

A. REPORTING I.D. UNIT:
 (Mission or AID/W Office)
 (ES#)

B. WAS EVALUATION SCHEDULED IN CURRENT FY ANNUAL EVALUATION PLAN?
 yes slipped ad hoc
 Eval. Plan Submission Date: FY 0

C. EVALUATION TIMING
 Interim final ex post other
 PD-AAZ-385

D. ACTIVITY OR ACTIVITIES EVALUATED (List the following information for each project or program evaluated; if not applicable, list title and date of the evaluation report) XD

Project #	Project/Program Title (or title & date of evaluation report)	Evaluation of the Micro Enterprise Promotion Project - OPG to Acción Comunitaria del Perú	Firm PROAMS or equivalent (FY)	Most recent PACO (mo/yr)	Amount Obligated to Date (\$)	Amount Obligated to Date (000)
527-0274			1986	4/87	714	714

E. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

Action(s) Required	Name of officer responsible for Action	Date Action to be Completed
AID required Grantee to present an acceptable plan to correct administrative weaknesses before AID will consider extending the termination date of the grant.	David Himelfarb	March 31, 1987

(Attach extra sheet if necessary)

F. DATE OF MISSION OR AID/W OFFICE REVIEW OF EVALUATION: mo 3 day 15 yr 87

G. APPROVALS OF EVALUATION SUMMARY AND ACTION DECISIONS:

Signature Typed Name	Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
 David Himelfarb			 Luis Arreaga	 Donor M. Lion
Date: <u> 3/20/87 </u>		Date: _____	Date: <u> 8/15/87 </u>	Date: <u> 8/25/87 </u>

H. EVALUATION ABSTRACT (do not exceed the space provided)

The Project achieved important results through the creation of three new lending offices and an expansion of credit, training and technical assistance services provided to microentrepreneurs. The evaluation stated that should present lending trends continue, the volume of loans realized at the end of the project will be significantly greater than the targets set forth in the OPG proposal. As of the evaluation date, June 1986, Project activities generated considerable economic and social benefits, involving the creation of 700 jobs and an increase in direct and indirect value added of \$3,780,000. The majority of benefits resulted from loans to micro producers as opposed to micro retailers. The benefits of the Project would have been greater if the proportion of loans to micro producers (industry) had been greater since such loans generate more jobs and result in greater value added than loans to micro retailers (commerce).

Notwithstanding the foregoing, the evaluation pointed out major problems relating to the financial feasibility of the Project due to high operating costs. The evaluation stated that the organization's objective of self-sufficiency would not be achieved without both better expense management and a higher volume of operations.

Additionally, the PVO suffered from strong management deficiencies which resulted in excessive centralization of decision-making and less than adequate internal controls and procedures. The evaluation identified corrective measures needed to improve the efficiency and management of the organization.

I. EVALUATION COSTS

1. Evaluation Team Name	Affiliation	Contract Number <u>QR</u> TDY Person Days	Contract Cost <u>QR</u> TDY Cost (US\$)	Source of Funds
Deloitte, Haskins & Sells			25,000	PD&S

2. Mission/Office Professional
Staff Person-Days (estimate) 30

3. Borrower/Grantee Professional
Staff Person-Days (estimate) 15

A.I.D. EVALUATION SUMMARY PART II

J. SUMMARY OF EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS (Try not to exceed the 3 pages provided)

Address the following items:

- Purpose of activity(ies) evaluated
- Purpose of evaluation and Methodology used
- Findings and conclusions (relate to questions)
- Principal recommendations
- Lessons learned

Mission or Office: USAID/PERU

Date this summary prepared: December 31, 1986

Title and Date of Full Evaluation Report: Evaluation of Micro Enterprise
Development Project - OPG 527-0274

1.0 EVALUATION OF THE PROJECT IN RELATION TO
THE ORIGINAL GOALS OF THE OPG PROPOSAL

Purpose

The purpose of the evaluation was to show the current status of the project in terms of the original goals and objectives included in the OPG Proposal.

Period covered by the evaluation

The period covered by the evaluation is from October 1, 1984 to June 30, 1986 (equivalent to seven quarters). Although the agreement was signed on July 31, 1984, it was considered convenient to use October 1, 1984 as the beginning date since ACP received the first advance payment from AID in November 1984.

Sources of information

- . Budgeted figures -- from statistical tables included in the OPG proposal.
- . Actual figures -- from information provided by the executives of each district office and the central office contained in the following documents:
 - .. Monthly reports of credits, beneficiaries and loans granted.
 - .. Weekly requests for beneficiary checks.
 - .. Daily reports covering collections of receipt forms and notes.
 - .. Monthly reports covering the number of beneficiaries trained and advisory visits made.

EXECUTIVE SUMMARY

The Project 527-0274, OPG-ACP- Micro Enterprise Development, was signed on July 31, 1984. Prior to the OPG, ACP had been working only in Lima's southern cone. The purpose of the OPG was to expand credit and technical assistance opportunities for small scale business persons in the pueblos jovenes of Lima. This was to be accomplished by permitting ACP to expand its operations through creating three new branch offices in pueblos jovenes in the other three cones of greater Lima. The evaluation noted that the three new offices had been established and were fully operational, and that these offices were providing such services as credit, training and advisory assistance to micro enterprises.

The Project generated considerable economic benefits. More than 700 jobs were created and the direct and indirect value added increased by U.S.\$3,780,000, considering only the effect of loans to micro producers.

Notwithstanding the foregoing, the anticipated growth in certain items and services was below the targets included in the OPG. Moreover, difficulties exist as to the financial feasibility of the Project due to the high operating costs of the Institution in relation to income and current levels of activity. Projections show that unless measures recommended are adopted, economic self-sufficiency will be difficult to achieve.

