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CONSULTANCY REPORT

REVIEW OF OPERATING PROCEDURES

CAJA RURAL "CRUZ DE CHALPON" CHICLAYO, PERU

PROJECT NAME: CAJA RURAL AND COMMUNITY-BASED ENTERPRISE
DEVELOPMENT

PROJECT CODE: 196

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I. EXECUTIVE SUMMARY

MISSION STATEMENT

1. Conduct a detailed review of the existing automated system, determine its limitations, and recommend corrective action.
2. Review internal operating procedures and recommend changes where necessary.

SUMMARY

The Caja is now open for business with basic operational and credit policies and procedures in place. Realization of projected results is contingent upon acquiring sufficient funding, developing group lending practices, hiring of additional operations/credit personnel, and resolution of restrictions caused by the physical premises.

Concurrently, decisions must be taken concerning modifications to the current automated system in addition to selection of a longer term automation alternative. This decision must be coordinated with the National Association of Cajas Rurales to ensure standardization throughout the Caja Rural System.

An interim disruption in the normal development of the Caja will be caused by the programmed absence of the General Manager for a period of four months beginning in June. It was originally contemplated that the Credit or Operations Manager would "sit-in" for the General Manager during his absence. Due to lack of experience in their current positions, it is now anticipated that ACDI Management will carry out the General Manager's functions directly during his absence.

The operating procedures recently implemented will require ongoing modification and expansion as new products are added, modifications are made to the existing automated system, and a new automated system is implemented. After fine-tuning and adjustment, it is anticipated that these procedures will be made available to the other Cajas for possible implementation.

II. BACKGROUND

This report is basically a follow-up to the Consultancy Report "Review of Automated System Alternatives" issued in February of this year. That report indicated various problems with the installed automated processing system supplied by the Ministry of Agriculture and the various alternatives under review by the Ministry and the National Association of Cajas Rurales.

It was decided to initiate operations with the current system pending resolution of the longer term automation requirements of all the Cajas. The new automation system should be a standardized package utilized by all of the Cajas. Program modifications needed in the short term by the Caja Rural Cruz de Chalpon are being requested from the program developer through a technical assistance agreement.

Based on the review in Mexico of the Microbanker System, it was decided that this alternative be recommended to the Association of Cajas Rurales. The system would serve as the core of a new set of systems to be developed with the assistance of the FAO and other programmers to be contracted locally. To this end, Mr. Alan Caplan of FAO-Microbanker was contacted and an initial project discussion meeting was tentatively scheduled for late April. This meeting was later cancelled due to lack of funding and indecision on the part of the President of the Association concerning the automation system to be implemented. The President decided to wait for a full meeting of the membership before moving ahead with the Microbanker System. Mr. Caplan will now be available in June at the earliest to begin project discussions. A determination needs to be made in the near future concerning the automation package to be developed/implemented.

On March 23rd the Caja was officially inaugurated and the facilities were opened to the general public on March 28th. Basic operating procedures and controls were developed and implemented as necessary and transaction processing and accounting processes are currently being managed satisfactorily. Periodic power interruptions continue to disrupt service. A back-up generator is in place, but the UPS system has not yet been released by Customs. A manual parallel operating process has not yet been implemented, but may be necessary if the UPS system is not installed in the near future.

III. FINDINGS, RESULTS, RECOMMENDATIONS

OPERATIONS

Automated System

Although the current system provides the basic transaction requirements of the Caja, a number of modifications are required in the interim until a new system is available. The Caja has contracted the software developer directly to make the necessary changes. Inclusion of these modifications will not result in a system that meets all normal requirements, but only the minimal operating needs.

It should be noted that the other individual Cajas have made similar one-on-one arrangements with the software firm. In order to minimize ongoing system maintenance based on fourteen individual programs, all of the Cajas are normally provided the same new modified program. This sometimes results in operating problems when existing programs are changed and Caja employees are not notified of the ramifications. This attempt at "coordination" between the Cajas has also resulted in the software company's refusal to make changes, using the excuse that other Cajas won't accept the modifications. The software company is supposedly contracting additional staff to give better field support to the Cajas in addition to better internal quality control.

