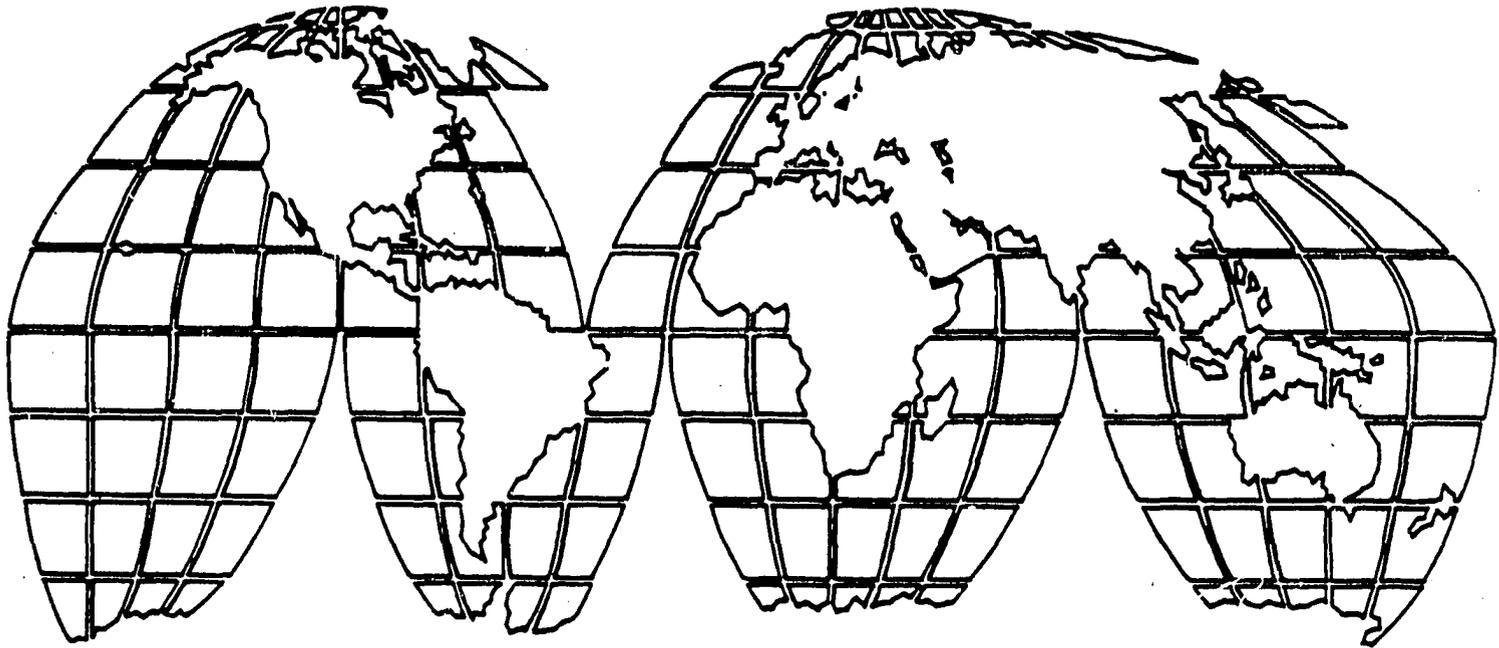


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A.I.D. EVALUATION OCCASIONAL PAPER NO. 25

A.I.D. MICROENTERPRISE STOCK-TAKING: PARAGUAY FIELD ASSESSMENT



JULY 1989

**CENTER FOR DEVELOPMENT INFORMATION AND EVALUATION
BUREAU FOR PROGRAM AND POLICY COORDINATION**

**U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523**

MICROENTERPRISE STOCK -TAKING:
FUNDACION PARAGUAYA DE COOPERACION Y DESARROLLO

A.I.D. EVALUATION OCCASIONAL PAPER NO. 25

by

**John H. Magill, Team Leader
(Development Alternatives, Inc.)**

**Arelis Gomez Alfonso
(Development Alternatives, Inc.)**

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Development Alternatives, Inc. (DAI) and
Robert R. Nathan Associates, Inc. (RRNA)**

July 1989

The views and interpretations expressed in this report are those of the authors and should not be attributed to the Agency for International Development.

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FOREWORD

During 1988 and 1989, A.I.D. undertook a major stock-taking of its experience in microenterprise development. The stock-taking examined differing approaches and techniques that have been used in efforts to assist microenterprises, including alternative institutional delivery mechanisms. The study was designed to identify the patterns of A.I.D. project interventions that generate success, with the goal of establishing which were the most successful programs, institutions, and delivery techniques. It required an examination of the different types of microenterprises and of the way their problems differ, and an analysis of A.I.D. project approaches, to see which work best under which conditions.

The stock-taking included a conceptual overview paper of published evaluations that identified many factors that are important to project success. It also developed a conceptual framework for analyzing the types of problems microentrepreneurs face.

The stock-taking included field assessments of A.I.D. microenterprise assistance projects in 10 countries. These assessments provided an excellent opportunity to examine in a systematic, consistent manner a large number of project approaches operating under a variety of economic conditions.

The final part of the stock-taking was a synthesis, which pulled together the findings of the conceptual overview paper and the field assessments to develop lessons learned and recommendations for microenterprise assistance programs.

Paraguay was one of the 10 countries examined in the field assessments, and the assessment focused on the Fundación Paraguaya de Cooperación y Desarrollo. This assessment provides interesting insights on one approach to promoting microenterprise development. We think that those who are working on microenterprise programs in Washington and in the field will be able to draw on the findings of this report to help in the planning, implementation, and evaluation of other microenterprise programs.

Janet Ballantyne
Associate Assistant Administrator
Center for Development Information and Evaluation
Agency for International Development
July 1989

PREFACE

This report summarizes the experience of one A.I.D.-supported activity in Paraguay--the microenterprise program of the Fundación Paraguaya de Cooperación y Desarrollo (Fundación Paraguaya).

Field research for the evaluation was carried out during the first two weeks of November, 1988. It should be noted that this was not, per se, an evaluation of the Fundación Paraguaya, but an attempt to extract lessons from the Fundación's experiences. As a result, it does not detail the problems, shortcomings or strengths of the Fundación that would normally be contained in an in-depth evaluation or managerial audit, and makes few recommendations toward improving the Fundación's program and operations.

The report is divided into two parts--the main report and a set of appendices. The appendices contain (a) a detailed set of data on the project that follows the outline provided in the data sheet, (b) brief descriptions of two other relevant activities in Paraguay, and (c) a brief description of information system improvements required to support the future growth and development of the Fundación. Analysis and findings directly related to the Fundación are, therefore, contained in Appendix A, while the main body of the report attempts to present conclusions of a more general nature.

The field team would like to thank the staff of A.I.D./Paraguay and the Fundación Paraguaya de Cooperación y Desarrollo for their excellent support and assistance.

SUMMARY

Paraguay is a landlocked country surrounded by Brazil, Argentina and Bolivia. It has a population of approximately 3.8 million, of which slightly more than one million live in the greater Asuncion metropolitan area.

Beginning in 1982, a series of adverse economic factors--including the completion of the heavy construction phase of the Itaipu project, falling world prices for Paraguay's traditional exports and bad weather conditions--have resulted in a sluggish economy, with periods of severe recession (1982-1983 and 1986) alleviated by intervening periods of modest growth (1984-1985 and 1987-1988). These have produced reduced levels of real growth, abnormally high inflation rates (in excess of 30 percent per year), declining living standards, reduced levels of investment, a deterioration in Paraguay's balance of payments and large increases in external indebtedness.

Data on the Asuncion metropolitan area¹ indicate that nearly 44 percent of the urban work force (181,916 of 411,768) is self-employed or works in companies with fewer than 5 employees. While the overall work force had an average monthly income of Gs. 77,378 (\$88.34) and a median income of approximately Gs. 67,268 (\$76.44), the self-employed and small-enterprise employees had an average monthly income of Gs. 69,880 (\$79.41) and a median monthly income of Gs. 46,577 (\$52.92).²

Statistics on the small- and microenterprise sectors are limited. According to the Union Industrial Paraguaya (UIP), 20,700 of the approximately 28,000 registered businesses in the Asuncion metropolitan area had between one and four employees, 6,700 had between 5 and 19 employees, and 550 had more than 20 employees. The smallest firms had assets of Gs. 9.1 billion and employed 48,000 workers, while the 550 largest firms had assets of Gs. 37.5 billion and employed 36,500 workers.³ Estimates on non-registered microenterprises range from 10,000 to 50,000, all of which would fall in the very small enterprise category. Regardless of the exact numbers, the microenterprise sector represents a large and increasingly important sector of the economy.

Paraguay's rapid economic growth in the late 1970s resulted in its classification as an advanced developing country and a decision to phase out direct A.I.D. project activities. Since 1985 A.I.D. has maintained a minimum level of staffing, and has a program budget of less than \$500,000 per year. The project supporting the Fundación is, therefore, the only A.I.D. effort in microenterprise development in Paraguay.

¹Ministerio de Trabajo, Encuesta de Hogares, 1987, Table 5.3.

²Based on year-end 1987 exchange rates of Gs. 880 per dollar.

³Fundación Paraguaya de Cooperación y Desarrollo, et al., Informe Final: Primer Congreso, p. 16. At the time this report was written, the exchange rate fluctuated between Gs. 980 and Gs. 1,010 per U.S. dollar. At the end of 1987 the exchange rate was Gs. 880 per dollar.

Other donor agencies have only recently become interested in supporting microenterprise development, and there are currently no separate programs in operation. The Brazilian government and U.S. Peace Corps have provided limited support to the "Lo Nuestro" program of the Union Industrial Paraguaya to support small-scale enterprise participation in export markets, but this is not specifically targeted toward microenterprises. The World Bank has financed a number of "integrated" development programs which have, to a limited extent, involved microenterprises. The German government development agency (GTZ) has provided assistance to municipal governments in Paraguay in a program that includes some assistance to small-scale enterprises. Fundación Candelaria has a micro-scale enterprise program that functions exclusively in rural areas. Fundación La Amistad also provides some support to small-scale enterprises in rural areas.

The principal program activity of the Fundación is the support and promotion of microenterprises in the Asuncion metropolitan area. This consists of training, credit, technical assistance and loan supervision. Its clientele are engaged in small-scale commercial activities (street vendors, market women and small retailers), industry or production (such as shoemaking, leather goods, clothing and metal working), and services (such as electrical, mechanical and metal goods repairs). It has undertaken a number of ancillary activities designed to help its microenterprise clientele, including the organization of an employment brokering service (which has since become inactive), a program to assist families that have children working in the streets, and the organization of a national congress on small and micro enterprise.

The Fundación has achieved a high degree of financial self-sufficiency in a short time-frame and with a very limited financial base. Self-generated income covered 52.6 percent of the Fundación's total expenses in 1987, and is expected to cover 80.1 percent in 1988. This is an impressive accomplishment, as the program only has an outstanding portfolio of approximately \$144,000 and is supporting an office and staff of 34 persons. It indicates that with a reasonable expansion in the loan portfolio the program could become totally self-financing in the near future.

The Fundación has been remarkably successful in obtaining local bank financing for its portfolio. Without these loans the program would have had no loan fund, and would probably not now exist. In Paraguay, as in other countries, banks have been reluctant to loan to the newly established Fundación. Its directors (consejo de administracion) actually gave personal guarantees to induce a small number of banks to loan to the program. Major changes are still needed (e.g., changes in bank law regarding collateral, improved guaranty mechanism, government incentives) for the banks to lend to the program in significant amounts, but the process of utilizing bank funds has begun.

The program has provided loans to 711 groups with a total membership of 2,938 microentrepreneurs in the metropolitan area of Asuncion. Women comprise 60 percent of the program beneficiaries, a figure indicative of the large number of women who operate in the informal sector of Paraguay. Microentrepreneurs in the program are divided in two distinct groups: micro-producers and micro-sellers. Micro-producers are defined as those who add value to raw materials. Micro-sellers represent 55 percent of the programs beneficiaries, while the remaining 45 percent is comprised of micro-producers.

The program's beneficiaries constitute a relatively poor sector of the population of Asuncien. More than 75 percent earn less than the minimum wage (\$130 a month), 96 percent of their businesses employ less than two employees, 80 percent have less than \$5,000 in fixed assets, and 65 percent have only primary education. Prior to participation in the program, none of the beneficiaries had access to formal credit, as their main source of working capital was informal sector moneylenders.

The program has provided strong positive benefits to participating micro-sellers and micro-producers, resulting primarily from (a) reduced interest rates over informal sector credit sources, and (b) larger loan amounts and extended repayment periods, which permit the microentrepreneur to work with larger amounts of capital (conduct a larger volume of business) and retain a greater proportion of the income resulting from those activities. These benefits are clearly perceived by the beneficiaries of the program. While interest rates may appear high, to the microentrepreneur they represent significant reductions from the rates charged by the informal sector. There is no need for a program to subsidize rates in order to benefit this clientele.

At the same time, there are weaknesses in the program that need to be mentioned. As it is presently operating, the Fundación will have difficulty in moving from a pilot program to a full-scale microenterprise operation. The question of scale is significant, especially in terms of human resources, systems, costs, space, and logistics. These concerns are manageable on a small scale, but they cause tremendous problems as operations increase in scale.

The Fundación has sufficient administrative (planning department, administration and finance department) and training staff to manage an increased program, but any significant increase in operations will require the employment of new field personnel. In this context, physical space limitations pose a real constraint, for the Fundación lacks space in its present quarters to provide offices for an expanded staff. Another major constraint is the absence of adequate support systems and procedures--accounting, statistics and other operational and management support systems. Current manual and semi-automated processes for handling information are inadequate to the operations of a larger program. An expanded program also implies higher costs, and the implications of this are not well understood. The Fundación needs to develop an effective expansion plan to manage growth effectively. As part of the plan it should have a comprehensive information system plan and design to support the operations and management requirements of the Fundación.

Factors Influencing Project Performance and Impact

- (1) The qualifications and performance of the Executive Director of the foundation are, perhaps, the single most important factor contributing to the early success of the Fundación.
- (2) The ability to remain politically neutral in a sensitive political environment has been critical to the program.
- (3) The knowledge that there would not be a long-term A.I.D. support relationship (because of the scheduled phase-out of the A.I.D./Paraguay program) and the

absence of a large, low-cost pool of loan funds had several distinct benefits for the program.

- (4) There appears to be a broad base of managerial talent in the Foundation.
- (5) The non-charity approach of the program is strongly and continuously emphasized by promoters and trainers during the orientation and training session.
- (6) The program has been able to mobilize resources from several sources--local as well as international, instead of being dependent on a single donor.
- (7) The fact that program features have been well-suited to the needs of the beneficiaries and characteristics of the informal sector has been one of the main factors behind program success.
- (8) The Fundación's ability to learn from program failures and to incorporate lessons learned into action has contributed positively to the success of the program.
- (9) The Peace Corps played an important role in the success of this project, both in terms of supplying seed capital and providing much-needed skilled personnel during the formative period of the institution.
- (10) ACCION/AITEC had appropriate technology already developed for accounting, client management, statistics to help the Fundación to manage the program correctly.
- (11) Beneficiaries paid positive interest rates, despite prevalent ideas stating that the poor need subsidized interest rates in order to develop.

Factors Hindering the Program's Success

- (1) Although the Fundación's small portfolio may have helped the program make realistic program and pricing decisions during its formation, it will have to grow significantly for the Fundación to make a major impact on the microenterprise sector in Asuncion.
- (2) The Fundación has a tendency to take on ancillary functions and activities without adequate attention to the effect of these on personnel and other resources and on the Fundación's ability to accomplish its basic objectives.
- (3) Donor agency demands can be detrimental to the long-term success or strategy of a program.
- (4) Application procedures are time- and resource-consuming for the borrower.