In addition, the administrative performance of the Institution is an area of the project for which corrective measures are needed to improve the efficiency of the organization.

The summary of the project evaluation is as follows:

Growth and Achievement in Relation to the Goals of the OPG Proposal

The volume of loans to micro producers and micro retailers, measured in constant intis, increased 6 and 4 times, respectively since the initiation of the project. The establishment of the new offices definitely contributed to this growth since they accounted for 75% of the loans to micro retailers and 20% of the loans to micro producers.

Nevertheless, the volume of loans to micro producers was less than was anticipated in the OPG proposal by 20% and 95% for the southern office and new offices, respectively. On the other hand, the volume of loans to micro retailers surpassed the expectations in the OPG proposal by 579% and 126% in the southern office and new offices, respectively. The average active portfolio of micro retailer loans in 1985 and the first semester of 1986 surpassed the targeted number by 610% and 936%. In addressing the probable causes, however, for the lack of achievement in terms of loans to micro producers, the evaluation notes that the placement of these loans commenced very late in February 1986.

It must be noted that the disproportionate channelling of loans to micro retailers in relation to micro producer loans raises operating costs and may significantly affect the economic functioning of the Institution. Not only are loans to micro retailers more costly to administer than loans to micro producers, but the employment and value added impacts are less.

As to training, the evaluation indicated that the number of individuals trained was in excess of the number in the OPG proposal in the southern office by 26% but under projections in the new offices by 60%.

It was also observed that: (a) the beneficiaries generally have not applied the techniques disclosed in the courses and (b) the courses of technical assistance in which the micro producers showed great interest were not always given.

As to advisory services, the number of visits made were less than targeted in the OPG proposal by 17% and 95% in the southern office and new offices, respectively; it was also noted that topics covered were largely general in nature or related to credit services.

Cost and Financial Feasibility

Operating costs of the Institution are estimated at U.S.\$268,000 annually.

The cost of credit services represents 2/3 of ACP's total costs. The costs of these services, in the first semester of 1986, expressed in terms of an effective annual percent, are as follows:

	<u>MP</u>	<u>MR</u>
Southern Office	12	16
All offices	41	51

These rates indicate the interest rate points that must be used to cover operating costs. It can be observed that the higher rates overall for ACP (all offices) are due to the low level of volume at the new offices. The financial feasibility of the project may depend on ACP operating as an intermediary credit Institution, that covers its credit/service operating costs with the margin resulting from the difference in the interest rates on loans and funds obtained.

According to the evaluation, ACP must: reduce operating costs by becoming more efficient and realizing savings; increase the volume of loans in the new offices to the level attained in the southern office; and channel 90% of these funds to micro producers.

Additionally, the cost of training and advisory services represents 1/3 of the Institution's costs and do not generate any income to finance the costs; therefore measures must be taken to correct this situation.

Economic Impact

A survey was made of 60 micro producers in order to measure the economic effect of the Project. Micro retailers were not included in the investigation. The fact that they were excluded, yet represent the largest number of loans disbursed, suggests that the economic impacts of the project may be underestimated. It would appear that this would be true even when considering that loans to micro retailers create substantially less employment and value added than loans to micro producers.

According to the results of the survey, the Project has generated 705 jobs with micro producers with a cost job of U.S.\$1,390. This cost is less than in AID's Urban Development Fund (FDU), where the estimated cost per new job created is US\$2,000.

The five activities that created 90% of the jobs were shoe making, bakeries, dress making, knit goods and wood carpentry. Approximately 70% of the funds loaned were for these activities.

The net increases in direct and indirect value added were U.S.\$1,600,000 and U.S.\$2,175,000, respectively. A comparison of increases in direct and indirect value added for each dollar loaned between ACP and the small industrial companies of FDU is as follows:

	<u>ACP Micro Producers</u> (U.S.\$)	<u>FDU</u>
Direct value added	1.80	1.50
Indirect value added	2.40	3.10

The comparison is favorable for micro producers with regard to direct value added due to the greater use of labor. On the other hand the comparison is favorable for USAID's Urban Development Fund Credit Project (FDU) with regard to indirect value added which may be explained by: (a) greater purchases and (b) a larger percentage of sales through intermediaries in the case of FDU beneficiaries.

Administrative Performance

The evaluation observed the following weaknesses in the organization, administrative procedures and computer systems:

Organization:

- . Excess centralization of functions in the Executive Director.
- . Extensive committee meetings with many individuals in attendance.
- . Lack of a manual of organization and functions.

Procedures:

- . Lack of uniformity in the use of forms
- . Lack of a manual of standards and procedures
- . Lack of a good budgeting system and budget control

Computer System:

- . Deficiencies in organization and functioning
- . Insufficient equipment
- . Lack of control procedures

The recommendations directed to correct the weaknesses encountered are as follows:

- . Implement an improved organizational structure establishing: (a) managers with authority to handle functional areas and (b) functional committees (planning, budget, etc.).
- . Rationalize administrative procedures and implement a system of budgets and budget control.

Organize the electronic data processing area and contract a programmer/analyst for a specified period of time to develop the system.

Evaluation of Technical Assistance

Technical assistance was provided to ACP through the advisory services of Accion International (AITEC). The TA produced satisfactory guidance initially regarding the establishment of new offices, the creation of the operating methods and procedures, the training of the individuals in-charge of operations, and the development of training services.

However, although included in the contract agreement with ACP, AITEC did not participate in establishing improved organizational structures and accounting and administrative systems adequate for the Institution. AITEC also did not participate in the design of a financial system for helping to assure the long-term economic feasibility of the program.

The lack of advise by AITEC in the areas mentioned above could be attributed to (a) these matters being assumed by the Executive Director, (b) the lack of detailed terms of reference for the technical assistance and (c) the lack of a mechanism to ensure that AITEC would participate in all areas of assistance and that AITEC suggestions would be taken into account by ACP.

