Cantón Cuenca; el 54% son procedentes de los Cantones de la Provincia del Azuay (Guilacoso, Bigaig, Pante, Nabón, El Valle, Girón, Baños y Oña); y el 29.62% de otras Provincias tales como: Cañar, Guayaquil y Ambato.

PROCEDENCIA	TOTAL FAMILIAS	%
De las Parroquias UE de las de Cuenca:	8	14.81
De los Cantones del- Azuay:	29	53.70
De otras Provincias:	17	31.49
TOTALES:	54	100.00

2. DATOS POBLACIONALES:

2.1	Total de familias beneficiadas:		54
	Total de familias que adn participant:		39
	Total de personas:		320
	Hombres:	156	48.75%
	Mujeres:	164	51.25%

2.2 Selección por Grupo de Edades:

Y_{i-1}	Y_i	X_i	X_i	X_i	X_i
0 - 6	3	41		123	
7 - 12	9,5	56		532	
13 - 18	15,5	66		1.023	
19 - 24	21,5	54		1.161	
25 - 30	27,5	18		495	
31 - 36	33,5	18		603	
37 - 42	39,5	7		276,5	
43 - 48	45,5	15		682,5	
49 - 54	51,5	16		824	
55 - 60	57,5	13		747,5	
61 - 66	63,5	9		571,5	
67 - 72	69,5	2		139	
73 - más	---	5		365	
		320		7.543	

$$\frac{\sum X_i Y_i}{N} = 23.57$$

3. GRADO DE INSTRUCCION

	1er AÑO	2do AÑO	3er AÑO	4to AÑO	5to AÑO	6to AÑO	TOTAL	%
3.1 PRIMARIA	12	14	29	25	11	64	155	48.43
3.2 SECUNDARIA	13	22	25	11	7	21	99	30.91
3.3 SUPERIOR	5	4				3	12	03.73
3.4 ANALFABETOS							18	05.62
3.5 NO ESTUDIAN							35	10.94
3.6 OTRAS		1					1	00.63
							320	100.00

4. ACTIVIDAD ECONOMICA:

4.1 Ocupación habitual:

ACTIVIDAD	CANTIDAD	%
Quehaceres Domésticos	40	12.77
Empleado Privado	37	11.56
Empleado Público	2	0.63
Carpinteros	7	2.20
Jornaleros	6	1.90
Joyeros	11	3.50
Profesores	8	2.55
Manualidades	18	5.73
Pequeños Negociantes	13	4.10
Estudiantes	124	39.07
Medánicos (no profesionales)	2	0.66
Peluqueros	1	0.33
No trabajan (niños)	38	12.10
	200 314	99.99

	SUCRES	%
4.2 INGRESO	157.013	100.00
4.3 EGRESO	106.140	67.60
4.4 SALDO	50.873	32.40

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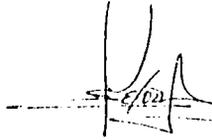
5. DATOS SOBRE LA VIVIENDA:

5.1 Forma de tenencia de la vivienda:

Da un total de 39 familias; 27 viven en la Casa López y 12 en la Casa Lira, ambas de propiedad de la Conferencia Benigno de Padil, en calidad de usuarios sin reconocer a ninguno alguno. Cada familia está compuesta de 5.93 personas y ocupan en un promedio de 24 metros cuadrados.

La forma de uso de agua, luz, Wc, y lavabos es colectivo. Cada familia posee 4 mts. cuadrados de espacio que ocupan como cocina y 11 metros como dormitorio, y 9 metros para sala-comedor y/o dormitorios.

Por la luz abonan 50 suores mensuales cada usuario.



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INFORME DEL ESTUDIO SOCIO-ECONOMICO

DE LA PRECOOPERATIVA "LOS ANDES".

(Proyecto).

ELABORACION: INKDES-CUEFCA
RESPONSABLE: Sr. Federico Muñoz V.
Sr. Juan Banegas.

1. IDENTIFICACION:

1.1 IDENTIFICACION ENTITATIVA:

El Grupo que conforma la Precooperativa de Vivienda "Los Andes", son trabajadores de CIACO (Complejo Industrial - de Asociaciones Cooperativas). Los trabajadores, ahora miembros de la Precooperativa, son socios activos de CIACO, y trabajadores directos.

