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Consultancy Report

Review of Automated System Alternatives

Caja Rural "Cruz de Chalpon" - Chiclayo, Peru

Project Name: Caja Rural and Community-Based
Enterprise Development

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I. EXECUTIVE SUMMARY

MISSION STATEMENT: Review Microbanker and existing automated programs for use in the Caja Rural System in Peru.

SUMMARY

The existing system, provided by the Ministry of Agriculture, covers the basic needs of the Bank for transaction processing, accounting, and internal/external reporting requirements. It is an integrated multicurrency, multi-user system which also contains a basic financial analysis module for credit approval purposes. Modifications have been requested by existing users to correct/augment certain program functions:

- Fixed Asset accounting
- Bank-wide budgeting
- Penalty/Normal interest calculations
- Guarantee analysis
- Liquidity management
- Teleprocessing (agencies)
- Financial analysis
- "Central de Riesgos" (Superintendencia de Bancos)

The program developer requests US\$40,000 for the modifications which, supposedly, could be completed within two months.

Microbanker is an integrated, single currency, multi-user system which includes basic modules for different loan and deposit products. Modifications have already been made to this program in various locations throughout the world. Additional proposed modifications will be discussed at the world-wide meeting scheduled for the Philippines next month. The basic package reviewed in Chiclayo did not include some program modifications already available. A package suitable for use in Peru should include the following additional functions:

- Multi-currency capability
- Fixed Asset accounting
- Bank-wide budgeting
- Penalty interest calculations
- Guarantee analysis
- Liquidity management
- Teleprocessing
- General expense accounting
- "Central de Riesgos" (Superintendencia de Bancos)
- Report requirements of the Superintendencia de Bancos

A meeting is scheduled for the week of February 27th in Mexico City to review available and planned modifications to the Microbanker system. Attendees will include representatives of ACDI-Chiclayo, other Peruvian "cajas", and the Peruvian Agricultural Ministry.

Proposals for other new automated systems were previously solicited from the Lima offices of IBM and Concord Data. Initial approval was given for the Concord Data product, but funds disbursement has been postponed pending revision of the Microbanker system in Mexico.

Due to obvious time constraints, the Bank must initiate operations using the existing system. Additional manual verifications of the system's interest calculations must be made until the system is modified or a new system is implemented. Similarly, auxiliary procedures should be implemented to control/correct other program deficiencies identified by other "cajas". The additional (budgeted) operations staff should be hired immediately for control and customer service requirements. It is also necessary that procedures be documented for all operations to ensure consistency and efficiency.

II. BACKGROUND

The Caja is being initiated with assistance from ACDI with the understanding that it be the model for development of the other thirteen "cajas". The automated system presently used by the existing "cajas" will be utilized initially by the Caja and similar loan, deposit, and service products will be offered. It is anticipated that the Caja Rural- "Cruz de Chalpon" will take a leadership position for new automated systems development, appropriate financial/credit analysis techniques, efficient operations processing, and the overall relations between the Cajas Rurales and the respective regulating authorities.

The ACDI staff is completely independent of the Caja staff. Every effort is being made to ensure that the Caja is managed on an independent basis and that daily operations be handled by Caja personnel without direct intervention from ACDI. This will result in a very clear organization structure, but may not be the fastest approach to completion of the "model" structure.

Premises remodeling is basically complete with the exception of modifications to the teller's cage and the vault area. Additional space for customer service is necessary based on with forecasted loan and deposit growth.

In order to minimize pre-operational expenses, Management has deferred filling certain key staff positions that are necessary for maintaining essential separation of functions after normal banking operations commence. Similarly, final definition and printing of standard forms was delayed pending review of the existing automated system.

Authorization will soon be received from the "Superintendencia de Bancos" allowing the Bank to open (within next two weeks) for business. It is now urgent that the necessary staff be contracted and that the forms be completed and printed. Management is aware of this and is making its best effort to have everything in place for the inauguration.