K. ATTACHMENTS (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier)

Evaluation Report

L COMMENTS BY MISSION, A.D/W OFFICE AND BORROWER/GRANTEE

The evaluation report was satisfactory. It identified clearly areas needing improvement and made sound and specific recommendations for future activities. Key recommendations relate to the establishment of adequate internal controls and procedures, and measures that must be taken to improve ACP's financial self-sufficiency. Given the management and administrative problems described in the evaluation, as well as weak TA support from AITEC, continued AID support of the organization will depend on AID's approval of a plan to be prepared by ACP, which addresses these important concerns.

Mackins & Sells

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AGENCY FOR INTERNATIONAL DEVELOPMENT

Project 527-0274: OPG-ACP

Evaluation of the Micro Enterprise
Development Project - Acción
Comunitaria del Perú

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Started September 1986

Completed Dec 31, 1986

TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	i - ix
1.0 EVALUATION OF THE PROJECT IN RELATION TO THE ORIGINAL GOALS OF THE OPG PROPOSAL	1 - 21
1.1 EVALUATION OF GROWTH IN CREDIT SERVICES	1 - 7
1.2 EVALUATION OF ACHIEVEMENTS IN RELATION TO THE QUANTITATIVE GOALS OF LOANS GRANTED	7 - 12
1.3 EVALUATION OF ACHIEVEMENT IN RELATION TO THE TRAINING AND ADVISORY SERVICE GOALS	12 - 17
1.4 CONCLUSION	18 - 21
2.0 OPERATING COSTS AND COST OF SERVICES	22 - 31
2.1 METHOD OF COMPUTING COSTS	22 - 23
2.2 RESULTS OF THE DETERMINATION OF OPERATING COSTS	23 - 29
2.2.1 OPERATING COSTS - FIRST SEMESTER 1986	23 - 26
2.2.2 INCIDENCE OF OPERATING COSTS IN THE SERVICES	26 - 29
2.3 CONCLUSION	29 - 31
3.0 FINANCIAL EVALUATION	32 - 43
3.1 REVENUES AND EXPENSES OF THE INSTITUTION	32 - 34
3.2 SOURCES OF FUNDS FOR GRANTING LOANS	34 - 38
3.3 FINANCIAL FEASIBILITY OF THE PROJECT	38 - 41
3.4 CONCLUSION	41 - 43

	<u>Page</u>
4.0 EVALUATION OF THE IMPACT OF THE PROJECT ON ECONOMIC DEVELOPMENT	44 - 51
4.1 METHOD OF THE SURVEY	45 - 46
4.2 PERIOD OF EVALUATION	46
4.3 RESULTS OF THE SURVEY	47 - 50
4.3.1 CREATION OF JOBS	47 - 48
4.3.2 DIRECT VALUE ADDED	48 - 49
4.3.3 INDIRECT VALUE ADDED	49 - 50
4.4 CONCLUSION	50 - 51
5.0 ORGANIZATION, PROCEDURES AND SYSTEMS	52 - 64
5.1 ORGANIZATION	52 - 54
5.2 ADMINISTRATIVE PROCEDURES	54 - 58
5.3 COMPUTER SYSTEMS	59 - 64
6.0 EVALUATION OF THE TECHNICAL ASSISTANCE	65 - 69
7.0 PROJECTIONS AND FINAL RECOMMENDATIONS	70 - 85
7.1 PROJECTIONS	70 - 76
7.2 FINAL RECOMMENDATIONS	76 - 85

SCHEDULES

- 1A STATISTICAL TABLE OF CREDITS, BENEFICIARIES
AND LOANS GRANTED
- 1B STATISTICAL SUMMARY OF CREDITS, BENEFICIARIES
AND LOANS GRANTED
- 2A COMPARATIVE TABLE OF BUDGETED LOANS GRANTED
VS. ACTUAL - MICRO PRODUCERS
- 2B COMPARATIVE TABLE OF BUDGETED LOANS GRANTED
VS. ACTUAL - MICRO RETAILERS
- 3 ESTIMATED OPERATING COSTS - FIRST SEMESTER 1986
- 4 DISTRIBUTION OF TIME ASSIGNED TO EACH SERVICE
- 5 TABLE OF DISTRIBUTION OF OPERATING COSTS
- 6A INCIDENCE OF OPERATING COSTS
- 6B ESTIMATED COST OF LOAN OPERATIONS TO MP AND MR
- 7 QUESTIONNAIRE OF MICRO PRODUCER SURVEY
- 8 LIST OF MICRO PRODUCERS SURVEYED
- 9 WEEKLY REPORT OF LOANS
- 10 NUMBER OF CREDITS AND LOANS GRANTED PROJECTION
- 11 CONFIGURATION OF A COMPUTER UNIT

EXECUTIVE SUMMARY

The Project 527-0274, OPG-ACP- Micro Enterprise Development, signed in July 1984 for the extension of services by Acción Comunitaria del Peru (ACP), has attained important results permitting the implementation of 3 new offices in "pueblos jóvenes" of Lima in addition to the office in the southern zone which existed prior to initiating the Project and the increase in credit, training and advisory services to micro enterprises.

Nevertheless, in certain items of services the growth attained has been less than the goals established in the proposal presented by ACP as the basis for the donation request (OPG proposal).

The Project has also generated considerable economic benefits, it being estimated that more than 700 jobs have been created and the direct and indirect value added increased by U.S.\$3,780,000, considering only the effect of loans to micro producers.

Notwithstanding the foregoing, difficulties exist as to the financial-feasibility of the Project due to the high operating costs of the Institution in relation to income and the current level of activity. Projections made permit it to be foreseen that should measures recommended in the report not be adopted, economic self-sufficiency will be difficult to achieve.