Lessons Learned

Project Credit Policy and Procedure

- (1) Microentrepreneurs can, and are willing to, finance their businesses (operations and expansion) at positive, real interest rates.
- (2) It is difficult to persuade formal financial institutions to lend to a newly established foundation.
- (3) It is even more difficult to persuade formal financial institutions to lend directly to individual microentrepreneurs or solidarity groups; that is, program graduates.

Project Management and Administration

- (1) Selection of project leader (executive director) is critical.
- (2) The establishment and composition of the board of directors (consejo de administración or other such body) are equally critical to at least the early success of a program.
- (3) It is important to publicize approach, goals, strategy, etc., to power groups-- both to mobilize support and to neutralize opposition.
- (4) A financial intermediary such as the Fundación must act as a private company with sound business criteria.

Project Objectives

- (1) Focusing the program on the urban environment (as opposed to servicing rural clients) has a number of distinct advantages.
- (2) A program such as this should not be targeted at the poorest of the urban poor.
- (3) Microenterprise programs should work with existing businesses rather than attempting to start new businesses.
- (4) High delinquency rates must be expected in programs that are oriented more toward charity than business development.
- (5) A high proportion of women clients can be reached, not by specifically targeting women-owned enterprises, but by loaning to sectors or industries with a high percentage of women.
- (6) Small lending programs with loans of \$300 or less can reach very small entrepreneurs and have some positive impact on levels of sales, inventories, and expenditures of the owners.

PROJECT DATA SHEET

1. Name of Project (including A.I.D. project Number)

Inter-Country Technology Transfer
Paraguay Sub-Project No. 526-0840.1
Micro Enterprise Employment Generation
Grant LAC-0616-G-5095-00
Total amount: \$189,375 (FY 1985)

A small (\$10,625) grant (#526-0616-G-00-5003-00) was given directly to the Fundación Paraguaya to cover office renovations and the purchase of a microcomputer system.

A follow-up project to develop a similar foundation in another city (Encarnacion) is scheduled to run from August 1988 through September 1990, although it has not yet begun. It provides \$150,000 to cover \$40,000 in Fundación operating costs for implementing the project, \$70,000 in operating cost support to the new foundation and \$40,000 for ACCION/AITEC technical assistance. Local contributions are expected to total \$150,000.

2. Responsible Office in A.I.D.

A.I.D./Paraguay. With reduction in size of A.I.D./Paraguay staff to two professionals, there are no separate offices within the Mission.

3. Name of Project Officer

Currently Julio Basualdo, A.I.D. Program Assistant, although the Mission does not actively manage the project.

4. Starting Date

September 1985 for the first grant; August 1988 for the follow-up project.

5. Planned Completion Date

August 1987 for the first grant, but final report from ACCION/AITEC has not yet been received by the Mission. The follow-up grant, to establish a second foundation in the city of Encarnacion, is scheduled to run through September 1990.

6. A.I.D. Funding

Technical assistance grants to AITEC	
Initial	\$ 81,875
Follow-up project	40,000
Operational support grants	
First grant	\$107,500
Additional funding	10,625
Follow-up project	40,000
Grant to second foundation	70,000
	<hr/>
	\$350,000
In-kind contributions	19,851
	<hr/>
Total	\$369,876

No funds were provided by A.I.D./Paraguay for credit operations because of Paraguay's classification as an advanced developing country (ADC), which limits assistance to technology transfer programs and a limited number of humanitarian efforts.

7. Implementing Agency

None

8. Implementing Organization

ACCION International/AITEC
Fundación Paraguaya de Cooperacion y Desarrollo

The executive director of the Fundación is, at the same time, ACCION/AITEC's representative, and receives part of his salary as an AITEC employee and part as a Fundación employee.

GLOSSARY

BID	Banco Interamericano de Desarrollo. Also known as IDB.
CIPE	Center for International Private Enterprise. International office of the U.S. Chamber of Commerce.
CREDICOOP	National credit union federation of Paraguay.
F.P.C.D.	Fundación Paraguay de Cooperacion y Desarrollo.
GTZ	Gesellschaft fur Technische Zusammenarbeit GmbH. West German government development agency.
IAF	InterAmerican Foundation.
IDB	Interamerican Development Bank. Also know as BID.
JIDA	Japan International Development Agency.
UIP	Union Industrial Paraguaya. Interest group association of private industrialists.
UNDP	United Nations Development Program.

1. COUNTRY SETTING

Paraguay is a landlocked country surrounded by Brazil, Argentina and Bolivia. It has a population of approximately 3.8 million, of which slightly more than one million live in the greater Asuncion metropolitan area.

Since 1954 the country has been politically stable, with a single president and ruling majority party. The country, however, is highly politicized, and any effort to mobilize socially disadvantaged groups is viewed suspiciously.

During most of the 1954-1988 period, economic growth was positive and consistent, in both nominal and real terms, and inflation was held at moderate levels. Between 1975 and 1981 economic growth accelerated rapidly--due to high commodity prices, high levels of internal production and significant capital formation due to the construction of the Itaipu hydroelectric dam--to the extent that the Paraguayan economy registered the highest real growth rates (eight percent per year) of any economy in Latin America. Both international donors and private commercial banks invested heavily in the country. Inflation remained low; unemployment was extremely low; and per capita income rose rapidly in real terms. As a result, Paraguay was classified as an advanced developing country, and the U.S. government decided to phase out the local A.I.D. Mission.

Beginning in 1982, a series of adverse economic factors--including the completion of the heavy construction phase of the Itaipu project, falling world prices for Paraguay's traditional exports and bad weather conditions--have resulted in a sluggish economy, with periods of severe recession (1982-1983 and 1986) alleviated by intervening periods of modest growth (1984-1985 and 1987-1988). These have resulted in reduced levels of real growth, abnormally high inflation rates (in excess of 30 percent per year), declining living standards, reduced levels of investment, a deterioration in Paraguay's balance of payments and large increases in external indebtedness.

The sluggish economy has been reflected in significant drops in investment levels. Real capital formation as a percentage of GDP dropped from 35 percent in 1982 to less than 20 percent in 1986. Low savings rates, as well as the scarcity of international private capital, have limited private sector investments, and the economy has increasingly relied on multilateral bank-financed projects in the public sector.

Local financial markets are relatively well developed, with a wide array of public and private banking institutions, stock-owned savings and loan associations, credit unions, finance companies and loan companies. In addition, there is an active informal credit sector. The two state-owned banks are the Banco Central de Paraguay and the Banco Nacional de Fomento. Both foreign and domestic private banks provide a full range of banking services, although some foreign banks (including Chase Manhattan, Bank of Boston and Bank of America) have ceased operations in recent years due to the downturn in the Paraguayan economy and are transferring stock to local investors. Performance in the banking sector is limited

by artificially low interest rate ceilings that are below current rates of inflation. Recent increases in those ceilings have improved conditions, but they are still inconsistent with prevailing market conditions.

The country depends heavily on agriculture, which employs more than 50 percent of the country's estimated 1.3 million workers and produces 26.5 percent of GDP and 70 to 75 percent of foreign exchange earnings.¹

	Percentage of Labor Force	Percentage of GNP
Agriculture	51.5%	26.5%
Services (including government)	17.7	17.0
Manufacturing	14.4	16.1
Commerce and Finance	8.3	26.5
Construction, Transport and Communication	6.8	1.5
Other	1.3	2.3
Total	100.0	100.0

Data on the Asuncion metropolitan area² indicate that nearly 44 percent of the urban work force (181,916 of 411,768) is self-employed or works in companies with fewer than five employees. While the overall work force had an average monthly income of Gs. 77,378 (\$88.34) and a median income of approximately Gs. 67,268 (\$76.44), the self-employed and small-enterprise employees had an average monthly income of Gs. 69,880 (\$79.41) and a median monthly income of Gs. 46,577 (\$52.92).³

Rapid labor force growth and the economic slowdown of the post-Itaipu period have created serious problems of both unemployment and underemployment. Unemployment reached 12 percent in 1987, and currently stands at about 10.8 percent. Underemployment is estimated at 20.4 percent. Increased demand for agricultural workers for the 1988 crop cycle have sharply increased labor utilization rates in recent months, but urban unemployment and underemployment remain high.

Statistics on the small- and microenterprise sectors are limited. According to the Union Industrial Paraguaya (UIP), 20,700 of the approximately 28,000 registered businesses in the Asuncion metropolitan area had between one and four employees, 6,700 had between 5 and 19 employees, and 550 had more than 20 employees. The

¹Secretaria Tecnica de Planificacion, Diagnostico sobre la Situacion y Evolucion de la Fuerza de Trabajo y del Empleo, p. 119.

²Ministerio de Trabajo, Encuesta de Hogares, 1987, Table 5.3.

³Based on year-end 1987 exchange rates of Gs. 880 per dollar.

smallest firms had assets of Gs. 9.1 billion and employed 48,000 workers, while the 550 largest firms had assets of Gs. 37.5 billion and employed 36,500 workers.⁴ Estimates on non-registered microenterprises range from 10,000 to 50,000, all of which would fall in the very small enterprise category. Regardless of the exact numbers, the microenterprise sector represents a large and increasingly important sector of the economy.

The government is generally supportive of private enterprise, and private banks and businesses operate openly. Most of the major services--electricity, water, etc.--are public corporations, and there is a strong government involvement in the economy. Major businessmen tend to belong to the majority political party. As a result of the "First National Congress on Small-Scale Enterprise," which was sponsored by the Fundación in 1987, the government is currently considering promulgation of a law defining the rights and roles of the sector. Under the proposed law a microenterprise would be defined as any natural person doing business for himself (other than those working as licensed agents) whose income derives principally from his/her labor and is less than 1000 minimum daily salaries per year.⁵

2. INTERNATIONAL DONOR SUPPORT OF MICROENTERPRISE DEVELOPMENT

2.1 A.I.D.

Paraguay's rapid economic growth in the late 1970s resulted in its classification as an advanced developing country and a decision to phase out direct A.I.D. project activities. Since 1985 A.I.D. has maintained a minimum level of staffing, and has a program budget of less than \$500,000 per year. The project supporting the Fundación is, therefore, the only A.I.D. effort in microenterprise development in Paraguay.

Earlier, from 1978 to 1983, A.I.D. financed a development project that supported small-scale enterprises. This project (Production Credit Guaranty Program, or PCGP) involved an innovative relationship between A.I.D., the Central Bank and private banks in Paraguay. A.I.D. provided a guaranty fund that would reimburse 75 percent of a defaulted loan up to a maximum of 50 percent of the bank's eligible portfolio. The private bank loaned directly to eligible small businesses, but it received a substantial rediscount from the Central Bank for eligible loans. A bad-debt reserve was developed in the Central Bank to substitute for the A.I.D. guaranty fund. Loans ranged from \$2,000 to \$20,000, and the major criteria for eligibility was that the borrower could not meet standard bank collateral

⁴Fundacion Paraguaya de Cooperacion y Desarrollo, et.al., Informe Final: Primer Congreso, p. 16. At the time this report was written, the exchange rate fluctuated between Gs. 980 and Gs. 1,010 per U.S. dollar. At the end of 1987 the exchange rate was Gs. 880 per dollar.

⁵Memoria y Balance: Tercer Ejercicio. 31 de Diciembre de 1987, p. 25.

requirements. With the \$3.0 million guaranty fund the program leveraged a portfolio in excess of \$11.0 million.

2.2 Other Donors

Other donor agencies have only recently become interested in supporting microenterprise development, and there are currently no separate programs in operation. The Brazilian government and U.S. Peace Corps have provided limited support to the "Lo Nuestro" program of the Union Industrial Paraguaya to support small-scale enterprise participation in export markets, but this is not specifically targeted toward microenterprises. The World Bank has financed a number of "integrated" development programs which have, to a limited extent, involved microenterprises. The German government development agency (GTZ) has provided assistance to municipal governments in Paraguay in a program that includes some assistance to small-scale enterprises. Fundación Candelaria has a micro-scale enterprise program that functions exclusively in rural areas. Fundación La Amistad also provides some support to small-scale enterprises in rural areas.

The other donors have also indicated an interest in supporting the Fundación's program. Both the Peace Corps and the Inter-American Foundation (IAF) contributed to the establishment and initial funding of the Fundación. The Center for International Private Enterprise (CIPE) supports the Fundación's public education program. The small projects office of the Inter-American Development Bank (IDB or BID) has recently begun disbursements on a combined loan/grant program of approximately \$500,000 that is to be implemented by the Fundación. GTZ, the Japanese International Development Agency (JIPA) and the United Nations Development Program (UNDP) have all expressed interest in supporting the effort.

3. FINDINGS AND ANALYSIS

3.1 Program and Organizational Findings

The principal program activity of the Fundación is the support and promotion of microenterprises in the Asuncion metropolitan area. This consists of training, credit, technical assistance and loan supervision. Its clientele are engaged in small-scale commercial activities (street vendors, market women and small retailers), industry or production (such as shoemaking, leather goods, clothing and metal working), and services (such as electrical, mechanical and metal goods repairs). It has undertaken a number of ancillary activities designed to help its microenterprise clientele, including the organization of an employment brokering service (which has since become inactive), a program to assist families that have children working in the streets, and the organization of a national congress on small and micro enterprise.

The Fundación has achieved a high degree of financial self-sufficiency in a short time-frame and with a very limited financial base. Self-generated income covered 52.6 percent of the Fundación's total expenses in 1987, and is expected to

cover 80.1 percent in 1988. This is an impressive accomplishment, as the program only has an outstanding portfolio of approximately \$144,000 and is supporting an office and staff of 34 persons. It indicates that with a reasonable expansion in the loan portfolio the program could become totally self-financing in the near future.

The Fundación's level of self-sufficiency is due primarily to its very high interest rates. At the present time the Fundación charges a published six percent per month on its loans. Since this is charged on the full amount of the principal for the entire period of the loan, the effective annual interest rate is in excess of 132 percent. Moneylenders, however, charge as much as 20 percent per day, so the Fundación's rates provide a positive real benefit to the beneficiaries.

The Fundación's prospects for achieving financial self-sufficiency are further strengthened by its ability to utilize resources from banks and other formal financial institutions for its credit programs. As the size of the portfolio increases the Fundación should be able to lower interest rates and still meet self-sufficiency objectives.

The Fundación reports its cost of making loans at about 15 percent of loans disbursed.⁶ Because of the short turnover period of each loan, however, this is a misleading figure. A more accurate approach to reporting operational efficiency is to use the cost of managing the outstanding loan portfolio. Figures provided by the Fundación indicate that it had total expenses of Gs. 116,635,948 (\$116,635) in 1987, during which time it managed an average outstanding portfolio of Gs. 75,738,000. This means that it cost the Fundación \$1.54 to manage each \$1.00 outstanding in its portfolio during 1987.⁷

Given the recent establishment of the program, and its current rapid growth rate, this cost ratio should not be considered unusual. The program has had large start-up costs with a relatively small portfolio. As costs stabilize and the portfolio continues to expand, this ratio should decline.

The program has succeeded in maintaining relatively low delinquency rates-- around 10 percent. It has written off "uncollectible" loans and has a procedure for generating a bad debt reserve.

The program charges very high interest rates. This is necessitated by the absence of a donated portfolio, but is consistent with prevailing "market" interest rates. It positions the Fundación between the commercial bank rates and prevailing informal sector rates.

The top staff of the Fundación are qualified professionals, in terms of both academic preparation and experience. The Executive Director has an undergraduate

⁶Memoria y Balance. Ejercicio 1987. p. 8. It should be noted that this ratio is high, as other similar programs typically operate with costs at less than 5 percent of loans granted.