The following are some of the modifications agreed to by the software supplier:

1. Back-value capability for application of loan (principal and interest) payments. (To be used when clients deposit direct to the Caja's bank accounts and when payments are received in the Agencies.)
2. Automatic account transfer based on classification of past due status for principal, interest earned not collected, interest income, and related memorandum accounts. (According to the Superintendencia's regulations, all principal and interest amounts must be transferred to special accounts when amounts become more than 15 days past due. Transfers are made back to normal status when payments are received. All of these transfers must now be made on a manual basis.)

3. Penalty and compensatory interest calculation policies must be defined and the system adjusted accordingly.

4. In line with Superintendency requirements, loan portfolio classification parameters need to be expanded to include classifications by individual loan regardless of the number of days past due in line with the Superintendency requirements. (Present system allows classification only on the basis of the number of days past due.)

5. An automatic month-end reserve for interest payable on Time Deposits is required. (These entries currently must be made on a manual basis.)

6. The same transaction number should be maintained for Time Deposits when renewed automatically at maturity. (Currently a new certificate and transaction number are generated causing unnecessary control risks and document custody requirements.)

7. Teller's daily closing cash balance should be automatically carried over as next day's opening cash balance. (This must be done manually at present and requires additional controls and verifications.)

8. A documented manual for the credit module needs to be prepared by the software company and thereafter reviewed in detail by Caja staff. (The manual does not exist for the current module and is consequently difficult to use.)

9. Reports for past due accounts must be re-formatted to provide information by credit agent in addition to other quality analyses based on criteria to be specified.

Operating Procedures

A number of operating policies and procedures were developed and implemented during the review period. These procedures cover the current basic operating needs, but additional procedures will be required periodically in line with new product implementation, initiation of agency activities, and automated system modifications. Document formats were developed for some procedures and photocopies are now being used for account

opening/transaction processing. After an initial trial period, these formats will be modified with formal printing to follow.

A partial list of the procedures developed and implemented is indicated below:

- Safes and Vaults
- Cash and Tellers
- Foreign Exchange
- Transportaion of Cash and Securities
- Storage of Records and Files
- Legal
- Stationery and Supplies
- Petty Cash
- Liquidity Management
- Mail
- Insurance
- Signature Verification and Control
- Protection
- Passbook Savings
- Savings- "Ordenes de Pago"
- Time Deposits (Certificates)

- Loans
- Interest Accounting

It is important to note that these procedures were developed based on a minimum staff complement. One additional employee needs to be contracted in Operations to meet this minimum.

Premises

The present office is very crowded with basically no room for expansion. Achievement of anticipated volumes in both credit and teller operations could result in decreased quality of customer service. Additional programmed staff additions to both Caja and ACDI operations will exacerbate this situation. Management is well aware of this situation, but corrective action is complicated due to existing budgetary restrictions.

Modifications are required for the vault and tellers' areas. Additional internal compartments are required in the vault for cash and document storage. There is insufficient room and equipment to allow opening a second teller for peak volume requirements.

CREDIT

The recently-arrived Credit Manager and senior Caja management have spent a considerable amount of time developing credit policies including minimum amounts by type of product and related guarantee coverage ratios. Pricing guidelines have been established and standardized legal documents are under review by local counsel.

Key to realization of portfolio and profitability goals is implementation of group lending products tied to Technical Assistance contracts. Group lending theoretically will result in increased average loan size and reduced portfolio maintenance costs. Technical assistance providers will screen potential borrowers, focus clients' production and commercialization efforts, and monitor correct use of funds loaned to the groups by the Caja.

It is essential that the individual responsibilities of the credit agents, technical service personnel, and borrowers be clearly spelled out. This is necessary to ensure that all risks are properly monitored and that legal collection rights are not jeopardized. Once these functions are specified, operational and credit procedures should be implemented/modified to ensure adherence to policy.