On the other hand, the administrative performance of the Institution results also in a weak point of the project for which we believe corrective measures to improve the efficiency of the organization should be taken.

The summary of the Project evaluation as to its principal aspects is as follows:

Growth and Achievement in Relation to the Goals of the OPG Proposal

The volume of loans to micro producers and micro retailers, measured in constant intis, increased 6 and 4 times, respectively, since the beginning of the donation.

The new offices definitely contributed to the growth as shown in the following particⁿ tions in the periods in which the offices made loans:

- Micro producers. Of the total growth in constant intis of 216% occurring in the first semester of 1986 with respect to the previous year, 20% is due to loans of the new offices.

Micro retailers. Of the total growth in constant intis in 1985 (98%) and the first semester of 1986 (164%), 65% and 76% are due to loans granted by the new offices.

Nevertheless, we must state that the volume of loans to micro producers were less than budgeted in the OPG proposal by 20% and 95% for the southern office and new offices, respectively. In the same way, the average active portfolio of micro producer loans of the first semester of 1986 was 74% less than budgeted. The volume of loans to micro retailers were in excess of that budgeted in the OPG proposal by 579% and 126% in the southern office and new offices, respectively. The average active portfolio of micro retailer loans in 1985 and the first semester of 1986 were in excess of the budget by 610% and 936%.

It must be noted that the channelling of loans to micro retailers in place of micro producers raises the incidence of operating costs to amounts loaned and may significantly affect the economic functioning of the Institution should the mixture by type of loan not be controlled.

As to training, the evaluation indicated that the number of individuals trained was in excess of the number in the OPG proposal in the southern office by 26% but under the budget in the new offices by 60%.

We also observed that: (a) the beneficiaries generally do not apply the techniques disclosed in the courses and (b) courses of technical assistance in which the micro producers showed great interest were not given.

As to advisory services the number of visits made were less than budgeted in the OPG proposal by 17% and 95% in the southern office and new offices, respectively; it also being noted that topics covered were largely general in nature or related to credit services.

Cost and Financial Feasibility

Operating costs of the Institution are estimated at U.S.\$268,000 annually.

The cost of the head office represents 60% of the costs of the Institution; therefore any plan to reduce costs must be initiated in that office. The principal cost classifications are: AITEC 35%, personnel expenses 29%, professional fees 18% and depreciation 6%.

The cost of credit services represents 2/3 of the total ACP cost. The incidence of the cost for this service, in accordance with the levels of activity attained in the first semester of 1986, expressed in terms of an effective annual rate, is as follows:

	<u>NP</u>	<u>MR</u>
Southern office	12	16
ACP	41	51

The effective cost rate indicates the percentage points of the interest rate that must be destined to cover operating costs; therefore, it can be observed that there is a high incidence at the total institution level which is due to the low level of activity at the new offices.

Should all of the offices obtain the same volume of loans as the southern office obtained in the first semester of 1986 (U.S.\$1,000,000) and should 90% of the resources available for loans be destined to micro producers, the effective cost rate of the Institution would be 12%.

The financial feasibility of the project must focus on ACP operating as an intermediary credit Institution that covers its credit service operating costs with the margin that results from the difference in the interest rates on loans granted and funds obtained; therefore, ACP must:

- . Obtain funds in sufficient quantities and with a financial margin of 12%.
- . Achieve average levels of activity for each office of U.S.\$1,000,000 of loans granted each semester and channel 90% of the available credit funds to micro producers.
- . Reduce operating costs becoming more efficient and realizing savings.

The option of operating with funds obtained from donations or with exceptional conditions to constitute a fund for loans, would not assure the continuing functioning because the effective interest rates collected from the borrowers are negative which will result in the fund rapidly decapitalizing. Estimated calculations, considering annual inflation between 60% and 70%, indicate that in 3 years the value of the fund would fall between 40% and 50% from the original value.

The cost of training and advisory services represents 1/3 of the Institution's costs and do not generate practically any income to finance the costs; therefore measures must be taken to correct this situation.

Economic Impact

A survey was made of 60 micro producers that received their first loans as from the date the Project began to measure the economic effect of the Project. Micro retailers were excluded from the investigation due to their characteristics and magnitude being such that their participation in creating employment and increasing the national value added is minimum.

According to the results of the survey, the Project has generated 705 jobs with micro producers with an incidence of loans per job of U.S.\$1,390 which is favorably less than in the small manufacturing companies of AID's Fund for Urban Development (FUD) which was calculated at U.S.\$2,000.

The five activities that created 90% of the jobs were shoe making, bakeries, dress making, knit goods and wood carpentry. 68% of the funds loaned were destined to these activities.

The net increase in direct and indirect value added were U.S.\$1,600,000 and U.S.\$2,175,000, respectively. The comparison of the increases in direct and indirect value added for each dollar loaned with those of the small industrial companies of the FDU is as follows:

	<u>Micro Producers</u> (U.S.\$)	<u>FUD</u>
Direct value added	1.80	1.50
Indirect value added	2.40	3.10

The comparison is favorable for micro producers with regard to direct value added due to the greater use of labor. On the other hand the comparison is favorable for FDU with regard to indirect value added which may be explained by: (a) greater purchases and (b) a larger percentage of sales through intermediaries, in the case of FDU beneficiaries.

Administrative Performance

We observed the following weaknesses in the organization, administrative procedures and computer systems:

Organization:

- . Excess centralization of functions in the Executive Director.
- . Extensive committee meetings with many individuals in attendance.
- . Lack of a manual of organization and functions.