⁷Ibid., pp 60-62. It should be noted that this ratio has continued to decline in 1988, due primarily to the growth of the Fundación's portfolio.

and graduate degree. The Director of Planning has two Master's degrees (one in economics) and has been working in planning in Texas for a number of years. The Public Relations Director has a university degree and has owned and operated several businesses. The Director of Finance and Administration worked for a number of years as a controller in A.I.D./Paraguay and the Paraguayan credit union system.

The Fundación's microenterprise program has a number of characteristics that have made it practical in the Paraguayan context, including:

- Credit-Oriented Program. The program focuses on the provision of credit rather than on technical assistance or training. Beneficiaries are attracted to the program by the availability of credit rather than technical assistance or training. Training is limited to short-term sessions conveying only basic business concepts. The program does not provide on-site technical assistance, and the field staff act primarily as promoters and loan supervisors.
- Automatic Follow-up Loans. Participants in the program are guaranteed that follow-up loans will be available upon the completion of their existing loan, as long as they have met all conditions and have a good repayment record. This stability is important to participants in planning business expansion and employing help.
- Increases in Succeeding Loan Amounts. While the program assumes that succeeding loans will be larger, clients are not guaranteed an automatic increase in the amount of subsequent loans. This is subject to the judgement of the promoter on the absorptive capacity of the group and on its previous repayment record. Also, there is a maximum size loan that can be received by any individual group member.
- Credit Rating. A form of "credit rating" is used to classify loan recipients according to their repayment record. Groups that miss payments are given points according to how frequently and by how long payments were delayed. This is used to determine the maximum amount of the renewal loan for the group.
- Incentives to Graduate. The small maximum loan size and the fact that interest rates are substantially higher than prevailing bank rates provide a constant incentive to the clients to seek funding from formal financial institutions.

3.2 Contextual Findings

Mobilization of Local Capital. The Fundación has been remarkably successful in obtaining local bank financing for its portfolio. Without these loans the program would have had no loan fund, and would probably not now exist. In Paraguay, as in other countries, banks have been reluctant to loan to the newly established Fundación. Its directors (consejo de administracion) actually gave personal

guarantees to induce a small number of banks to loan to the program. Major changes are still needed (e.g., changes in bank law regarding collateral, improved guaranty mechanism, government incentives) for the banks to lend to the program in significant amounts, but the process of utilizing bank funds has begun.

At the present time, Lloyds Bank, Citibank, Banco Union, The Banco Nacional de Desarrollo, Banco Nacional de Trabajadores, Hogar Propio and Ahorros Paraguayos have loaned to the Fundación. This is significant, for it means that the growth potential of the Fundación will not be limited by the generosity of foreign donors, but has the capability of tapping local sources of funding at positive real interest rates to expand the program. It is only by charging substantially positive real interest rates that the program can afford to utilize these sources of funds.

Contribution to Internal Financial Market Development. The Fundación has positioned itself as a unique financial intermediary, and as such provides a much-needed service for the microenterprise sector. Few microentrepreneurs have access to formal financial markets because they lack the necessary collateral and the banks are not interested in dealing with the added costs and risks of making such small loans. By being able to borrow from the banks and lend to its microenterprise clients, the Fundación is providing an access to formal financial institutions for the microenterprise sector. It is only by charging substantially real interests rates that the Fundación is able to do this.

The Fundación has been careful to position itself as a mainstream, establishment-oriented institution. It is managed as a business, has professionally-qualified staff members in key positions, and is located in the main business section of Asuncion. This is necessary in the context within which the Fundación operates, for it provides the stability and image required to solicit bank credits, allay suspicions and potential opposition and establish the image of the institution as a legitimate organization within the Paraguayan social, economic and political context.

3.3 Beneficiary Impact

The program has provided loans to 711 groups with a total membership of 2,938 microentrepreneurs in the metropolitan area of Asuncion. Women comprise 60 percent of the program beneficiaries, a figure indicative of the large number of women who operate in the informal sector of Paraguay. Microentrepreneurs in the program are divided in two distinct groups: micro-productores (micro-producers) and micro-comerciantes (micro-sellers). Micro-producers are defined as those who add value to raw materials. Micro-sellers represent 55 percent of the programs beneficiaries, while the remaining 45 percent is comprised of micro-producers.

The program's beneficiaries constitute a relatively poor sector of the population of Asuncion. More than 75 percent earn less than the minimum wage (\$130 a month), 96 percent of their businesses employ less than two employees, 80 percent have less than \$5,000 in fixed assets, and 65 percent have only primary education. Prior to participation in the program, none of the beneficiaries had access to formal credit, as their main source of working capital was informal-sector moneylenders.

The Fundación program constitutes the only credit program in Paraguay specifically designed to meet the credit needs of the microentrepreneur. In addition to credit, the beneficiary receives a (mandatory) training course per loan obtained. To date, the program has provided 3,684 loans to 711 Solidarity groups (3-5 members) for a total value of Gs. 1.663.806.046 (approximately \$1.66 million US). While the average loan per group was Gs. 451.630 (\$452), the average loan per beneficiary was Gs. 98,600 (\$100).

Socio-economic data from a sample of 85 beneficiaries indicate a positive impact after six months of participation in the program. Economic indicators such as increases in sales, fixed assets, net profits and savings, all showed positive trends for the sample beneficiaries. The program has contributed to an average increase of 41.9 percent in beneficiaries' sales, a 65.9 percent increase in inventories, and a 34.7 percent increase in net profits over a six-month period. Fixed assets levels have increased 36 percent, despite the fact that the Fundación's loans are made only for working capital purposes, indicating a tendency to reinvest profits. Savings have also increased significantly (100 percent) although no saving mechanisms have been established by the program.

A breakdown by sector (micro-sellers and micro-producers) indicate that the program's impact on sales and net profit has been higher for micro-sellers than for micro-producers (51 percent versus 26 percent, and 43 percent versus 27 percent, respectively). Women micro-producers tended to register higher increases in sales (53 percent versus -1.7 percent) and profits (61 percent versus -7.3 percent) than male micro-producers, but women micro-sellers tended to experience lower growth rates than their male counterparts (37 percent versus 65 percent in sales, and 41 percent versus 45 percent in net profits).

The project has had a positive impact on the beneficiaries' family welfare as indicated by an average increase of 14 percent in family expenditures. A breakdown by gender shows greater increases in expenses by female beneficiaries. This fact seems to confirm a prevalent idea that women tend to devote a higher proportion of their income to family welfare. It could also explain the lower increases in savings and fixed assets among female micro-sellers mentioned above. Given an average family size of five, program benefits have reached 14,690 persons from the lower income strata of Asuncion.

One of the most important benefits of the project has been to have contributed to reduce the degree of dependency of the beneficiary on informal sector credit sources. Micro-seller beneficiaries, for example, stated that before participating in the program, the interest charged by moneylenders only allowed them to obtain enough working capital to manage inventory for a single day, and profits were absorbed by the interest rate, thus making business expansion virtually impossible.

Another indicator of the program impact is the high degree of expressed satisfaction with the Fundación's credit and training services. Interviewed beneficiaries reported that credit has helped them to increase production and sales. They also claimed to be highly satisfied with the training course. While initially reluctant to attend the training sessions, they now willingly attend them, and would do so even if the courses were not mandatory.

Beneficiary satisfaction with Fundación services is demonstrated by the fact that 100 percent of first-time borrowers applied for a second loan. Some groups have received up to 15 loans, all provided at an above-market published interest rate of six percent a month. Thus, there is a high demand for the Fundación's loans. As a result, promotion mechanisms that originally relied on the work of the promoters have been replaced by word of mouth. Beneficiary satisfaction and the positive impact of the program on the beneficiaries has generated a demonstration effect which is attracting an increasing number of microentrepreneurs to the program. The concept of the solidarity group is becoming well-known among microentrepreneurs who now, when inquiring for a loan, come to the program offices with their group members already selected.

In summary, the program has provided strong positive benefits to participating micro-sellers and micro-producers, resulting primarily from (a) reduced interest rates over informal sector credit sources, and (b) larger loan amounts and extended repayment periods, which permit the microentrepreneur to work with larger amounts of capital (conduct a larger volume of business) and retain a greater proportion of the income resulting from those activities. These benefits are clearly perceived by the beneficiaries of the program. While interest rates may appear high, to the microentrepreneur they represent significant reductions from the rates charged by the informal sector. There is no need for a program to subsidize rates in order to benefit this clientele.

3.4 Major Weaknesses

At the same time, there are weaknesses in the program that need to be mentioned.

As it is presently operating, the Fundación will have difficulty in moving from a pilot program to a full-scale microenterprise operation. The question of scale is significant, especially in terms of human resources, systems, costs, space, and logistics. These concerns are manageable on a small scale, but they cause tremendous problems as operations increase in scale.

The Fundación has sufficient administrative (planning department, administration and finance department) and training staff to manage an increased program, but as any significant increase in operations will require the employment of new field personnel. In this context, physical space limitations pose a real constraint, for the Fundación lacks space in its present quarters to provide offices for an expanded staff. Another major constraint is the absence of adequate support systems and procedures--accounting, statistics and other operational and management support systems. Current manual and semi-automated processes for handling information are inadequate to the operations of a larger program. An expanded program also implies higher costs, and the implications of this are not well understood. The Fundación needs to develop an effective expansion plan to manage growth effectively. As part of this it should have a comprehensive information system plan and design to support the operations and management requirements of the Fundación.

The Fundación is operating with a very small capital base for its loan activities and, as a result, operating costs are very high relative to operating income. This hinders program expansion and self-sufficiency and distorts other activities.

Initial projections for the program contained numerous unreasonable expectations vis-a-vis donor agency support. For example, BID funds were projected in the project proposal, but no contacts had been developed with BID for funding. Obtaining BID funding took longer than anticipated, and the funds have numerous restrictions that are inconsistent with the Fundación's pricing needs and lending procedures.

The Fundación has learned that dealing with international donor agencies can be a frustrating experience. CIPE did not donate the entire amount anticipated; BID negotiations were long and drawn out; the UNDP proposal had to be resubmitted as the wrong guidelines were used for preparing the proposal. The UNDP delay complicated matters as the Fundación had to use Peace Corps and IAF funds to cover expenses that were to have been supported by the UNDP.

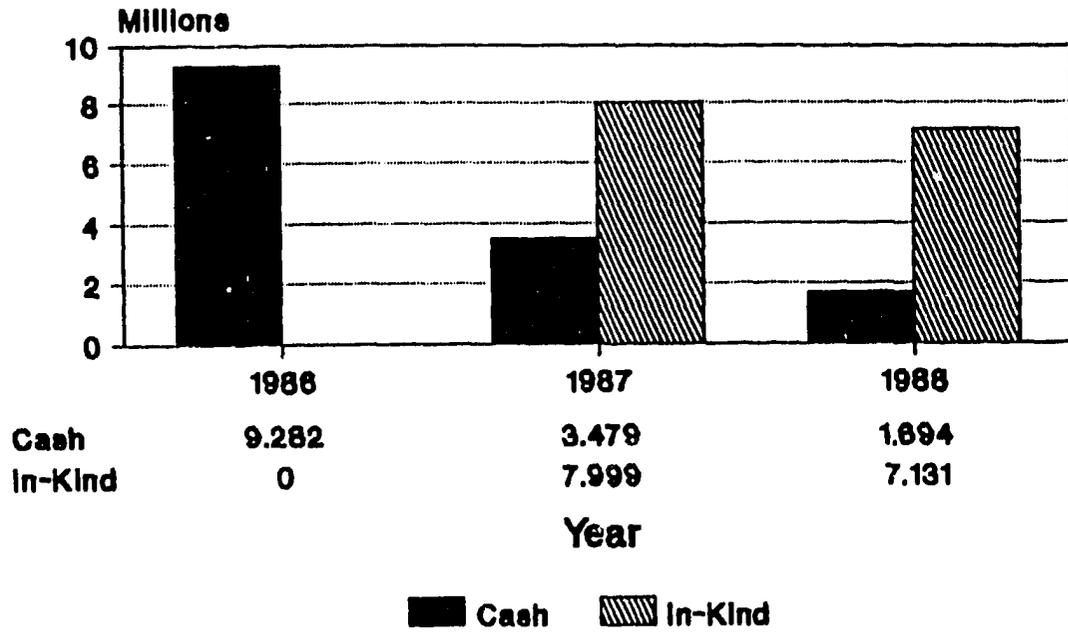
The initial feasibility study called for \$650,000 in loan funds to develop a self-sustaining, viable program. To date, the Fundación has only been able to build a loan portfolio of approximately \$145,000. A.I.D. provided no seed capital, BID was slow to provide planned seed capital; and local donations fell far short of projections.

Basic assumptions about the ability to generate local donations appear to have been invalid. The Fundación has not been qualified as a tax-exempt institutions, which means that contributions are not tax deductible. In addition, the Fundación found that donations tend to be small, with the result that fund-raising for donations became an uneconomic activity. With the absence of donor funding, the Fundación needed a larger source of funds than that which could be provided through donations, so it reduced emphasis on fund raising and turned to commercial bank credits as a source of funds.

Activities to mobilize local support have continued, however, because these activities are seen as necessary to generate a more intangible type of public support that is essential to project sustainability--general legitimacy in the public eye. The result has been that "in-kind" contributions are now significantly higher than cash contributions to the Fundación (see table below).

Although the evaluation team was impressed by the overall professionalism of the Fundación staff, there are nonetheless personnel weakness that need to be addressed. In particular, the Fundación does not have a personnel manager or a personnel development plan. There is a basic weakness in personnel preparation, not so much at the level of top management, but at the level of project leaders. There is a real lack of knowledge about business in general, or microenterprises in particular, among staff. Few of the staff members have particular business-oriented background skills--education, training or practical experience in either business or small-scale business. The Fundación needs to develop ways to upgrade staff capabilities in these areas.

LOCAL DONATIONS 1986-1988 (In Guaranis)



Data for 1988 through September

The Fundación's staff perceive problems in "working as a team". There appears to be a great deal of mistrust among the departments, with the result that each division tends to work independently, there is little communication or sharing of information, and work effort is often duplicated. Coordination, understanding and ability to work together need improving.

The Fundación's definition of delinquency is inadequate: it only considers loans delinquent when the final payment date has passed and there is an unpaid outstanding balance. Individual payments missed are considered "delayed" rather than delinquent. This tends to understate credit risks and could become a major problem as loan amounts increase and payment periods are extended.

With a fixed portfolio, automatic increases in the amount of follow-up loans and extending repayment periods have the effect of reducing the number of customers a program can serve. With a fixed, or slowly growing portfolio, such an approach forces the program to squeeze out participants and/or refuse new entrants. To be successful, a program must have either an effective means of graduating clients or an ever-increasing source of funds.

There has been little graduation from the program to date, either to banks or to larger scale enterprises. There are substantial constraints--legal, operational and economic--to bank acceptance of microenterprise clients that would need to be overcome for graduation to become a realistic possibility.

Since the program gives no credit without training, and no training without credit, it was not possible to compare the effectiveness of various techniques.

4. FACTORS INFLUENCING PROJECT PERFORMANCE AND IMPACT

One can point to a number of factors that have both contributed to and hindered the success of the Fundación.

4.1 Positive Factors

- (1) The qualifications and performance of the Executive Director of the foundation are, perhaps, the single most important factor contributing to the early success of the Fundación. The major characteristics contributing to this are (a) education, (b) background and contacts, (c) dedication, (d) understanding of the local environment and ability to plan effective strategies in the context of that environment.

The composition of the Board of Directors (in this case called the Consejo de Administracion) has been equally important. The board members are well-positioned members of Paraguayan society, and represent a cross-section of economic and political perspectives. These members have been important for conveying legitimacy, contacts, status and financial resources to the Fundación.