III. FINDINGS, RECOMMENDATIONS, CONCLUSIONS

EXISTING AUTOMATED SYSTEM

The system was developed for the Ministry of Agricultural for specific application in the Caja Rural System. It functions in either single or multi-user mode and has been in use in some of the "cajas" for more than one year. It works through personal computers that are normally interconnected via an integrated network.

Many of the "cajas" have requested and/or made a number of changes to the programs due to their own individual preferences or underlying program deficiencies. Separate contracts were signed between the program developers and the individual "cajas" to cover the costs of these modifications.

As part of our system review, a number of test transactions were entered for processing. Errors were detected in interest rate calculations for both deposits and loans. There were also inconsistencies between reports for some of these same transactions. Some transactions were either partially or totally lost due to "lack of system memory", but the exact cause of the problem was not determined during the review period. Caja Management also requires a number of changes based on its requirements for customer receipt presentation.

It is apparent from our review and comments from others familiar with the system, that there are a number of serious problems with the system. It is suggested that all of the other "cajas" be polled and that a list of all the program deficiencies be documented. Internal procedures should be documented as soon as possible to protect against system weaknesses.

MODIFICATIONS TO EXISTING SYSTEM

The new "Asociacion de Cajas Rurales" has apparently had discussions with the program developers concerning the possibility of having the programs corrected and standardized for all the "cajas". This would also include the implementation of certain additional modules. The estimated cost is approximately US\$40,000 with a development time estimated at approximately two months.

CONCORD DATA/IBM

Prior to hearing about the Microbanker system, but after reviewing the complaints from some of the "cajas", requests were made to IBM and Concord Data for a new software system. Proposals were received from both which included a development time of approximately seven months. The price of the Concord Data system is US\$128,000 and covers all of the existing and proposed "cajas". The IBM system costs US\$140,000 and there would be an additional charge of US\$5,800 per office (main or branch) beyond the initial fourteen. Both systems would require hardware upgrades.

The proposal of Concord Data was initially accepted, but disbursement of funds has been delayed pending review of the Microbanker system.

It should be noted that (based on the limited information available) Concord Data does not seem to have much documented experience in this area. It is suggested that their capabilities and experience be verified prior to contract finalization.

I was not able to review the detailed proposals of either IBM or Concord Data during the review period. I was informed by the technical representative of the Ministry of Agriculture that the proposed systems are identical.

MICROBANKER SYSTEM

The Microbanker system was developed through funding provided by FAO. It is used in hundreds of banks and cooperatives throughout the world and has been modified extensively for use in many of these countries. It was developed specifically for use in rural banks such as the "Cajas Rurales". The FAO does not provide direct support for ongoing development and modification of the systems, but recommends that users cooperate amongst themselves for making modifications and providing instruction and implementation advice for potential new users.

FAO representatives in Rome recommended that we contact the Director of "Cajas Solidarias" in Mexico for help in reviewing and/or implementing the Microbanker system as necessary. Lic. Alvaro Zamora Alarcon was contacted in Mexico City.. He mentioned that they have 88 offices presently operating out of a total of 120 authorized. The Microbanker system is being used in 32 of the office and the balance are controlling their transactions manually.. He stated that they are converting the remaining "cajas" to Microbanker at the rate of approximately one per week. They are also developing systems to allow concentration of bank-wide information through a new telecommunications network. They would be willing to help us with our installation and currently have one of their technicians working on a new installation on the island of Jamaica.

The system that we reviewed does not include all of the existing available modifications. It is an integrated, multi-user system that includes various loan and deposit products, but does not have multi-currency capability. A more detailed listing of the missing (or desired) modules is listed in the Executive Summary section of the report.

Attractions of this system are its very low cost, minimal hardware requirements, and the possibility of its implementation in farm cooperatives basically "as is". Future development and modification costs should also be minimal due to the work being done constantly throughout the world. It is assumed that these modifications will be shared among the various users.