En primera instancia se conforman de 21 socios; el cupo máximo dará capacidad para 25 socios, según un esbozo de anteproyecto analizado en el terreno que se utilizará en beneficio de los trabajadores de CIACO.

1.2 ESTADO CIVIL:

El proyecto beneficiará a 95 personas, o sea 21 familias de las que 11 son casados y 10 solteros, o sea se beneficiarían el 52.38% de personas que tienen responsabilidad de hogar familiar y el 47.62% a personas solteras con - cargas familiares.

1.3 PROCEDENCIA:

Los integrantes a la Precooperativa de Vivienda "Los Andes" proceden de las provincias vecinas, de los cantones de la provincia del Azuay y de la ciudad de Cuenca, en un respectivo porcentaje de 29%, 29% y 42%.

2. DATOS POBLACIONALES:

2.1 GENERAL:

De las 95 personas 47 son hombres y 48 son mujeres;

De 21 socios 18 son hombres y 3 mujeres; estos con un promedio de vida de 29 años.

$Y_{i-1} - Y_i$	Y_i	X_i	$Y_i X_i$	h
0 - 6	03	22	66	0.232
7 - 12	09,5	09	76	0.084
13 - 18	15,5	08	124	0.084
19 - 24	21,5	16	344	0.160
25 - 30	27,5	12	330	0.126
31 - 36	33,5	09	301,5	0.095
37 - 42	39,5	01	39,5	0.010
43 - 48	45,5	03	136,5	0.031
49 - 54	51,5	03	154,5	0.031
55 - 60	57,5	11	632,5	0.116
61 - 73	67,5	2	135,0	0.021
		95	2.339,5	0.998

$$\bar{Y}_1 \bar{X}_1 = \frac{2.339,50}{95} = 24.6$$

2.3 ESTADO CIVIL:

De 95 individuos 36 son casados, 57 solteros, 2 viudos

3. GRADO DE INSTRUCCION:

3.1 El cuadro siguiente representa el Grado de Instrucción del total de Perecnas que serán beneficiados del Programa de Vivienda, cuyos datos han sido receptados en los estudios socio-económicos.

	1 ^o AÑO	2 ^o AÑO	3 ^o AÑO	4 ^o AÑO	5 ^o AÑO	6 ^o AÑO	TOTAL	%
3.1 PRIMARIA	4	1	4	2	1	25	37	38.95
3.2 SECUNDARIA	4	6	4	3	1	5	23	24.21
3.3 SUPERIOR	3	-	1	-	2	2	8	8.42
3.4 ANALFABETOS	-	-	-	-	-	-	6	6.31
3.5 NO ESTUDIAN	-	-	-	-	-	-	20	21.05
3.6 OTROS: C y C.	-	-	-	-	-	-	1	1.05
	11	7	9	5	4	32	95	100.00

- -

3.2 RELACION SOCIO / NO. DE MIEMBROS:

El cuadro siguiente demuestra que 1 socio está compuesto de 2 miembros; 6 de 3; 6 de 4; 3 de 5; 2 de 6; 2 de 7; y 1 de 10. Esta distribución debe tomarse en cuenta para la planificación de los servicios básicos de las viviendas.

Relación	No. de Socios	No. de miembros por socios.	No. de socios No. de miembros por socio
1	1	2	2
2	6	3	18
3	6	4	24
4	3	5	15
5	2	6	12
6	2	7	14
7	1	10	10
21			95

$$\frac{95}{21} = 4.52$$

4. ACTIVIDAD ECONOMICA:

4.1 Se entiende ocupación habitual para efectos de nuestro estudio, aquella actividad que encasara mayor ingreso, en consecuencia los integrantes directos e indirectos del Programa manifiestan lo siguiente:

ACTIVIDADES	TOTAL	
Quehaceres Domésticos	14	
Profesores	3	
Empleados socios de CIACO	21	
Empleados en Exp. Particulares	7	
Garfiteros (1	
Estudiantes	18	
Actividades manuales	4	
Agricultores	3	
Panificador	1	
Zapatero	1	
Total de los que tienen act. econ.	73	76.84
No trabajan, generalmente niños.	22	23.16
TOTAL GENERAL	95	100.00

4.2 RELACION INGRESOS-EGRESOS FAMILIARES:

4.2.1 INGRESOS MENSUALES	PROMEDIO		%
Ingresos 21 socios en CIACO.	8/94.318	4.491,33	80.30
Ingresos de miembros familiares.	23.140	1.101,91	19.70
TOTAL INGRESO FAM.	117.458	5.592,24	100.00
4.2.2 EGRESOS MENSUALES			
Total Gastos	-99.211	4.724,33	84.46
4.2.3 SALDO MENSUAL	18.247	868,90	15.54

5. SOBRE LA VIVIENDA:

5.1 CARACTERISTICAS DE LA VIVIENDAS

Poseen casa arrendada	21	100%
Viven en casa o villa	02	9.52
Departamento	02	0.92
Cuartos de inquilinato	16	76.19
Mediagua	1	4.77

5.2 SUPERFICIE DE LAS VIVIENDAS (EN M2)

TIPOS	M2	TOTAL
B	9 - 16	5
	17 - 24	3
	25 - 30	0
	31 - 36	3
	37 - 42	3
	43 - 48	0
	49 - 54	1
	55 - más	6
A		

5.3 Un porcentaje de 87% están dotados de servicios básicos: agua, luz, WC, lavanderías, la forma de uso es generalmente colectivo (98.90%), que corresponde al número que viven en cuartos de inquilinato.

INFORMES GENERALES:

1. Las ofertas para el pago por la vivienda son:

SOCIOS	Estan dispuestos a pagar una mensualidad de:	
1	200	200
1	300	300
1	400	400
10	500	5.000
1	600	600
2	700	1.400
2	800	1.600
1	1.000	1.000
1	1.500	1.500
1	2.000	2.000
21		16.000

Estos datos son para el pago de los socios que viven en cuartos de inquilinato.

$$\frac{16.000}{21} = 762,00$$

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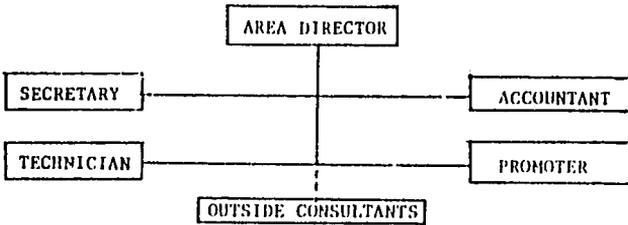
- 5 -

762 Suces sería un promedio ideal para el pago por las viviendas, puesto que la mayoría se concentran en un aparte declarado de 500 sucres.

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ANNEX 6

REGIONAL OFFICES



Area Director: Responsible for office administration and finances. More importantly, maintains contacts with key individuals in the area in order to secure funds for projects, smooth passage of requests from assisted groups, etc. Therefore, must be influential in the area to a certain degree. Salary is US\$320 per month, which is low for the people involved. Although the director of the DPU believes the work is full-time, in reality it seems to be somewhat less than that.

Technician: Responsible for coordinating the construction of the houses and the purchase of the building materials. Although the responsibilities are fairly high, a recently graduated architect is perfectly adequate for the task. Salary levels are approximately US\$200 per month. The work is scheduled to be full-time, but in reality this is doubtful.

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Annex 6 continued:

- Accountant:** Responsible for handling the accounts of the office as well as those of the cooperatives with which the regional office has contact. All expenditures, charges for assistance, savings deposits, etc. are handled in the regional office. The accountant, who earns US\$180 per month, handles the books of the production cooperatives in their own offices.
- Promoter:** Responsible for implementing sociological studies of potential beneficiaries (designing materials, tabulating data), preparing proposals for new projects, promoting the new cooperatives, giving courses on cooperativism and providing technical assistance to the organization in such things as accounting and finance. College graduates are hired, with a salary level of US\$150 per month. Again, work is slated as full-time.

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