- (2) The ability to remain politically neutral in a sensitive political environment has been critical to the program. The government has not opposed the work of the Fundación even though it is involved with a very sensitive sector of the population. Through the board of directors, the executive director and the public relations efforts of the organization, it has been able to cultivate appropriate levels of government support, or at least neutralize opposition without becoming politicized.
- (3) The knowledge that there would not be a long-term A.I.D. support relationship (because of the scheduled phase-out of the A.I.D./Paraguay program) and the absence of a large, low-cost pool of loan funds had several distinct benefits for the program, including:

- The Fundación was forced to deal realistically with the question of self-sufficiency from the very beginning;
- The Fundación was forced to aggressively seek outside sources of funding and develop effective relationships with other institutions-- both national and international--in order to generate a loan portfolio; and
- The Fundación was forced to adopt realistic interest rates at the very beginning.

As a result, the Fundación was spared the internal debates on whether to offer subsidized or market-rate credit, has developed workable financial relationships with a number of banks and formal-sector financial institutions, is rapidly achieving internal self-sufficiency, and will be able to adjust interest rates downward (rather than having to adjust them upward) in the future as the loan fund grows.

- (4) There appears to be a broad base of managerial talent in the Foundation. Upper level managers (heads of departments and sections) are qualified, professional-level individuals. The managers are conversant with the program, observant and (apparently) able to function with a degree of autonomy.
- (5) The non-charity approach of the program is strongly and continuously emphasized by promoters and trainers during the orientation and training session. Microentrepreneurs are referred to and treated as business people. Credit is given at non-subsidized interest rates, and training is oriented to business consolidation and expansion.
- (6) The program has been able to mobilize resources from several sources-- local as well as international, instead of being dependent on a single donor. In particular, the Fundación has been able to utilize local bank loans to fund loan operations and has been effective in attracting funds from international donor agencies such as IDB, IAF, and the UNDP.
- (7) The fact that program features have been well-suited to the needs of the beneficiaries and characteristics of the informal sector has been one of the main factors behind program success. Non-collateral requirements,

simplified administrative procedures and rapid disbursements are program features that have eased microentrepreneur access to the Fundación's credit program. The system of automatic-successive loans gives the microentrepreneur a sense of stability by assuring him/her that as long as he/she pays on time, the next loan will be available. The automatic renewal of loans facilitates planning for business expansion.

- (8) The Fundación's ability to learn from program failures and to incorporate lessons learned into action has contributed positively to the success of the program.
- (9) The Peace Corps played an important role in the success of this project, both in terms of supplying seed capital and providing much-needed skilled personnel during the formative period of the institution.
- (10) ACCION/AITEC had appropriate technology already developed for accounting, client management, statistics to manage the program correctly. In spite of minor differences, the basic needs of each microenterprise development institution are the same. Each foundation should not have to go through the headaches and problems of developing these programs locally.

Initial resources should include a credit fund, with perhaps a guaranty fund backing. The credit fund should be structured and conditioned in such a way as to not interfere with ability (and incentives) to borrow local capital, and should not permit subsidized credit to beneficiaries. The guaranty fund should be used to promote local financial institutions funding of the program's revolving loan portfolio.

- (11) Beneficiaries paid positive interest rates, despite prevalent ideas stating that the poor need subsidized interest rates in order to develop. For the microentrepreneur, the problem with formal credit seems to be more one of access than of high interest rates. The extremely high interest rates they paid to moneylenders, demonstrates that the microentrepreneur will, and actually do, pay positive interest rate. Difficulty, if not impossibility, of meeting loan conditions such as collateral, minimum loan size, etc., are the major factors limiting access to formal credit.

4.2 Factors Hindering Program Success

- (1) Although the Fundación's small portfolio may have helped the program make realistic program and pricing decisions during its formation, this will have to grow significantly for the Fundación to make a major impact on the microenterprise sector in Asuncion.
- (2) The Fundación has a tendency to take on ancillary functions and activities without adequate attention to the effect of these on personnel and other resources and on the Fundación's ability to accomplish its basic objectives. These tendencies should be minimized.

- (3) Donor agency demands can be detrimental to the long-term success or strategy of a program. One donor agency's requirements, for example, force the Fundación to create two classes of beneficiaries--some eligible for credit and others not--and distort the Fundación's pricing strategy.
- (4) Application procedures are time- and resource-consuming for the borrower. Drop-out figures indicate a high number of potential clients for whom loan application requirements and program conditions seem too difficult to meet.⁸

5. LESSONS LEARNED: IMPLICATIONS FOR FUTURE PROGRAM AND POLICY DIRECTIONS

5.1 Principal Lessons

Project Credit Policy and Procedure

- (1) Microentrepreneurs can, and are willing to, finance their businesses (operations and expansion) at positive, real interest rates. Extremely high (i.e., informal-sector) interest rates reduce the profitability of a venture and limit the amount of credit a microentrepreneur can risk using.

In an unsaturated market, lowering those rates--even slightly--results in substantial real benefits to the microentrepreneur by (a) increasing the profitability of existing operations and/or (b) permitting the entrepreneur to increase his/her level of operations--assuming, of course, that the additional funds are used to increase output (market or production).

Setting interest rates between commercial bank rates and prevailing informal sector credit rates has a number of distinct benefits:

- It is acceptable to clients because it lowers their cost of capital, permitting greater profitability and increased level of operations;
- It provides a constant incentive for the client to graduate to the formal financial institutions sector, because that sector offers lower interest rates--with subsidized rates there is no incentive to graduate to formal financial institutions;
- It ensures the maintenance of the value of the fund by ensuring positive real interest rates; and

⁸At the same time, it should be recognized that the Fundación has made these deliberately difficult to filter out bad risk loans.

-- It makes it financially feasible for the intermediary to utilize local loans funds to finance its portfolio, reducing dependency on subsidized external credits.

As a result, the question of subsidizing interest rates should never arise.

In calculating "market" interest rates, many programs make the mistake of taking the commercial banks' published rate as the relevant measure of local market interest rates. This approach is inaccurate and dysfunctional in the context of microenterprise development programs for several reasons. First, bank loans carry a number of hidden charges and other practices that raise the effective rates considerably higher than the published rates. Second, bank rates are designed to be profitable for the type of business banks do--that is, a relatively few large loans to well-known customers with adequate collateral. For the banks to make large numbers of small loans to relatively unknown clients with little or no collateral they would have to substantially increase staff, and charge higher rates to cover the increased costs and risks. Third, banks do not pretend to provide training and technical assistance to clients, and these costs are not covered by the published interest rates. If a program decides these services are necessary, the costs for providing them must be added to the interest rate. Calculations of comparable "market" interest rates, therefore, need to include both the hidden charges and the increased costs of servicing a different market segment.

- (2) It is difficult to persuade formal financial institutions to lend to a newly established foundation. It requires a great deal of effort (and incentives) to overcome this natural tendency to not lend. The availability of a guaranty program has not been a sufficiently strong incentive because of the complicated legal conditions and restrictions attached to it. In this case the personal guaranty of individual members of the board of directors was required to induce the local banks to lend operating funds to the program.
- (3) It is even more difficult to persuade formal financial institutions to lend directly to individual microentrepreneurs or solidarity groups; that is, program graduates. Most programs argue that graduation will occur, but examples are notable as exceptions rather than as the rule. In this case, only a token number of microenterprises have graduated to the formal financial sector, in spite of credit record and letter-of-credit guarantees. There are strong structural constraints to graduation that need to be explored more thoroughly. Advocates of microenterprise programs do not understand the functioning or orientation of banks, placing blame for the failure of banks to lend to micro entrepreneurs on the lack "real" collateral. That may be true, but another crucial constraint is that the transaction costs and risks of dealing with small accounts are too high, so that profit margins are small or even negative.

Provisions and a plan for graduating clients to the formal financial sector are highly desirable. Graduation is the only mechanism that ensures that the program will be able to integrate new clients in the absence of continued expansion of the loan portfolio. Graduation is facilitated by

having relatively low maximum loan ceilings and high effective interest rates. A guaranty fund and other positive and negative incentives are probably necessary to induce the formal financial sector to service "graduated" clients.

Project Management and Administration

- (1) Selection of a project leader (executive director) is critical. For the first two years or so an organization such as the Fundación must have a dynamic leader who is capable of effectively and efficiently (a) organizing and motivating the staff, (b) positioning the institution properly in the social-economic-political environment, and (c) mobilizing local support and resources.
- (2) The establishment and composition of the board of directors (consejo de administración or other such body) is equally critical to at least the early success of a program. These individuals give the organization legitimacy, status and contacts. They should be well-recognized, influential persons, balanced among government, private sector, media, and financial sectors. No one group or political party should be dominant.

At the same time, there must be a clear separation between staff and board. The board should not perform staff functions, and should delegate most management decisions to management.

- (3) It is important to publicize approach, goals, strategy, etc., to power groups--both to mobilize support and to neutralize opposition.
- (4) An intermediary such as the Fundación must act as a private company with sound business criteria. Pricing and service decisions must be made on the basis of financial and economic viability.

Project Objectives

- (1) Focusing the program on the urban environment (as opposed to servicing rural clients) has a number of distinct advantages, including:
 - Reduced transaction costs for servicing the clients;
 - Larger client base, permitting economies of scale;
 - Reduced bad debt risk;
 - Reduced costs for the client;
 - More intensive program client interactions;

- Fits the reality of population dynamics in most developing economies; and
 - Provides greater probabilities for employment and income growth.
- (2) A program such as this should not be targeted at the poorest of the urban poor. It needs to begin working with microenterprises that have sufficient capital and possibilities to succeed. Only later, when the intermediary is sufficiently strong to absorb the added risk of working with marginal groups, should the program attempt to incorporate more marginal segments.
 - (3) Microenterprise programs should work with existing businesses rather than attempting to start new businesses. The entrepreneur should have already indicated a willingness to independently undertake the initial risk, and should have several years of experience in his/her business. New businesses have extremely high failure rates, and an organization such as the Fundación cannot afford to absorb the credit risk, unless there are specific provisions in the program for handling credit losses.
 - (4) High delinquency rates must be expected in programs that are oriented more toward charity than business development. The trade-offs between self-sufficiency and servicing very marginal groups must be clearly recognized, and a means provided to cover the excessive credit risk should the program choose to (or be forced to) service such groups. The means to cover these risks can be through high interest rates for paying clients, availability of a guaranty or substantial bad debt reserves. It should not be assumed away.

The credit program should take priority over both training. At the same time, training must be mandatory, or the beneficiaries will not use it. Beneficiaries typically do not see a need for training initially, and only after a number of loans do they begin to perceive a benefit.

It is important to distinguish between credit costs, supervisory costs and training costs (fees). Supervision is a legitimate cost of credit, but training fees are a payment for a service that is not normally associated with credit and should be charged for separately.

- (5) A high proportion of women clients can be reached, not by specifically targeting women-owned enterprises, but by loaning to sectors or industries with a high percentage of women. In the case of Paraguay, women are widely represented in the informal sector, especially as traders and small sellers.
- (6) Small lending programs with loans of \$300 or less can reach very small entrepreneurs and have some positive impact on levels of sales, inventories, and expenditures of the owners. To successfully reach this population, the lending program must have streamlined, efficient lending procedures, and implement risk reducing criteria such as lending to enterprises that are at least a year old, requiring the owner to become a member of a community group, and supplying training.

APPENDIX A

DATA SHEET FOR A.I.D./SME STOCK-TAKING¹ Fundación Paraguaya de Cooperación y Desarrollo

I. BASIC DESCRIPTIVE INFORMATION ABOUT THE PROJECT

1.1 Name of Project (including A.I.D. project Number)

Inter-Country Technology Transfer
Paraguay Sub-Project No. 526-0840.1
Micro Enterprise Employment Generation
Grant LAC-0616-G-5095-00
Total amount: \$189,375

A small (\$10,625) grant (#526-0616-G-00-5003-00) was given directly to the Fundación Paraguaya to cover office renovations and the purchase of a microcomputer system.

A follow-up project to develop a similar foundation in another city (Encarnacion) is scheduled to run from August 1988 through September 1990, although it has not yet begun. It provides \$150,000 to cover \$40,000 in Fundación operating costs for implementing the project, \$70,000 in operating cost support to the new foundation and \$40,000 for ACCION/AITEC technical assistance. Local contributions are expected to total \$150,000.

1.2 Responsible Office in A.I.D.

A.I.D./Paraguay. With reduction in size of A.I.D./Paraguay staff to two professionals, there are no separate offices within the Mission.

1.3 Name of Project Officer

Currently Julio Basualdo, A.I.D. Program Assistant, although the Mission does not actively manage the project.

1.4 Starting Date

September 1985 for the first grant; August 1988 for the follow-up project.

¹Numeration in this section corresponds to that provided in the Project Data Sheet form.

1.5 Planned Completion Date

August 1987 for the first grant, but final report from ACCION/AITEC has not yet been received by the Mission. The follow-up grant, to establish a second foundation in the city of Encarnacion, is scheduled to run through September 1990.

1.6 A.I.D. Funding

Technical assistance grants to AITEC	
Initial	\$ 81,875
Follow-up project	40,000
Operational support grants	
First grant	\$107,500
Additional funding	10,625
Follow-up project	40,000
Grant to second foundation	70,000
	<hr/>
	\$350,000
In-kind contributions	19,851
	<hr/>
Total	\$369,876

No funds were provided by A.I.D./Paraguay for credit operations because of Paraguay's classification as an advanced developing country (ADC), which limits assistance to technology transfer programs and a limited number of humanitarian efforts.

1.7 Implementing Agency

None

1.8 Implementing Organization

ACCION International/AITEC
Fundación Paraguaya de Cooperacion y Desarrollo

The executive director of the Fundación is, at the same time, ACCION/AITEC's representative, and receives part of his salary as an AITEC employee and part as a Fundación employee.

1.9 Goal and Purpose of Project

The goal ("objective") of the project was to "organize, plan, finance and carry out a program of credit and technical assistance to microenterprises in the city of Asuncion."

The purpose of the initial project was "to demonstrate a low-cost, sustaining means of generating employment opportunities." Conditions expected at the end of the project included:

- Trained staff (number unspecified);
- Operational revolving credit fund (amount and annual volumes unspecified);
- Written procedures for all operations;
- Detailed financial accountability;
- "Income from credit operations and other donors by the end of the grant period . . . adequate to continue the microenterprise program at reasonable and growing levels;" and
- The program will have "obtained donations and soft loans . . . from external and domestic sources at least double the A.I.D. grant amount."

The purpose of the follow-up project is to "develop a capability to replicate microenterprise credit and technical assistance program," with an end-of-project-status defined as a "basis within the Fundación Paraguaya to serve as a change agent to promote and implement a nation-wide microenterprise program working through affiliated local foundations." Specific targets vis-a-vis number of beneficiaries to be reached and magnitude of intended impact are notably lacking from both grant documents.

Beneficiary Development: The grant documents and project proposals do not specify beneficiary development objectives.

Institution Building: The grant documents and project proposals do not specify institution-building objectives in addition to those specified in the expected end-of-project conditions. This was clearly an institution-building project, as the focus was on creating a new institution to provide services to micro-scale enterprises.

Linkages between institutional development and desired beneficiary impact: These are not specified in project plan documentation. Assumptions underlying the project included: (a) the microenterprise sector is large; (b) no entity other than informal money lenders provides significant services to the sector; (c) there is sufficient credit demand to develop a self-sustaining microenterprise credit operation; (d) the microenterprise sector is already paying higher interest rates for capital than those available from formal lending institutions; and (e) "in order to obtain broad-based support for a local program it is best to start up a new PVO rather than to work through an existing institution."

1.10 Project Approach/Strategy

A.I.D. funds were used exclusively to "support costs of starting up and implementing the microenterprise program in Paraguay." This included technical

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assistance, training and local operating costs during the first two year. No A.I.D. funds were provided for credit activities because of Paraguay's status as an advanced developing country.