Procedures:

- . Additional administrative work
- . Lack of uniformity in the use of forms.
- . Lack of a manual of standards and procedures
- . Lack of a good system of budgets and budget control

Computer System:

- . Deficiencies in organization and functioning
- . Insufficient equipment
- . Lack of control procedures

The recommendations directed to correct the weaknesses encountered are as follows:

- . Implement a new organization structure establishing: (a) managers with authority to handle functional areas and (b) functional committees (planning, Budget, etc.).
- . Rationalize administrative procedures and implement a system of budgets and budget control.
- . Organize the electronic data processing area (EDP) and contract a programmer analyst for a specified period of time to develop the system.
- . Increase the capacity of the computer equipment and define the possibility of acquiring equipment compatible with the requirements of the applications to be developed.
- . Develop the following applications: granting, control and recovery of loans (due to the application in use being deficient), accounting, payrolls, fixed assets, budget control and financial reports.

Evaluation of Technical Assistance

The technical assistance comprising the advisory services of Accion International (AITEC) and National Technical Cooperation were as follows:

AITEC. - Complied satisfactory in advice regarding the establishment of new offices, the establishment of the operating methods and procedures and the training of the individuals in-charge of operations and the development of training services.

AITEC did not participate in establishing a new organic structure and accounting and administrative systems adequate for the Institution. AITEC also did not participate in the finance methodology nor in the design of a financial system for the economic feasibility of the program.

The lack of advise by AITEC in the matters mentioned could be attributed to (a) these matters being assumed by the Executive Director, (b) the lack of detailed reference terms of the technical assistance and (c) the lack of a mechanism to ensure the participation of AITEC in all areas of assistance and that AITEC suggestions would be taken into account by ACP.

National Technical Cooperation. - Consisted of contracting 2 experts, one in systems and the other in finances. The performance of both advisers was unsatisfactory compared to services set forth in the OPG proposal.

We consider that the Project component of technical assistance should be restructured as to its contents and form, directing it to the strengthening of the Institution in the following: organization, accounting system, budget and budget control and marketing advice. The agreement with BID includes contracting 3 experts in the areas of finance, socioeconomic evaluation and systems analysis; therefore, we do not recommend that these areas be considered in the OPG agreement.

Projections and Final Recommendations

Should present trends be continued, the projections of the volume of credits at the end of the OPG Project (II semester of 1987) indicate that the average amount of loans by semester for each office will be between U.S.\$600,000 and U.S.\$800,000.

These volumes are significantly greater than those set forth in the OPG proposal as of the end of the Project by approximately 2 and 6 times the amounts budgeted for micro producers and micro retailers, respectively. However, these projections do not ensure financial self sufficiency because it is estimated that operating costs of the credit activities will represent effective annual rates of between 16% and 22%.

For ACP to become an economically feasible institution, it must establish the following short term goals (2 years):

- . Average amount of loans granted per semester of U.S.\$1,000,000 in each office; that is, U.S.\$4,000,000 for the Institution in total.
- . Channel 90% of loan funds to micro producers.
- . Obtain funds for loans of U.S.\$1,900,000 to maintain the active portfolio.
- . Reduce the incidence of operating costs to an annual effective rate of 12%.
- . Cover training and advisory service costs by income from these services.

These goals for 2 years surpass projected amounts for this period by 22% which reduces the incidence of operating costs of credit activities from 16% to 12% and those of training and advisory services from 8% to 6%. This will also generate greater economic benefits, estimating 900 more jobs and 8 million more dollars of direct and indirect value added than that projected.

The actions that we consider should be taken to reach the short-term goals and constitute a successful program are the following:

Economic Aspects

- . Operate as an intermediary credit institution with a financial margin that covers operating costs of the credit service. The options considered to establish a continuous flow of funds for loans are:
 - .. Create a credit line with the Central Reserve Bank (BCR) to be used for granting loans to the informal sector at maximum interest rates with a financial margin for acting as credit intermediary.

To complement the intermediary margin that might be insufficient to cover the operating costs of the credit services, it is suggested that a "flat" percentage on the amount loaned be collected to finance the operating costs of training and advisory services and leave a surplus to cover part of the costs of the credit service.

- .. Deposits of private companies in the Institution to be used in making loans to micro business persons.
- .. Agreements with banks or financial entities to operate a line of credit for micro business persons, with a financial margin for the Institution.
- . Increase the level of credit activity and channel resources to micro producers, through the following measures:
 - .. Reduce the repayment period of first and second credits to 4 and 5 months, respectively.
 - .. Consider loans for specific campaigns.
 - .. Channel 90% of available resources to micro producers.
 - .. Increase amounts of individual loans at the southern office which are at present lower than amounts at other offices.
 - .. Adjust quarterly the total amount of loans granted.
 - .. Develop a marketing program for promoting credit services to micro producers.
- . Increase funds for making loans to U.S.\$1,900,000.
- . Increase the income from courses given.
- . Control the costs of the Institution.
- . Improve the handling of the Institution's finances.

Institutional Strengthening

The recommendations directed to consolidating the organization of the Institution have been mentioned in the Administrative Performance section of this executive summary.

Training and Advisory Services

An increased interrelation between the courses and the advisory visits should be strived for to ensure that the administrative and production techniques taught in the courses are applicable.

The actions recommended are:

- . Program technical courses for micro producers. On page 84 is a listing of such courses in which the beneficiaries demonstrated interest.

- . Prepare specific course applications for administrative techniques for activities such as: shoe making, bakery, dressmaking, knitwear and wood carpentry.
- . Agree with educational entities, such as IDAMPEI - SENATI, for giving courses wherein specialized assistance is required.
- . Evaluate the application of courses during the advisory visits.
- . Study the possibility of requiring the application of determined administrative techniques (accounting, costs, etc.) by micro producers of a certain size and amount of loan received.
- . Prepare a training program and prepare periodic reports on the progress and control of the program

Technical Assistance

The technical assistance component of the OPG Project should be changed to cover the following matters:

- . Organizational. To establish a new organizational structure of the institution.
- . Accounting system. To design an accounting system, implement the system by EDP, focussing on administration and management.
- . Budget and budget control.
- . Marketing advice to promote credit services to micro producers and promote the training courses.