Mr. Jorge Noda (ACDI-Chiclayo) will see the system in actual operation in Mexico. A more specific assessment of the system's capabilities should be available thereafter including the time necessary for modification and the availability of technical support from Mexico. (See section IV. of this report)

RECOMMENDATIONS

Following the review of the Microbanker system in Mexico, a decision must be made concerning the automated system to be used in the "Cajas Rurales". The objective is to utilize the same system in all of the banks, so much care must be exercised in shepherding the decision through the "Asociacion de Cajas Rurales" and the Ministry of Agriculture.

Once the new (or modified) system is implemented, related operating and credit procedures should be redocumented and made available to the other "cajas" directly or through the "Asociacion de Cajas Rurales". It may also be necessary to "educate" the Superintendencia de Bancos personnel to ensure that their own audit and report requirements are in line with standard acceptable practices. We will certainly need to work with them concerning the use and maintenance of the country-wide "Central de Riesgos" used by all commercial banks in addition to the "cajas".

Development of the "Asociacion de Cajas Rurales" as a valid spokesman for the "cajas" is essential. It will need to promote and protect the position of the "cajas" in the overall banking system as competition for deposits, loans, and capital intensifies in the future.

CONCLUSIONS

All the preliminary work required to initiate operations as a Caja Rural in Chiclayo has been completed. The official inauguration should take place within the next two weeks with normal banking operations commencing at approximately the same time. In the interim, additional staff must be hired and the related operating procedures must be defined and documented. These procedures should include at a minimum:

- Cash and Tellers
- Customers' Securities
- Bank Account Reconciliation
- Shipment of Cash and Securities
- Deposits
- Loans
- Exchange Trading
- Insurance
- Safes and Vaults
- Duplicate Record Program
- Expense Accounting

ACDI's objective of developing a model will take longer and will require a proactive relationship with the other "cajas", the "Asociacion de Cajas Rurales", the Ministry of Agriculture, and the Superintendencia de Bancos. Providing a model for use by other organizations is more complex, time consuming, and requires much more attention to detail than development of a stand-alone system for strictly personal use.

Both ACDI and Caja management are aware of the work to be done and are proceeding as fast as possible to open the Bank and develop the model.

IV. MEXICO REVIEW - MICROBANKER

During the week of February 27, 1995, a visit was made to Mexico City to review the Microbanker system used by the Cajas Solidarias (CS). Attendees included Mr. Jorge Noda (ACDI-Peru), Mr. Juan Vega (Secretariat of Agriculture-Peru), a representative of Agrocapital (Cochabamba, Bolivia) and me.

The CS were established to promote savings in rural areas of Mexico. The initial funding was provided by the Federal government through deposits of collections related to loans given directly by the government to individual borrowers. The borrowers buy shares in the individual "cajas" and can request loans up to 90% of the value of their investment/deposit. All deposits and loans are in Mexican Pesos.

The Microbanker system has been minimally modified to handle transactions and serves as the core for a number of other integrated systems used for reporting and consolidation purposes. Modems have been installed in a number of locations to allow program modification and/or data retrieval by the (coordinating) office from the individual "cajas". At this time, the "cajas" operate independently of each other. All "cajas" receive ongoing administrative support and technological support from the coordinating office in Mexico City.

The modified Mexican system is not adequate for use in Peru, but some of the related programs can be used for communication and data extraction purposes.

The final result of the review was that the Microbanker system (with modifications for multicurrency and general ledger account numbering) could easily be used as the nucleus for an integrated, automated system for use in the Peruvian Cajas Rurales. Support will be required from FAO personnel (Alan Caplan) and other local programmers proficient in the Clipper programming language for modification of the basic program.

After returning to San Diego, Mr. Caplan was contacted in the Philippines concerning his availability for an initial review of the Peruvian requirements. He will be available the last week of April at the earliest. Any changes in his present work schedule will require the approval of Mr. Richard Roberts (FAO-Rome).

It is expected that Messrs. Noda and Vega will recommend the Microbanker system for modification and implementation into the country-wide Caja Rural system after verifying costs and development timing with the FAO.