The basic approach was to:

- a. Select a local PVO (no suitable local organization was found, so a new one had to be created).
- b. Assist in the organization of the local PVO and train staff. The executive director was partially paid as an AITEC employee and partially as executive director of the Fundación.
- c. Develop a work plan and methodology.

Although not specifically stated in the grant documentation, the primary means of obtaining the stated project goals were through (a) improving the profitability of existing enterprises and (b) promoting growth in employment and sales of existing firms. The project made no attempt to stimulate entry and create new self-employment opportunities (new businesses).

1.11 Nature of Project Intervention

It is probably necessary to look at this from two perspectives. The project itself provided only technical assistance (through ACCION/AITEC) and operating budget support to the newly established Fundación. The Fundación itself provides credit, technical assistance, training and group organization assistance to the project beneficiaries.

1.12 A.I.D. Project Inputs

A.I.D. inputs were limited to operating budget support, materials and commodities donations and a small technical assistance grant to ACCION/AITEC for the start-up period of the Fundación. There was no seed capital money and no long-term relationship between A.I.D. and the project, due primarily to the scheduled phase-down of A.I.D./Paraguay.

1.13 Other Concerns

This was not viewed as either an experimental or pilot project by A.I.D./Paraguay--the intent was clearly to establish a functioning institution based on successes in prior ACCION/AITEC projects.

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2. NATURE AND CHARACTERISTICS OF IMPLEMENTING ORGANIZATION

2.1 Name of Organization

Fundación Paraguaya de Cooperacion y Desarrollo

2.2 Address of Headquarters

Presidente Franco 846, Asuncion, Paraguay

2.3 Legal Status

Legally registered "asociacion civil sin fines de lucro;" that is, it has legal status through a "Decreto de Poder Ejecutivo," signed by the President of Paraguay, to operate as a legally registered, non-profit association.

2.4 Name and Position of Project Head

Dr. Martin Burt, Executive Director (Note: he serves both as executive director of the Fundación and as contract employee of ACCION/AITEC.)

2.5 Brief History of Organization

ACCION/AITEC, at the invitation of A.I.D./Paraguay, conducted a brief feasibility study in October 1984, concluding that a microenterprise program was feasible within the Paraguayan context. The Fundación was legally established in February 1985 with the primary goal of:

. . . creating employment for the poorest sectors of the population so that these can obtain permanent, honest income that will improve their standard of living and help in their social and economic integration to the community.

The two major goals of the program therefore, have been: (a) to increase income and (b) to increase employment opportunities.

The first groups under the program were formed in late 1985, with the first loans disbursed in December of that year. Small donations for seed capital from the Peace Corps and IAF were used to expand activities in 1986. Funding from BID, originally projected for the first year, did not materialize until late 1988.

2.6 Main Program Activities

The principal program activity of the Fundación is the support and promotion of microenterprises in the Asuncion metropolitan area. This consists of training,

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credit, technical assistance and loan supervision. Its clientele are engaged in small-scale commercial activities (street vendors, market women and small retailers), industry or production (such as shoemaking, leather goods, clothing and metal working), and services (such as electrical, mechanical and metal goods repairs). It has undertaken a number of ancillary activities designed to help its microenterprise clientele, including the organization of an employment brokering service (which has since become inactive), a program to assist families that have children working in the streets, and the organization of a national congress on small and micro enterprise.

2.7 Funding Sources

Funding to date has been provided by A.I.D., the Peace Corps, IAF, CIPE, IDB, donations from local individuals and organizations and loans from financial institutions.

2.8 Size of Organization

Currently has 34 full-time employees with an average monthly operating budget of US \$10,886.

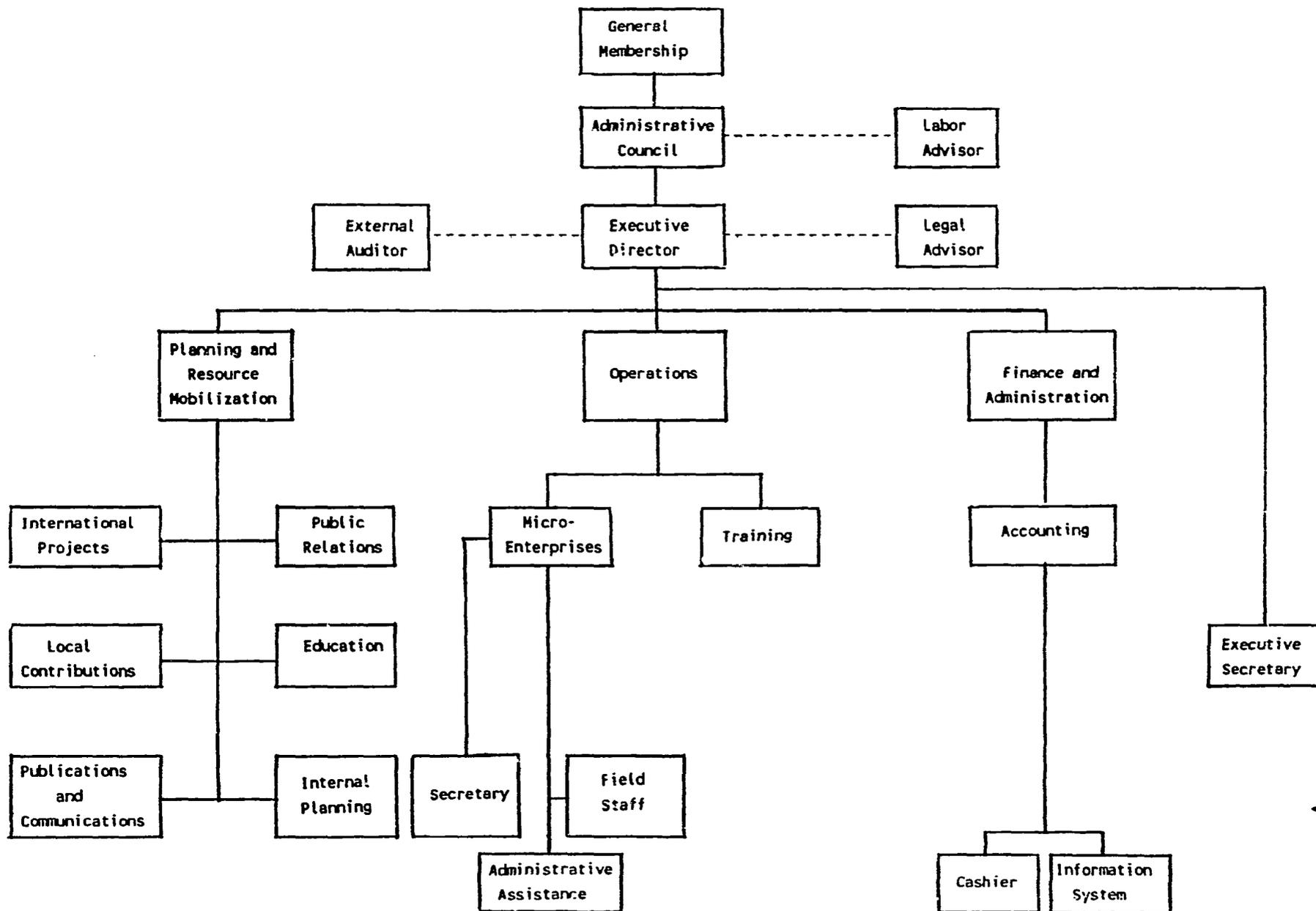
2.9 Organizational Structure

An organization chart for the Fundación appears on the following page. At the present time the organization has 34 permanent staff members, as follows:

Executive Staff:	Executive Director Director of Planning Director of Finance and Administration Director of Operations Executive Secretary Administrative Assistant
Professional Staff:	Chief, Department of Microenterprises Chief, IAF Child Program, Education Chief, General Services Chief, Training Department
Field Staff:	Ten "asesores" (promoters) Two "capacitadores" (trainers) for IAF Child program Press and Publicity Officer Local Contributions Officer

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ORGANIZATIONAL STRUCTURE FOR
 FUNDACION PARAGUAYA DE COOPERACION Y DESARROLLO



Support Staff: Treasurer
 Accountant
 Assistant Accountant
 Cashier
 Three Administrative Assistants
 Computer Assistant
 Secretary
 Cleaning Person

Additional personnel will be contracted to operate the BID loan portfolio.

2.10 Relationship of Project to Organizational Structure

The A.I.D. project was a general support project to the institution itself. Thus, it supported all aspects of the institution's development and program.

2.11 Special Characteristics of the Organization

Notable characteristics of the Fundación include: (a) a dynamic leader with good skills in developing effective contacts with the private and public sectors, (b) very small capital base with very little donated capital during the first three years of operation, (c) definition of the institution as a main-stream, middle to upper-middle class organization, and (d) a qualified, professional management staff.

2.12 How and Why the Organization was Selected to Implement the Project

An initial survey by ACCION/AITEC, at the request of A.I.D./Paraguay, concluded that no other institution in the country was capable of providing support to the microenterprise sector and that to obtain broad support for the program it was necessary to create a new institution.

2.13 Potential Reach of this Institution

As currently envisioned, the potential reach of the Fundación is limited to the greater metropolitan area of Asuncion. Estimates of the potential size of this market range from 10,000 to 50,000 individuals. The Fundación has decided not to become involved in rural development activities or in microenterprise support activities in other cities, although it has been requested to do so by the government. The plan is to help create similar, independent foundations in other major cities--the first such effort will be carried out in the city of Encarnacion with follow-on funding provided by A.I.D./Paraguay--rather than expand its own activities to cover those areas. It should be noted that this is characteristic of the ACCION/AITEC approach.

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3. NATURE AND CHARACTERISTICS OF A.I.D. ASSISTANCE

3.1 Size and Composition of A.I.D. Assistance

Grants

LAC-0616-G-SS-5095-00	\$189,375	9/09/85 - 8/31/87
526-0616-G-00-5003-00	\$ 10,625	9/17/85 - 6/30/87
526-0616-G-SS-8005-00	<u>\$150,000</u>	8/23/88 - 9/30/90
	<u>\$350,000</u>	

Loans: None

In-Kind Contributions \$19,851

Composition of A.I.D. Assistance (\$000)

	<u>5095</u>	<u>5003</u>	<u>8005</u>
Technical Assistance (AITEC)	81.9	0	40.0
Budget Support -- Fundación	107.5	10.6	40.0
Budget Support -- New Entity	0	0	70.0
Rotating Fund	0	0	0

3.2 Conditions of Assistance

Virtually no conditions, other than standard A.I.D. grant regulations, were placed on the use of these funds by A.I.D./Paraguay except that no funds could be used to establish a revolving credit line. The end-of-project status for the grant stressed that the institution would be able to generate donated funds in excess of two times the A.I.D./Paraguay contribution during the first year. This did not happen.

4. DETAILED INFORMATION ON CREDIT ACTIVITIES

4.1 Structure of Credit Activity

The Fundación operates a revolving fund that provides loans to microentrepreneurs organized in solidarity groups. The microentrepreneurs are divided in two distinct groups: micro-productores (micro-producers) and micro-comerciantes (micro-sellers). Micro-producers are defined as those who add value to raw materials.

Loans are made directly to the solidarity groups by the Fundación, and there is no intermediary organization (e.g., banks) in the loan application, disbursement and repayment processes. The Fundación issues checks, which are endorsed by the group at the cashier's window in the Fundación. The Fundación then cashes the check for the group, disbursing cash. Payments are received in cash in the Fundación office.

Currently the revolving fund amounts to Gs. 144,000,000 (US \$144,000) for working capital loans. In October, the program established a revolving fund of US \$500,000 with funds loaned by BID, which will be used to fund fixed asset purchases by micro-producers.

Contrary to most microenterprise credit programs, which derive their funds from international sources, the Fundación program derives its funds mainly from local commercial banks. As shown below, 44.4 percent of the Fundación's total funds and 71.3 percent of its rotating credit funds come from local sources.²

	Rotating Fund	Operating Costs	Total	Per- cent
Local Funding				
Donations	16,483,088	8,233,166	24,716,254	5.3
Bank Loans	182,000,000	-	182,000,000	39.1
Subtotal	<u>198,483,088</u>	<u>8,233,166</u>	<u>206,716,254</u>	<u>44.4</u>
International Funding				
Donations				
A.I.D./Paraguay	-	79,614,410	79,614,410	17.1
IAF	32,475,000	36,074,850	68,716,254	14.8
CIPE	-	55,886,177	55,886,177	12.0
BID	-	6,771,182	6,771,182	1.5
Peace Corps	22,395,799	-	22,395,799	4.8
Loans				
BID	25,201,034	-	25,201,034	5.4
Subtotal	<u>80,071,833</u>	<u>178,346,619</u>	<u>258,418,452</u>	<u>55.6</u>
Grand Total	<u>278,554,921</u>	<u>186,579,785</u>	<u>465,134,706</u>	<u>100.0</u>

4.2 Loan Portfolio

The Fundación's loans are made to finance working capital and fixed assets needs. While both micro-sellers and micro-producers can apply for working capital loans, only micro-producers can apply for fixed assets loans. Loan amounts, terms, and conditions differ according to type of borrower: micro-sellers or micro-producers.

²These figures only include the portion of the recently-approved long-term BID loan that have been disbursed. Neither is the recently-approved A.I.D.-funded expansion program included in these figures. All contributions are expressed in terms of the guarani equivalents at the time of disbursement.

a. **Loan amount:** The program follows a successive loan system, by which loan amounts increase by up to Gs. 25,000 (US \$25) per successive loan to micro-sellers, and up to Gs. 50,000 (US \$50) to micro-producers. Initial loan amounts are also larger for micro-producers: first loans have a loan ceiling of Gs. 100,000 (US \$100), twice as high as that of micro-sellers' loans. Loan ceilings are set on an individual basis--that is, average amount per group member. However, the promoter may set the amount to be lent according to what the group can efficiently manage. The amount must not exceed the ceilings, but it may be reduced to a lower level.

Loan No.	Micro Seller	Micro Producer
1	Gs. 50,000	Gs. 100,000
2	75,000	150,000
3	100,000	200,000
4	125,000	250,000
.	.	.
.	.	.
.	800,000	800,000

First loans under the fixed assets program start at Gs. 200,000 or more. Loan ceilings are set at 75 percent of the total value of the fixed assets.

b. **Loan term:** The term for working capital loans ranges from ten to 120 days for micro-sellers and 30 to 180 days for micro-producers (including a grace period of up to 30 days), with weekly, biweekly, or monthly installments. Most loans, however, have been granted for eight weeks (56 days), with weekly installments. For fixed assets loans the term is set according to the business's production cycle; however, it should not exceed one year.

c. **Interest rates:** The program charges a two percent monthly interest rate. In addition it charges two percent a month for training, and two percent for technical assistance and follow-up. This amounts to a six percent nominal monthly rate on loans. A more in-depth discussion of interest rates is contained in section 4.5.

Characteristics of the Loan Portfolio. At the end of September 1988 the Fundación's loan portfolio stood at Gs. 144,000,000 (US \$144,000), and was projected to exceed Gs. 192,000,000 by the end of the year.

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Outstanding Portfolio

Year	Outstanding Portfolio	Annual Growth (%)
1986	51.810.902	-
1987	104.200.702	101
1988*	192.411.288	85

* Projected to December 1988

Loans in the first year were primarily granted to micro-sellers, with the result that women were the primary beneficiaries under the program. In 1987 the percentage of the portfolio dedicated to micro-producers began to increase, as has the percentage of loans to male beneficiaries.