As the BID agreement contemplates the assistance of 3 experts in finances, socioeconomic evaluation and systems analysis, the OPG project should not consider assistance in these areas.

The way the assistance should be obtained is contracting specialists (firms or individuals) in each one of the mentioned areas.

1.0 EVALUATION OF THE PROJECT IN RELATION TO THE ORIGINAL GOALS OF THE OPG PROPOSAL

Purpose

The purpose of this evaluation is to show the current status of the project in terms of achievements of the quantitative goals set forth in the OPG Proposal.

Period covered by the evaluation

The period covered by the evaluation is from October 1, 1984 to June 30, 1986 (equivalent to seven quarters). Although the agreement was signed on July 31, 1984, it was considered convenient to use October 1, 1984 as the beginning date, this date being between August 1984, the month ACP started making disbursements and November 1984 when ACP received the first advance payment from AID.

Sources of information

For preparing the statistical tables which serve as the basis for explaining numerical goals in terms of achievement, the figures were obtained from the following sources of information:

- . Budgeted figures - from statistical tables included in the OPG proposal.
- . Actual figures - from compiling information provided by the executives of each zonal office and the head office contained in the following documents:
 - .. Monthly reports of credits, beneficiaries and loans granted.
 - .. Weekly requests for checks for beneficiaries.
 - .. Daily reports covering collections of receipt forms and notes.
 - .. Monthly reports covering the number of beneficiaries trained and advisory visits made.

1.1 EVALUATION OF GROWTH IN CREDIT SERVICES

The evaluation of the statistical figures covering the number of credits and amount of loans granted is directed towards determining the growth in ACP credit services to micro producers and micro retailers due to AID financial support for the expansion of activities.

Although the period used for the evaluation covers from the fourth quarter of 1984 to the second quarter of 1986, it was considered desirable to include statistical information as from the first quarter of 1983 to obtain knowledge of ACP's loan granting practice prior to the commencement of the project.

Micro producers

The following summary shows the number of credits and amount of loans granted:

<u>Year</u>	<u>Southern Office</u>	<u>New Offices (North, East and West)</u>	<u>Total Offices</u>
Number of credits:			
1983	411	0	411
1984	450	0	450
1985	433	0	433
1986 (*)	337	58	395
Loans granted:			
Intis (in thousands)			
1983	4,082	0	4,082
1984	4,303	0	4,303
1985	8,156	0	8,156
1986 (*)	9,612	1,533	11,145
U.S. Dollars (in thousands)			
1983	254	0	254
1984	253	0	253
1985	376	0	376
1986 (*)	512	80	592

(*) First semester.

The amounts shown in Intis correspond to amounts disbursed by ACP adjusted to prices prevailing at June 30, 1986 based on the general index of consumer prices for Metropolitan Lima. Under the current exchange control system the dollar rate has not changed since August 1985; therefore, the comparison of amounts in constant Intis is considered more appropriate as a measuring unit for evaluating the volume growth in credit services.

The figures shown in the summary are indicative of the growth in loans granted by ACP to micro producers.

- a) In 1984 there was an increase of 5% in loans granted in constant Intis and 9% in number of credits compared to the previous year.
- b) In 1985 there was a significant increase of 90% in constant Intis but a 4% decrease in the number of credits compared to the previous year. The latter is due to that as from the third quarter of 1984 credits began to be made to beneficiaries in groups instead of individual_{ly} as was the prior practice.
- c) In the first semester of 1986 compared to the first semester of 1985, there is a 216% increase in constant Intis and an increase of 91% in the number of credits.

In 1986 the new offices began granting loans to micro producers. The incidence of these loans in comparison to the first semester of 1985 was 43 and 28 percentage points in constant Intis and in the number of credits, respectively. Consequently, 20% of the first quarter of 1986 growth in constant Intis and 31% of the growth in the number of credits were due to loans granted by the new offices.

Graphs 1.1 and 1.2 on page 6 show the aforementioned growth trends.

In graph 1.2 it can be noticed that the growth trend begins at the start of the donation period (4th quarter of 1984) and that the growth becomes more significant as from the first quarter of 1986 when the new offices begin granting loans to micro producers.

The amount of loans granted during the first quarter of 1986 is 6 times the amount of the loans granted in the semester prior to the beginning of the OPG project measured in constant Intis.

Micro retailers

The following summary shows the number of credits and amount of loans granted:

<u>Year</u>	<u>Southern Office</u>	<u>New Offices (North, East and West)</u>	<u>Total Offices</u>
Number of credits:			
1983	504	0	504
1984	855	0	855
1985	1,672	597	2,269
1986 (*)	1,139	705	1,844
Loans granted:			
Intis (in thousands)			
1983	4,400	0	4,400
1984	10,541	0	10,541
1985	14,122	6,734	20,856
1986 (*)	9,485	10,409	19,894
U.S. Dollars (in thousands)			
1983	272	0	272
1984	631	0	631
1985	657	296	953
1986 (*)	495	549	1,044

(*) First semester.

The figures shown in the summary are indicative of the increase by ACP in granting loans to micro retailers.

- a) In 1984 there were significant increases of 139% in constant Intis and 70% in the number of credits with respect to the previous year.
- b) In 1985 there were increases of 98% in constant Intis and 165% in the number of credits with respect to the previous year.