Portfolio, Disaggregated by Activity and Gender

Year	Outstanding Portfolio Gs.	Micro Producer	Micro Seller	Distribution by Gender			
				Producer		Seller	
				M%	F%	M%	F%
1986	51.810.902	12.236.637	39.574.265	54	46	34	66
1987	104.200.702	50.318.441	53.882.261	56	44	37	63
1988*	144.308.466		No Data				

* Jan - Oct

Since 1986 the Fundación has granted 3,684 loans to solidarity groups comprised of between three and five persons. An average loan of Gs. 451.630, therefore, implies an average individual loan of between US \$90 and US \$150.

Average Loan Size

Year	No. of Loans	Total Disbursements	Average Amount
1986	629	251.896.046	400.471
1987	1.607	663.930.000	413.149
1988*	1.448	747.980.000	516.561
TOTAL	3.684	1.663.806.046	451.630

* Projected through December 1988

Pattern of New and Renewed (Follow-Up) Loans

Year	<u>Number</u>		<u>Disbursements</u>		<u>Average Loan Size</u>	
	New	Renewal	New	Renewal	New	Renewal
1986	234	395	60.661.000	191.235.046	259.235	484.139
1987	298	1.309	80.500.000	583.430.000	270.134	445.707
1988*	176	1.272	52.545.000	695.435.000	298.551	546.726
	708	2.976	193.706.000	1.470.100.046	273.596	493.985

* Projected through December

It should be noted, however, that renewal loans are not granted to cover delinquencies; thus, the process of renewing loans does not contribute to understating delinquency statistics. Renewal loans are the automatic follow-up loans that are granted when a group has satisfactorily complied with its repayment obligations. In the absence of a continually expanding loan portfolio the tendency will be for renewal loans to form an increasing percentage of the portfolio, eventually impeding the program's ability to service new clients.

**Distribution of Fundación
Beneficiaries, by Size of Business**

Number of Employees	Percent of Fundación Beneficiaries
0	67%
1	20%
2	8%
3 - 5	5%
6 -10	0%
11+	0%

Distribution of the Loan Portfolio, by Size of Loan: Most of the individual loans given by the program to date have been very small--with 90 percent less than US \$300.00. This is due to a variety of factors, including the limited capital base the Fundación has had to work with, the need to be able to distribute at least some funds to a wide variety of persons to maintain loyalty, most of the funds have gone to micro-sellers, and the fact most of the beneficiaries are receiving their first sets of loans. As the program matures--increasing the proportion of micro-producers in the program and the number of groups that have received a large number of loans--the average amount of the loans will tend to increase.

Loan size	% of loan
Less than US \$300	
50 - US \$100	31%
101 - 200	44%
201 - 300	15%
TOTAL	90%
Between \$301 and \$800	
301 - 600	7%
601 - 800	3%
TOTAL	10%

4.3 Lending Procedures

Loan Application and Repayment Procedures: Potential clients are required to attend three orientation sessions before applying for the loan. The sessions provide detailed information on the program characteristics, solidarity group mechanism and loan conditions. Strong emphasis is placed on explaining the non-charity approach of the program and the importance of on-time repayment. The one and a half hour orientation sessions are scheduled on Mondays and Tuesdays. During the first session (Monday afternoon) potential clients fill out a registration form, learn about program characteristics and are told that they will have to form a group of two to three members who will agree to guarantee each other. During the second session (Tuesday), potential groups members fill a personal data form, and a date for the promoter's visit to the business place is set. Promoters carry out individual interviews with group members, and personal and business references are cross-checked before potential clients attend the third session. The promoter's approval of the group is based on his/her individual assessment of its members. During the third session (Monday morning), groups receive detailed information on loan terms and conditions. They register officially, fill out the loan application form and elect a group coordinator, who will be responsible for the group's repayments.

Loan applications are submitted to the Microenterprise Department officer for final approval. However, the promoter's approval of the group during the orientation sessions carries a lot of weight and ordinarily all applications submitted to the ME Officer are approved.

All group members must sign the loan agreement and come to the Fundación to receive the loan check. Checks are given on Mondays and Thursdays.

Second loans are delivered automatically. When the next-to-last loan repayment is due, the group meets the promoter to arrange for its follow-on loan. The promoter reviews the repayment history of the group and its qualifications. The program has a credit rating system ranging from one (for those who pay on time) to five (those who pay after legal action is taken). Loan approval, as well as amount of the loan, is determined in accordance to the rating received.

In addition, solidarity group members must attend a training course every time they receive a loan. Attendance to at least one training course is obligatory for both new and old borrowers. The courses cover different topics and levels: Accounting I and II, Marketing, and Administration (for micro-producers) as well as Basic Record Keeping, Marketing, and Credit (for micro-sellers).

Repayments are made in the Fundación's office, in downtown Asuncion. It takes an average of ten minutes for the beneficiary to make a repayment. With travel back and forth to the program office, the repayment process takes an average of two hours, for a total cost to the beneficiary of Gs. 1,730 (working hours lost + travel expenses).

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While no registration fees, deposit, or administrative costs are charged for the application, a cost is involved for the borrower. Prior to applying for a loan, potential clients must attend three orientation sessions, which involve lost work time and transportation costs. Clients are also required to present the "Cedula" (the official identification document). Since a large percentage of the microentrepreneurs do not have identification documents, loan application involves additional expenses in obtaining a birth certificate and "cedula de identidad". The total costs involved in the loan application can be as high as Gs. 21,795. This figure is equivalent to wages for 3.66 working days.³

Cost of Loan Application for The Borrower

	Time HRS	Unit Cost	Doc/Travel costs	Cost (Gs.745/hour)*
Orientation sessions	5		0	3,725
Travel	6	240	1,440	4,470
Documentation				
Birth certificate	1	300	300	745
Cedula (ID)	1	1,000	1,000	745
Travel	6	240	1,440	4,470
Disbursement/Training	2		0	1,490
Travel	2	240	480	1,490
Grand Total	23		4,660	<u>17,135</u> \$21,795

* Estimated from a minimum wage per day = \$5900

Loan processing time: The time lag between initial inquiry and loan disbursement is 15 to 21 days, when group members have been selected prior to inquiring about the loan. Since most microentrepreneurs already know about solidarity groups, they have usually formed their groups prior to coming to the Fundación. As a result, over 80 percent of the loans are disbursed within 15 days.

The program has placed strong efforts on speeding up loan approval and disbursement procedures. However, the loan application process is time and resource consuming-- for both borrower and lender-- as the high drop out rates indicate. Drop-out rates between the first and third orientation sessions were 65 percent in

³The Fundación considers the high cost of application to be a bona fide filter to discourage marginal applicants. Without this process delinquency rates would be considerably higher.

1987, and 57 percent in 1988. Drop out rates are still high between the second and third sessions. These figures indicate a high number of potential clients for whom loan application requirements and program conditions seem to difficult to meet.⁴

Drop-out rates

Year	<u>1st session</u>		<u>2nd session</u>		<u>3rd session</u>		<u>Drop outs</u>	
	Attend	%	attend	%	attend	%	1-3	2-3
1987	2,870	100	2,058	72%	1,007	35%	65%	49%
1988*	595	100	386	64%	259	43%	57%	33%

* January-June

As the program currently provides only working capital loans to established businesses, not new ones, no equity contribution is required. Neither is an equity contribution contemplated for the BID-financed fixed assets program.

Program clients are urban micro-business owners integrated in solidarity groups comprised of three to five members. In order to obtain credit for any purpose, potential clients must meet the following eligibility criteria:

- own his/her business;
- have been in operation for at least one year;
- be 18 years or older;
- have identification document;
- have no access to commercial credit; and
- be willing to become a member of a solidarity group.

In addition, and as members of a solidarity group, individuals must meet the following conditions:

- be willing to guarantee each other;
- have their premises in the same area (neighborhood); and
- know and trust each other.

The program finances five types of solidarity groups:

- integrated by family members working in the same business;
- business owners who belong to the same family;
- microentrepreneurs who own a business on partnership;

⁴Again, the Fundacion views this as important to reducing the level of delinquency.

- microentrepreneurs living in the same neighborhood; or
- spouses working in the same micro-business.

In working with groups, the program's methodology has been modified based on experience. The Fundación did not originally place any specific requirements on group formation, although the program favored five-member groups and stimulated integration of members with different backgrounds. Strong emphasis is now placed on group formation based on vicinity and family ties, smaller group size, and similarity in activities.

Program promotion has also changed over the years. Promotion relied initially on the work of the promoters. They identified microentrepreneurs interested in participating in the program and held regular meetings to promote the formation of solidarity groups. These groups were expected to generate a demonstration effect which would attract other microentrepreneurs. Today, promotion heavily relies on word-of-mouth, and the Fundación's beneficiaries are basically comprised of walk-in clients.

4.4 Savings Mobilization

There is no savings mobilization component in this program. Clients have asked to form a credit union, but the Fundación has taken no action on this request.⁵

4.5 Interest Rates

At the initiation of the program interest was charged at a rate of five percent per month on the declining balance of the loan, divided as two percent for interest, two percent for supervision and two percent for training. This was reasonably consistent with prevailing interest rate restrictions on the formal financial sector, which could charge a maximum of 17 percent per year on loans. The difference in interest was covered by the fees for supervision and training.

The Fundación currently charges a publicized rate of six percent per month on loans to beneficiaries divided as two percent for interest, two percent for supervision and two percent for training. Supervision and training are mandatory. These costs are prorated among the scheduled payments, and are neither discounted nor paid in advance. In addition, the Government of Paraguay imposes a number of transaction taxes: a one-time fee of 1.75 percent on the total amount of the loan (which is discounted from the loan itself), and a total of 0.5 percent of the amount of each payment (which is added to amount of the payment).

⁵The Fundación itself cannot accept savings deposits because it is not registered as a depository financial institution under the national banking law.

In reality, true effective interest rates are significantly higher. Beginning in 1987⁶ the Fundación began to charge interest on the entire original amount of the loan for the entire period of the loan--that is, not on the declining balance. The effect of this method of charging interest is that the true interest rate is 3.67 per month for each charge, or a total of 11.01 percent per month or 132.12 percent per year. In fact during the final week of an eight-week loan the effective annual interest rate charged by the program is 574 percent.

At first glance the interest rates charged by the Fundación appear excessive. While these rates are considerably above commercial rates charged by formal-sector financial institutions⁷--banks (29 percent), financieras (35 percent), and loan companies (75 percent)--none of the program's beneficiaries have access to these institutions. The program's rates should be compared to those charged by the informal sector--the sources beneficiaries must deal with--and these sources charge effective interest rates of up to 20 percent per day (7300 percent annually!). For example, the typical micro-comerciante operating in Market 4, the largest market in Asuncion, takes a loan of Gs. 30,000 (US \$30) from a moneylender in the morning and pays him back Gs. 36,000 at the end of the day. For some moneylenders the loan has to be paid back by noon. For loans over Gs. 200,000 (US \$200), moneylenders charge a lower daily interest rate of seven percent. However, the microentrepreneur must have a co-signer.

Comparative Interest Rates

	Daily	Annual
Program		88%
Bank		29%
Credit Unions		36%
Financieras		35%
Loan Companies		75%
Informal sector	5 - 20%	1825% - 7300%

The new BID loan has placed severe interest rate restrictions on the Fundación--with maximum interest rates limited to a true rate of 35 percent per year. Interest must, therefore, be calculated on the declining balance of the loan. In addition, the loans may not carry additional charges for supervision, as these costs are to be

⁶When the Fundación learned that anticipated BID funds would not be available in the near future and the program faced a financial crisis.

⁷Stated interest rates of formal sector financial institutions often understate the true rates because of hidden charges and requirements that substantially raise the effective interest rates.

covered by BID's non-reimbursable grant of \$90,000 to the Fundación. To break even on the loan, however, the Fundación is discounting a training fee.

4.6 Financial Analysis of the Program

The loan portfolio turns over approximately six times per year. Although the intent is to increase the loan period over time, almost all loans are currently made for two months (eight weeks). The value of the Fundación's loan portfolio in local currency (Gs. 000) for the past three years is as follows:⁸

Date	Total Funds	Loans Outstanding	Cash or Deposits	Percent Loaned
12/86	76,229.8	52,397.4	23,832.3	68.7
12/87	135,829.0	101,933.5	33,895.4	75.0
10/88	213,564.9	144,308.5	69,256.4	67.6

Because cash must also be used to cover expenses and maintain liquidity, it appears from these tables that the portfolio is fully loaned out at about 75 percent of total disposable funds.

Data on the range and distribution of the length of loans, as well as information on the affect of loan size, were not available.

Income does not currently cover all operational costs, although the Fundación is rapidly becoming self-sufficient. Projections for 1988 indicate that self-generated income will cover 80.1 percent of operating costs (excluding the portion of the executive director's salary paid as an ACCION/AITEC employee. The program is too new and the loan portfolio too small to cover costs at reasonable interest rates. As the loan portfolio increases the program should be able to achieve financial self-sufficiency.

Expressing the value of the loan portfolio in constant 1986 guaranis and as a percentage of the face value of the original contributions provides a rough estimate of the current ability of the Fundación to maintain the value of the portfolio.

⁸At the present time the exchange rate is approximately Gs. 1000 per U.S. dollar, so this table can be read as the dollar value of the portfolio.

Date	Nominal Portfolio	In Constant 1986 Gs.	Current Loan Fund as Percent of Original Contributions ⁹	
			Nominal	Deflated
12/86	52,397.4	52,397.4		
12/87	101,933.5	75,599.7		
9/88	143,820.9	88,786.0	76.7	64.4

These figures indicate that the program has increased by only 70 percent in real terms during the past two years (compared to a nominal increase of 274 percent). In addition, the Fundación is having difficulty maintaining both the nominal and real value of its loan portfolio. The current outstanding loan portfolio is only 76.7 percent of the amount of funds that were donated for the revolving fund; in real terms the current portfolio is only 64.4 percent of the value of the original donations. This means that the Fundación is decapitalizing its revolving loan fund, and that both interest and capital repayments are being used to meet current operating costs. The Fundación needs a substantial infusion of capital to generate sufficient income without decapitalizing its loan program.

4.7 Factors Influencing the Sustainability of the Program

The credit portion of the project is already self-sufficient. The rates charged by the program for interest and supervision (effective rates of approximately 3.67 percent per month for each category, or 7.34 percent overall) fully cover the cost of funds and direct supervisory costs. It should be noted, however, that charges specifically identified as interest just barely cover the cost of funds, and would be inadequate to sustain the program in the absence of the separate charge for supervision. "Supervision" fees are also applied to covering the extraordinarily high reporting costs of servicing international donor agency-funded programs. Training fees are charged separately.

The program has addressed the inflation problem by charging a very high real rate of interest--3.67 percent per month for interest, and 3.67 percent per month for supervision. With an annual inflation rate of 30 percent, the rates charged are adequate to maintain the value of the fund--if income is adequately allocated to that purpose.

The Fundación's definition of loan delinquency and default is inadequate. A loan is not considered delinquent until the entire loan is due; a missed payment is considered only as "late" until the entire loan becomes due. Because loans are currently given for such a short period of time (eight weeks), this definition has not yet caused major problems. As the program extends longer-term loans, however, this could become a major issue.

⁹These percentages are based only on donations and currently active loan funds.

Default rates:

Delinquency Rates

Year	Outstanding Portfolio	Overdue Payments	Defaulted Loans	Rate (%)
<u>By Year</u>				
1986	51,810,902	1,395,765	1,859,308	6.3
1987	104,200,702	5,851,214	7,996,317	13.3
1988*	164,772,921	5,943,752	13,687,777	11.9
<u>By Sector, for 1988</u>				
TOTAL	164,772,921	5,943,752	13,687,777	11.9
Sellers	102,058,862	3,575,034	5,756,185	9.1
Producers	62,714,059	2,368,718	7,931,592	16.4

The Fundación has elaborate procedures for identifying delinquencies and missed payments. All payments are due on one of two specified days each week. The cashier has a computer print-out of all payments due on a particular day; each payment received is manually checked off on the list; missed payments are highlighted; and a list of groups missing payments is presented to the operations department the day after the due date. Follow-up by the field workers appears to be reasonably effective, although there is a fairly large number of loans with outstanding payments. No analysis of recovery rates has been made.

The program makes an interesting contribution to the efficiency of financial markets vis-a-vis the microenterprise sector. Microentrepreneurs do not have access to formal financial institutions in Paraguay for a variety of reasons, including their lack of collateral and the low profitability of such loans for the banks. The Fundación is performing an intermediary function by borrowing from the banks at regular commercial rates (it can do this because of its status and the personal guarantees of its directors) and lending the funds to the microentrepreneurs at rates substantially below informal sector interest rates. Thus, it is, in effect, creating an access to the formal sector for microentrepreneurs in Paraguay. If it were not charging positive real interest rates substantially above the commercial rate it would be unable to perform this function.

5. DETAILS OF TECHNICAL ASSISTANCE AND TRAINING COMPONENTS

5.1 Structure and Characteristics of Training and/or Technical Assistance to Enterprises

Technical assistance (in fact, loan supervision) and training are mandatory under the program. The recipients must receive basic training related to loan operations and obligations prior to receipt of loans, and must attend a follow-up course prior to disbursement of each follow-up loan.

There was no needs assessment: the training program is determined a priori by the ACCION/AITEC methodology.

Attendance in at least one training session is mandatory for all group members for each loan received. The program has given training to 2,938 individuals, with a cumulative attendance of 7,176. This means that each individual has received an average of 2.5 courses, which seems low given the short term and rapid turnover of the loans.

Total Attendance in Training Courses

Course	1986	1987	1988	Total
Credit	222	1,205	721	2,148
Bookkeeping	438	743	-	1,181
Marketing I	224	829	701	1,754
Group Dynamics I	-	650	653	1,303
Accounting I	45	33	539	617
Management	18	31	-	49
Group Dynamics II	-	-	231	231
Accounting II	-	-	56	56
Marketing II	-	-	458	458
Totals	947	2,870	3,359	7,176

The focus of training is on general business and management. The program is not equipped to provide technical or industry-specific assistance. The first five "introductory" courses are focused on credit administration, basic record keeping, marketing, group dynamics and accounting. After a microentrepreneur has taken the first five courses he/she is eligible for more advanced, "level-2" courses in accounting, marketing and group dynamics.

All training is carried out in formal group sessions at the Fundación office; there is no individual training. The one- to two-hour sessions are scheduled on Mondays and Thursdays. Beneficiaries are required to select the subject they want to take and register in advance. Attendance is strictly controlled to ensure that the members take at least one course when required, but there is flexibility in terms of topics and dates.

The program does not attempt to provide technical assistance in the business place. The program's field workers are engaged in credit follow-up, especially for delinquent loans, rather than in providing technical assistance to the borrowers. The program would require a significantly expanded staff to provide any meaningful level of on-site technical assistance.

Training is administered by the Training Officer, a former priest with extensive experience in non-formal adult education techniques. He was responsible for preparing the course methodology, content and schedule, and conducts the courses with the assistance of persons experienced in the different topics.

5.2 Cost of Training and Technical Assistance

The beneficiaries are charged a nominal rate of two percent per month (24 percent per year) for training but, because of the way the Fundación calculates interest and fee rates, this translates into an effective rate of 3.67 percent per month (44 percent per year). The training is mandatory, so recipients pay for the training whether they benefit from it or not.

The Fundación does not maintain cost-center accounting, so it was not possible to determine the percentage of costs the training fee covers.

5.3 Effectiveness and Cost Effectiveness of Different Types of Training and Technical Assistance

The program provides only classroom training, so a comparison of the effectiveness of this approach versus non-formal, adult education techniques cannot be made.

The program provides no technical assistance independent of credit, so a comparison of the effectiveness of technical assistance with and without credit cannot be made.

There is no concrete evidence of the effectiveness or impact of training, and the Fundación has not developed data collection and appraisal methodologies to permit such evaluation. Interviewed beneficiaries indicated a high level of satisfaction with the methodology and content of the training courses, although they were unable to express concrete examples of the ways in which they have been able to make use of the training or have implemented any of the ideas learned in the courses. All indicated that they would not have attended the courses initially if

they had not been mandatory, but said they now attended willingly. Many said they would continue to attend even if the courses were not mandatory.

6. SUSTAINABILITY OF THE IMPLEMENTING ORGANIZATION

6.1 Prospects for Long-Term Sustainability

The institution seems to be well-positioned for long-term sustainability. It is rapidly approaching financial self-sufficiency (see table on following page), and with the increase of funds from the BID-financed program, should begin to generate positive income flows that can be used to recapitalize its loan portfolio. Its ability to generate and utilize bank loans is a significant positive factor in its prospects for self-sufficiency and continued program expansion. In addition, a number of other internationally-funded activities appear to be nearing approval.

6.2 Management and Direction

Since A.I.D. support has already ended (with the exception of additional funds for extending activities to the city of Encarnacion), the continued growth and expansion of the program is evidence of the fact that management (including the volunteer board and top management staff) are definitely committed to the long-term functioning of the organization.

The institution is characterized by a professional management-level staff that appears perfectly capable of directing activities over the longer run. The Fundación does, however, have a tendency to pursue and engage in a variety of ancillary activities that could divert energy and attention from managing the microenterprise program. In the evaluation team's opinion the organization should focus its energies on a limited number of activities until it has the operational and support systems well-defined and operating efficiently.

The Fundación does have an in-house computer accounting system, but it is inadequate to the needs of the program. It needs a funds-accounting system with cost center accounting and multiple consolidation possibilities. The Fundación should immediately examine the possibilities of acquiring a good, general-purpose accounting package. In addition, the Fundación needs to acquire (or develop) a loans processing package to handle its installment credit program. This is discussed in somewhat greater detail in Appendix D.

The Fundación's books are current, with financial statements produced and verified for September, 1988 (the current date is November 10, 1988). Accounts for October are being processed, and should be finalized by the 15th of November. Aging records on loans are processed manually. This needs to be automated.

The absence of an adequate information system is one of the principal constraints to expanding the Fundación's program. Current systems combine manual semi-automated processes in an inefficient effort that results in duplicated staff

SUMMARY OF INCOME AND EXPENSES, 1985 to 1988
(Amounts in Guaranis)

	1985	1986	1987	1988*
SELF-GENERATED INCOME				
Interest on Loans	2,133	1,931,611	11,823,812	20,460,937
Charges for Supervision	2,133	1,994,820	23,294,901	39,652,865
Charges for Training	4,266	3,824,732	23,466,084	39,637,737
Other	0	0	2,823,062	3,592,215
Total	8,532	7,751,223	61,407,859	103,343,754
EXPENSES				
Personnel Costs	4,385,425	32,363,606	67,415,664	69,355,633
Interest on Borrowed Funds	0	1,292,079	4,766,632	23,240,187
General Administration	2,826,312	20,570,077	40,089,361	35,159,556
Write-off of Bad Debtz	0	0	4,364,291	0
Total	7,211,737	54,229,762	116,635,948	127,755,376
GROSS MARGIN	-7,203,205	-46,478,539	-55,228,948	-24,411,622
SELF-SUFFICIENCY (%)	0.1	14.3	52.6	80.1

* Figures for 1988 projected based on data through September.

effort, inefficient utilization of staff, inaccurate and inconsistent data and a great deal of frustration on the part of both management and staff. Current efforts to develop automated support are unlikely to be successful because they are being developed as isolated applications in the absence of an overall information system plan. Since ACCION/AITEC has supported programs in such a diversity of countries in Latin America it appears inconceivable that it has not developed a basic program module that would support the basic functions of the Fundación. In the absence of such a program, the Fundación should develop a comprehensive, integrated information system design and plan before continuing with ad hoc programming. A brief description of information system requirements appears in Appendix D.

6.3 Staff Development and Personnel Policies

The Fundación does not have a designated personnel officer. The evaluation team did not have time to review personnel policies.

The Fundación has not conducted any staff training or development activities due to the financial difficulties it has experienced during its first three years of operation. The creation of an employees' association and a staff retreat to discuss staff development issues are both positive steps.

The Fundación's staff appear qualified and capable, and are highly motivated in their work.

6.4 Financial Analysis of Implementing Organizations

Administrative costs of per dollar loaned is running around 15 percent, based on total costs divided by the total value of disbursements in the year. As the loan portfolio grows this figure should decline to a more acceptable level of five percent.

Non-A.I.D. funds represent 82.9 percent of the total funds received by the Fundación to date. (See table in Section 4.1.)

Inflation is a major problem. To date the Fundación has been working to develop a basic loan portfolio (i.e., generate the initial portfolio), so issues of maintenance-of-value have been secondary. The program charges sufficiently high interest rates to deal with the inflation problem once the basic portfolio is developed.

During 1987 total costs were approximately \$1.54 per dollar in the outstanding portfolio. This is considerably above the 20 percent suggested as acceptable in the Data Sheet form. The high cost per loan is due to the large start-up costs of the organization and the complete absence of significant amounts of international donor support during the first three years of operation. With the initiation of the BID-funded program this ratio should decline rapidly.

Prospects for achieving financial self-sufficiency are very high. The program has already achieved 80 percent self-sufficiency with a very limited loan portfolio

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and high start-up costs. It has adopted realistic pricing strategies that will permit self-sufficiency with a reasonable loan portfolio.

6.5 Factors Affecting Sustainability

As is the case with all institutions operating in Paraguay, the long-term sustainability of the Fundación depends primarily on its ability to maintain political acceptance and credibility. To date the Fundación has done a very good job in developing this acceptance.

7. IMPACT OF THE PROJECT ON BENEFICIARIES

7.1 Has the project delivered services in the anticipated manner?

Yes, although on a much lower scale than originally projected by ACCION/AITEC.

7.2 Evidence of the impact of project efforts on the performance of beneficiaries

In the evaluation of the program impact on the beneficiaries, a comparison of the socioeconomic situation of a sample of 85 microentrepreneurs before and after six months of participating in the program was undertaken. The sample was selected from beneficiaries incorporated to the program in the period September/1986-January 1987. The baseline data was collected at the time of their loan application. The data for comparison was taken in July 1987. The sample selection was done according to program composition by sector (micro-comercio and micro-industria) and gender (male/female). The sample composition is as follows:

	Total		Sellers		Producers	
	Sample	%	Sample	%	Sample	%
Female	46	54.1	32	57.1	14	48.2
Male	39	45.9	24	42.9	15	51.8
Average	85	100.0	56	100.0	29	100.0

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The sample results indicate a positive economic impact of the program on the microentrepreneur as evidenced by increases in sales, net profits, inventory, fixed assets, and savings. The program has also had a positive impact on the family welfare as indicated by increases in family expenses.

Summary of Program Impact (Gs. 000)

	Total = 85			Female = 46			Male = 39		
	Before	After	Growth%	B	A	Growth%	B	A	Growth%
Sales	418	593	41.9	389	550	41.4	451	640	41.9
Net Profit	95	128	34.7	83	121	45.8	109	136	24.8
Inventory	123	204	65.9	30	185	42.3	115	228	98.3
Family	76	88	15.8	71	84	18.3	83	92	10.8
Fixed asset	283	302	7.0	428	440	3.0	24	31	29.2
Savings	56	106	89.3	34	49	44.1	22	57	159.1

a. Impact on Sales

The program has contributed to an increase of 41.9 percent in beneficiaries' sales over a six month period. When a comparison by gender is made, figures indicate similar increases for both female and male beneficiaries. A breakdown of the project impact on sales by sector of activity and gender as illustrated below. Project impact on sales has been higher for micro-sellers (51 percent) than for micro-producers (26 percent). In this sector, male performance has been higher than female. However, performance by female micro-producers has been significantly better (53.7 percent) than male.

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Impact on Sales

	Micro - Sellers				Micro - Producers			
	Sample	Before	After	Growth%	Sample	B	A	Growth%
Female	32	420	578	37.6	14	292	449	53.8
Male	24	481	793	64.9	15	404	397	-1.7
Average	56	451	686	51%	15	348	423	26%

b. Inventory

Program beneficiaries present an average increase in inventory of 65.9 percent. When comparing this figure with average increases in sales (41.9 percent), the differences indicate a low rotation of inventory. This could be the result of sudden inflows of money for working capital generated by the project. A breakdown by gender indicates that increases in inventory have been higher for male beneficiaries among both micro-sellers and micro-producers (71 percent and 148 percent, respectively).

Impact on Inventory

	Micro - Sellers				Micro - Producers			
	Sample	Before	After	Growth%	Sample	B	A	Growth%
Female	32	91	130	42.9	14	221	310	40.3
Male	24	119	204	71.4	15	107	266	148.6
Average	56	105	167	57%	29	164	288	94%

c. Net profit

As for net profit, figures show an average increase of 34.7 percent per beneficiary. However, the average increase for micro-sellers (43 percent) has been higher than for micro-producers (27 percent). Interestingly enough, female micro-producers achieved net profit growth of 60.5 percent as opposed to a 7.3 percent decrease in the case of males.

Impact on Net Profit (Gs. 000)

	Micro - Sellers				Micro - Producers			
	Sample	Before	After	Growth%	Sample	B	A	Growth%
Female	32	83	117	41.0	14	76	122	60.5
Male	24	104	151	45.2	15	110	102	-7.3
Average	56	94	134	43	29	93	112	27

d. Fixed assets

Until October 1988 the program did not contemplate loans for capital investments. However, figures indicate an average growth in fixed assets of 36 percent for program beneficiaries. Average growth for male beneficiaries was 57.2 percent in contrast to only 9.7 percent for female. When data are disaggregated by sector and gender, male micro-sellers had higher average increases in fixed assets (64.2) than female micro-sellers (1.5 percent), but male micro-producers had lower average increases in fixed assets than their female counterparts (53.8 percent to 64.8 percent, respectively).

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Impact on Fixed Assets

	Micro - Sellers				Micro - Producers			
	Sample	Before	After	Growth%	Sample	B	A	Growth%
Female	32	486	493	1.5	14	238	393	64.8
Male	24	967	1,588	64.2	15	1,418	2,180	53.8
Average	28	727	1,040	32.8	15	828	1,286	59.4

e. Savings

Although the program has not established mechanisms to promote savings, there has been an average increase of 100 percent in beneficiary-owned savings during the last six months. Male beneficiaries had higher savings increases (248 percent) than female beneficiaries (57 percent). A breakdown by sector indicates higher levels of savings among micro-producers.

Impact on Savings

	Micro - Sellers				Micro - Producers			
	Sample	Before	After	Growth%	Sample	B	A	Growth%
Female	32	43	49	14.0	14	6	65	983.3
Male	24	23	53	130.4	15	22	110	400.0
Average	28	33	51	72	15	14	88	692

f. Family welfare

The project has had a positive impact on the beneficiary's family welfare. An indicator is an average increase of 14 percent in family expenses. A breakdown by gender shows greater increases in expenses by female beneficiaries. This fact seems to confirm a prevalent idea that women tend to devoted a higher proportion of their

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income to family welfare. It could also explain lower increases in savings and fixed assets for females described in previous sections. Figures indicate higher increases in family expenses in female micro-producers (27 percent), as a reflection of higher increases in sales and net profits.

Impact on Family Expenses (Gs. 000)

	Micro - Sellers				Micro - Producers			
	Sample	Before	After	Growth%	Sample	B	A	Growth%
Female	32	70	80	14.3	14	74	94	27.0
Male	24	81	92	13.6	15	85	93	9.4
Average	28	76	86	14	15	80	94	18

7.3 Number of jobs created or number of jobs made more productive, cost per job, level of increased income or wage per job

Data to permit conclusions on this are not available.