In 1985 the new northern office began granting loans to micro retailers. The incidence of these loans in the rate of growth were 64 and 70 percentage points in constant Intis and in the number of credits, respectively. Consequently, 65% and 42% of the 1985 growth in constant Intis and number of credits, respectively, were due to credits granted by the new northern office.

c. In the first semester of 1986 compared to the first semester of 1985 there were increases of 164% in constant Intis and 124% in the number of credits granted. The incidence of the loans to micro retailers in the new offices compared to the first semester of 1985 were 125 and 70 percentage points in constant Intis and number of credits granted, respectively. Consequently, 76% and 56% of the total growth during the first semester of 1986 in constant Intis and number of credits granted respectively are due to loans granted by the new offices.

Graphs 1.3 and 1.4 on page 6 show the mentioned growth trends.

In the mentioned graphs it can be noted that the loan growth trend increases at the beginning of the donation period and that the growth is more significant as from 1985 when loans are granted by the new offices.

Schedules 1A and 1B contain the detail of the quantitative figures which were used as the basis of the evaluation. Schedule 1A shows the breakdown by micro producers and micro retailers.

Comparison of volume of credit to
micro producers and micro retailers

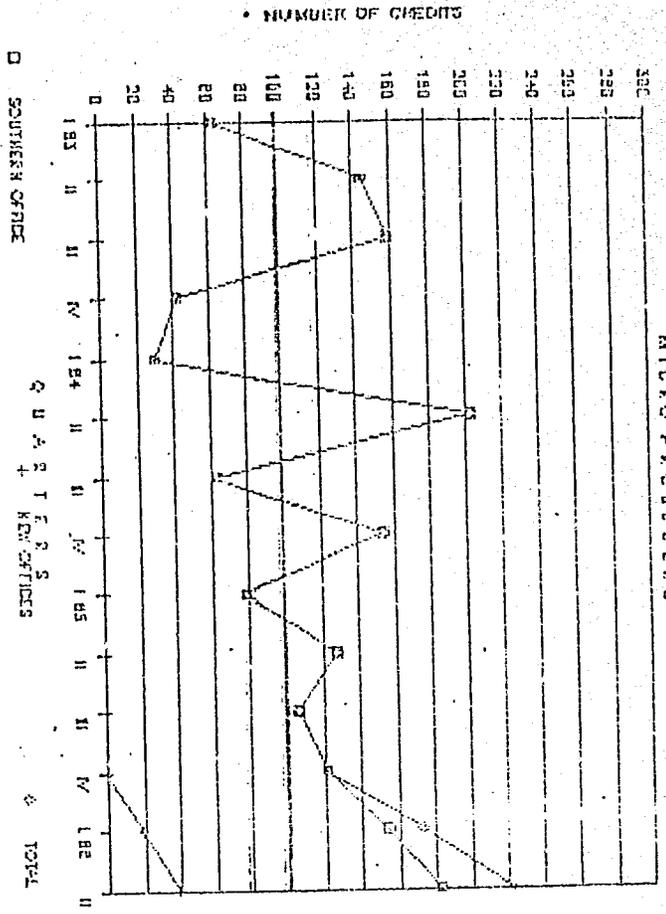
Due to the loans to micro retailers being reimbursed in eight weeks and loans to micro producers in six months, for comparison purposes the figures corresponding to loans granted to micro retailers have been adjusted by means of dividing them by 3.38 to make them equivalent to the 6 month loans.

The following table contains columns of the adjusted figures.

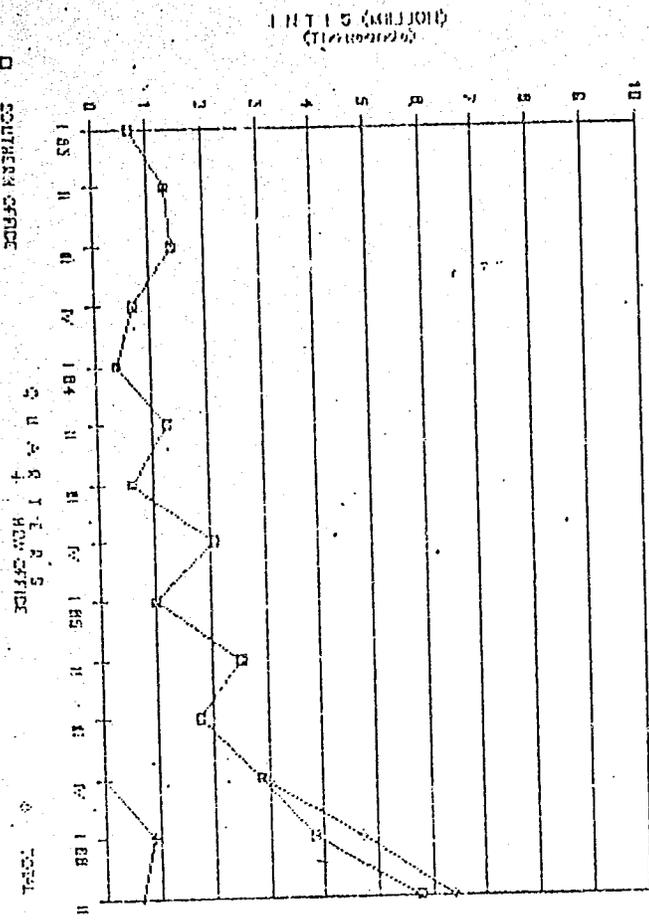
<u>Year</u>	<u>Southern Office</u>		<u>New Offices</u>		<u>Total Offices</u>	
	<u>MP</u>	<u>MR (Adjusted)</u>	<u>MP</u>	<u>MR (Adjusted)</u>	<u>MP</u>	<u>MR (Adjusted)</u>
Intis (in thousands)						
1983	4,082	1,302	0	0	4,082	1,302
1984	4,303	3,119	0	0	4,303	3,119
1985	8,156	4,178	0	1,992	8,156	6,170
1986 - 1st semester	9,612	2,806	1,533	3,080	11,145	5,886