7.4 Effects on Job Creation and Productivity

Data were not available during the time frame of the evaluation.

7.5 Adequacy of the Macro-Economic Policy Framework

A number of policy constraints affect the general business climate in Paraguay, including inadequate exchange rates, negative gap between formal financial sector interest rate ceilings and the inflation rate, fiscal disincentives on investment and a cumbersome public sector apparatus.

The success of microenterprise activities is that they operate informally, without the often unrealistic restrictions of the formal sector. While Paraguay's plans to develop a microenterprise law can be viewed as a positive step in "legalizing" the sector, it may have a negative effect in subjugating the sector to unrealistic formal sector constraints.

8. SOCIO-ECONOMIC ANALYSIS OF THE PROJECT

8.1 Cost Benefit and Internal Rates of Return

No data are available.

8.2 Indirect effects of the project

The program has succeed in generating a willingness among the banking community to lend funds at commercial rates to the Fundación. It has also attracted the attention of a number of international donor agencies as a potentially viable development program.

8.3 Identify clear indicators of success of working with new versus existing firms

The program works only with existing firms. Extremely high failure rates, higher delinquency rates and the precarious financial position of the Fundación mitigate against a program oriented toward establishing new businesses.

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APPENDIX B

SUMMARY OF THE PRODUCTION CREDIT GUARANTY PROJECT (PCGP)

During the period from 1978 to 1983, A.I.D./Paraguay financed an interesting project that, while not related directly to micro-enterprises, contained a number of experiences that are worth noting. This was the Production Credit Guaranty Project, or PCGP.¹

1. Background

The PCGP project was designed to support small-scale entrepreneurs in the business and manufacturing sectors. Market and street vendors were excluded. Loans ranged from a minimum of US \$2,300 to a maximum of \$20,000, for a period of up to five years. The only significant qualification requirement was that the borrower not be able to meet legal bank loan collateral requirements.

The U.S. government initially provided a loan guarantee fund of \$1.5 million to cover the risks of private bank loans to small-scale enterprises. The guarantee would cover a maximum of 75 percent of any single loan, up to 50 percent of a bank's portfolio of qualified loans.

Private banks originated loans with individual clients and rediscounted the notes through the Paraguayan Central Bank, which would reimburse up to 80 percent of the total amount of qualified loan at very favorable interest rates. Private loan promoters helping the client prepare the loan proposal received a five percent commission.

The \$1.5 million was theoretically capable of guaranteeing a loan portfolio of \$2.3 million.² In addition, part of the interest received by the Central Bank was used to establish a bad debt reserve fund.

After a slow start, the private banks rapidly expanded their loan portfolios in this area, and the balance of qualified loans outstanding reached \$4.0 million. The Central Bank asked A.I.D. for an increase in the loan guarantee, which A.I.D. at first refused to do. The Central Bank began to realize its own exposed risk, and stopped rediscounting loans. A.I.D. then increased the guarantee fund to \$3.0 million but, in doing so, decreased the amount of the banks' total portfolios that it would cover to only 20-25 percent of qualified loans. This was done on the basis that the bad debt reserve in the Central Bank should serve as the first line of guarantee for the program.

¹Information on this program was taken from a limited number of interviews.

²In fact, once delinquency rates were known the guarantee should have been capable of supporting a much larger portfolio.

The program rapidly expanded until late 1981 and early 1982, when the qualified loan portfolio reached more than US \$11.0 million. At that time a series of events occurred that adversely affected the program. The first was the downturn in the Paraguayan economy due to the completion of the heavy construction phase of the Itaipu dam project, with consequent increases in unemployment and reduced demand for private-sector goods and services. The program suffered its first defaults. A.I.D. was slow in activating the guarantee mechanism. The Central Bank decided it should not be involved in rediscounting regular commercial credits, and stopped authorizing rediscounts. A flood in early 1983 destroyed a number of beneficiary businesses located in the flood plain (mostly brick-makers) and caused large-scale defaults, and the program effectively collapsed.

2. Lessons Learned

In spite of the eventual failure of this program, a number of significant lessons can be drawn:

- Private banks will finance small-scale enterprise opportunities given the proper mix of incentives;
- A limited amount of resources--which were never expended--succeeding in mobilizing a significant loan program;
- A great deal of pressure was required to overcome initial reluctance on the part of the private banks to participate;³
- The guarantee mechanism was cumbersome, never completely understood, unstable (unilaterally modified in the middle of the program), and never institutionalized;
- The start-stop-start nature of the program undermined confidence in the workability of the guarantee mechanism and the program itself; and
- The absence of a plan for expanding the program or setting limits on it undermined institutionalization of the program.

3. Recommendation

A.I.D. should conduct a more intensive review of this project--costs, attitudes, statistics--to extract relevant lessons for the small-scale enterprise program.

³It is rumored that the Central Bank threatened to terminate its other rediscounting operations -- from which the banks benefitted substantially -- if they did not participate in the program.

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APPENDIX C

PARAGUAYAN CREDIT UNION SYSTEM

The Paraguayan credit union system has benefitted from A.I.D./Paraguay support since the early 1960s. Even though its lending activities are primarily in the area of personal finance, many credit unions--especially those in urban areas--typically have a large number of self-employed individuals as members, and lend money for small-scale enterprise purposes.

1. Basic Statistics

At the present time there are 55 registered credit unions, of which 42 are affiliated with the national federation of credit unions--Central Cooperativa Nacional Ltda., or CREDICOOP. These credit unions have 34,946 members, assets of Gs. 11.4 billion (US \$11.6 million), savings and capital of Gs. 7.1 billion (US \$7.3 million) and loans outstanding of Gs. 7.3 billion (US \$7.5 million).

Twenty-one of the 55 credit unions are classified as urban, and another 11 have a mixed rural-urban membership. The urban and mixed credit unions have a total urban membership of 19,072, of which between ten and 25 percent (1,900 to 4,768) are potential micro- or small-scale entrepreneurs.¹

2. Structure of the Loan Portfolio

Credit unions are primarily sources of personal credit, and as such their portfolios are heavily oriented toward home improvements, consumer purchases, education and health expenses and personal business activities. In Paraguay a large BID-financed production credit program aimed at increasing agricultural production has greatly increased the amount of lending in this area.

Data on loans made during the most recent fiscal year by a limited sample of credit unions in the Asuncion metropolitan area indicate that some of these are participating to a modest degree in small-scale enterprise credit.

¹Statistics are not readily available on the distribution of members or loans. The credit unions maintain only very rough statistics on the distribution of loans by purpose.

	<u>Mburicao</u>	<u>Nazareth</u>	<u>Caaguazu</u> <u>Poty</u>
Total No. Loans Made	308	561	394
Amount of Loans Made (Gs mil.)	118.5	154.9	141.1
No. of Small Enterprise (SE)	49	115	108
Loans granted			
Amount of Small Enterprise (SE)	29.7	41.2	34.4
Loans Granted (Gs. mil)			
% of Loans to SE	15.9	20.5	27.4
% of Amount to SE	25.1	26.6	24.4
Average Loan Amount			
(Gs. 000)	606.1	358.3	318.5
(US \$)	717.28	424.02	376.91

3. Special Characteristics of the Credit Union System

- It is relatively weak--only one percent of the population belongs to credit unions.
- It is primarily financed by self-generated savings. Large BID loans for agricultural credit are the major exceptions to this.
- The structure of the credit union system--individual entities affiliated to a central organization that can accept deposits and interlend funds--offers significant opportunities for developing a coordinated program.
- They are experienced financial institutions, with experience in evaluating credit worthiness, making and collecting loans.
- There is an established infrastructure of credit unions throughout the country, with offices and staff in place.
- They operate at relatively low spreads. Credit unions in Paraguay are charging no more than three percent per month on the outstanding loan balance, and are paying between 12 and 18 percent on savings. All are self-sufficient with these margins.
- The credit union system provides a mechanism for transferring resources from saving members to borrowing members and from capital abundant areas to capital scarce areas and activities. Urban credit unions are typically net savings institutions, and rural credit unions are typically net borrowing institutions. Both within individual credit unions and within the system as a whole there is a tendency to transfer resources from urban to rural areas, and from wealthier to poorer members.

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- Credit unions typically value the type of people micro-enterprise programs are designed to help as regular financial customers. Unlike banks, credit unions encourage small-scale savings and loans.
- Credit unions are full-function financial institutions, and as such serve to mobilize domestic capital.

APPENDIX D

INFORMATION SYSTEM IMPROVEMENTS

The Fundación's ability to service a growing beneficiary population is hindered by its lack of adequate information system support, particularly in terms of client record management, loans processing and accounting. Current manual and semi-automated processing of this information results in inaccurate data, inefficient staff utilization, poor presentations to international donor agencies and an absence of adequate decision-making information. The Fundación needs to obtain automated support for all three of these operations.¹

1. The Three Basic Systems

Client Record Management

Present manual procedures for maintaining records, tracking loans, managing delinquencies and reporting statistics are inadequate for the needs of an expanded program. Current plans to list basic data on the Apple computer (or even a stand-alone PC) provide an insufficient response to the problem.

A client management system for the Fundación must be an integrated system involving a client profile, client history and revolving credit loan portfolio management function. The system should be designed so that relevant data is entered only once into the computer and serves the needs of all related activities in the Fundación. These include loan processing, collections, loan supervision, training, technical assistance scheduling, delinquency monitoring and control, detailed statistics and planning. The interface with the accounting system would probably be handled manually.

The principal need is for a well-designed client data base, comprised of the following major file types:

- | | |
|-------------------------|--|
| Basic Client Record -- | All basic data on each group and individual client, including ID number ² , group number, name, address, sex, age, program classification, ID number for the field worker, etc. |
| Basic Client Profile -- | Basic data on the client's business, including economic activity, years in business, assets, average annual (periodic) sales, number of employees, etc. |

¹The accounting function is currently using a program package provided by Coopers and Lybrand, but this package is inadequate to the needs of the Fundación.

²The program should be sure to record the number of the "cedula de identidad" for each participant, as it needs to be able to unambiguously identify each individual in the program.

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- Current Loan Data** -- Loan number, group number, date, amount, interest rate, number of payments, scheduled payment dates, ID numbers of other group members, data on payments received, delinquency data and credit rating data.
- Historical Loan Data** -- Archive of individual loan data on all prior loans made by the Fundación. This file must be capable of containing data on a limitless number of loans for each group or individual.

A data base program oriented this way would provide a wide range of operational control operations and management information and a flexible reporting mechanism for dealing with donor and other agency requests for statistical information. It should be capable of (a) handling the client registration, loan granting, payments, loan supervision and delinquency control operations; (b) support planning, monitoring and evaluation functions; and (c) permit an easy extraction of summary statistical reports on loans granted, groups formed, group competition, performance, beneficiary impact, and gender-related issues.

To function properly, such a system would have to be a multi-user system, either through a LAN network or as a truly multi-user computer system. It would need to support several "on-line" terminals, providing several users with simultaneous access to data on the system. Terminals (or PCs) should be placed to support the work of the cashier(s), field staff, planning department and training. There would have to be adequate safeguards (security, program control of key functions, passwords, etc.) for ensuring the validity, reliability and safety of the data.

Loans Processing

An alternative to incorporating the loans program as part of the client record management system would be to install a specialized loan processing package. Numerous well-developed packages managing installment credit programs already exist, both in the U.S. and in Latin America. The program operated by the Fundación is no different from that run by a commercial bank, savings and loan association or credit union, and any well-designed loans program written for those institutions would serve the needs of the Fundación as well.

The major requirements for the Fundación are that the program operate on a PC-compatible system, that it permit multiple interest rates and fees (on the same loan as well as on different loans) and that it permit flexibility in repayment periods, interest rates, advanced payments and methods of calculating interest. Data on clients should be capable of automatically updating the more extensive client record system without manually reentering the data. The interface between this system and the general ledger accounting system, however, could be through manual journal entries.

Accounting

The accounting package in use in the Fundación is inadequate to the evolving needs of the organization: it does not adequately manage donor agency funds,

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individual projects and programs or cost centers; it does not adequately manage changing exchange rates; and it has only limited report capabilities.

The Fundación needs a good, general-purpose accounting package that has:

- A comprehensive general ledger;
- Ability to handle multiple currencies;
- Ability to manage funds as separate entities;
- Multiple "companies" and cost centers;
- Flexible consolidation capabilities to report the same data in different ways; and
- Powerful report writer.

The accounting package does not have to share the same computer system as the client record management system. It could (and perhaps should) operate on a secure stand-alone micro-computer.

2. Other Needs

In addition to the three applications listed above, a well-designed information system should be capable of supporting a much wider range of functions and operations within the Fundación. These include statistics and reporting, management of the local resource mobilization effort (aportes locales), training and class scheduling and financial planning and projections.

Statistics. Although not essential (most data base programs can handle rudimentary statistics) a statistical package would be helpful for the processing and analysis of impact data, financial trends, and beneficiary profile. The two major PC-based programs on the market are SPSS and SAS, either of which would meet the needs of the Fundación. The package should be capable of reading and using files generated by the data base program used for client record keeping.

Resource Mobilization. A simple data base application is needed to track local contributions for both internal and external reporting. Such a system should be able to print out summary statistics of donations by type, subdivided by year, or donor, etc., as well as listings and other statistical information.

Training. The scheduling, carrying out and tracking of training activities is a major, time-consuming activity. As the program grows it will become both more necessary and more difficult to manage this process.

3. Basic System Requirements

The system required by the Fundación is neither complex nor unique. It would require no specialized equipment or programs. Basic, off-the-shelf software could handle all of the requirements of the Fundación with little customized programming. Basic hardware would consist of:

- A LAN-based PC network or multi-user system with up to five terminals;

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Stand-alone PC's for functions that do not need to share information or data; and
Printers (both dot matrix and letter quality).

Basic software would include:

Data Base Management program (such as dBase III+, Rbase, Oracle, etc.
Loans Package
Accounting Package
Other packages, as needed and affordable
Statistics
Graphics
Word Processing

With this software a minimum amount of custom-programming (to develop functioning applications) would be required.

4. An Information-System Design Approach

The Fundación needs to have an information system design and plan before it embarks on a program of application development. The piecemeal, non-systematic approach that institutions tend to take results in poorly integrated applications, duplication of effort and information, and problems of communications and reliability. A strategy for developing a system that serves the long-term requirements of the organization would be to:

- Conduct a needs assessment of the organization, to develop a profile of the functions and processes the information system must be designed to support;
- Develop an information system design that details (1) the interrelationships among the various business functions and the data needed to be shared among them, (b) the applications needed to support each of the functions, and (c) the specific requirements (specifications) for each system and application;
- Develop an implementation plan that details the Fundación's priorities and schedule for developing each application; and
- Select hardware and software (including programming) on the basis of its responsiveness to the specific needs of the Fundación, as specified in the information system design;
- Manage the development and installation process--most new systems failed because they are not managed effectively.

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APPENDIX E

PERSONS CONTACTED DURING THE EVALUATION

A.I.D./Bolivia

Julio Cesar Basualdo, A.I.D. Program Assistant

Fundación Paraguaya de Cooperacion y Desarrollo

Martin Burt, Executive Director

Astrid Gustafson, Program Coordinator and Member of the Administrative Committee

Guillermo F. Peroni, Member of the Administrative Committee

Jose Antonio Bergues, Member of the Administrative Committee

Carlos Rivarola, Director, Planning and Resource Mobilization

Luis Antonelli, Director, Finance and Administration

Gaspar Alvaro Paya A., Director, Operations

Francisco Rodrigues, Chief, Training Department

CREDICOOP

Juan Peralta Paredes, General Manager

Justo Vera Diaz, Chief, Finance Department

Peace Corps

Julia Greene

Robert Bennett

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