The figures shown in the table indicate the following trend in ACP regarding the placement of loans with micro producers and micro retailers:

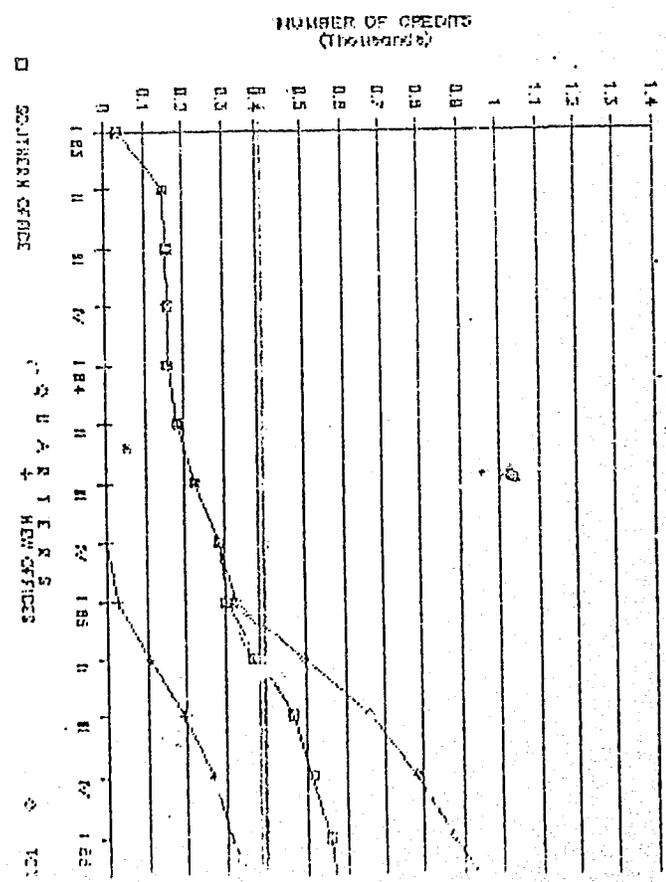
1.1 GRAPH OF CREDITS GRANTED
MICRO PRODUCERS



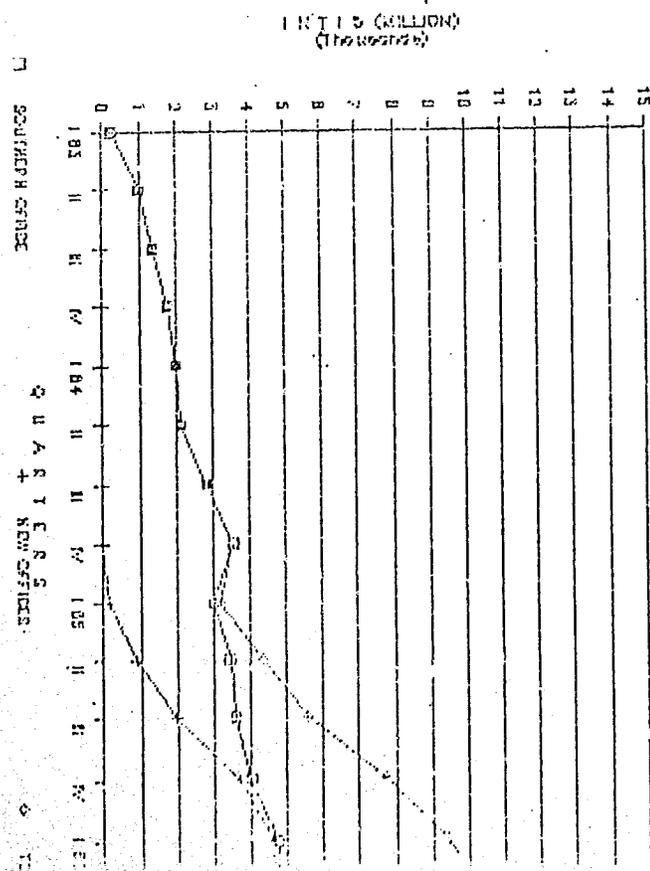
1.2 GRAPH OF LOANS GRANTED
MICRO PRODUCERS



1.3 GRAPH OF CREDITS GRANTED
MICRO RETAILERS



1.4 GRAPH OF LOANS GRANTED
MICRO RETAILERS



- . In 1983 the participation of loans granted to micro producers was 76% of the total volume.
- . In 1984 the participation of loans granted to micro producers decreased to 58% of the total.
- . In 1985 the participation of loans granted to micro producers was 57%, practically the same as 1984. In this year the new northern office began granting credits but only to micro retailers. If the loans granted by the northern office are not considered, the participation of micro producers is 66% of total loans.
- . In the first semester of 1986 participation of loans granted to micro producers increased to 66%. The participation of loans to micro producers at the southern office and the new offices were 78% and 33%, respectively.

The preceding indicates that a defined policy of channeling loans to micro producers or micro retailers in a determined percentage does not exist.

It also may be observed that a rapid increase in loans to micro retailers can be obtained. The southern office, for example, after reducing in 1984 its percentage participation of loans to micro retailers to 58% increased such participation to 66% and 78% in 1985 and the first semester of 1986, respectively.

Graphs 1.5 and 1.6 on page 9 show the placement of loans with micro producers and micro retailers. Figures corresponding to loans to micro retailers have been adjusted to equivalent amounts for 6 month loans.

1.2 EVALUATION OF ACHIEVEMENTS IN RELATION TO THE QUANTITATIVE GOALS OF LOANS GRANTED

The purpose of the following tables comparing budgeted goals with actual figures is to evaluate the progress made towards achieving the numerical reference points indicated in the OPG Proposal.

Micro producers

The following summary shows actual figures and budgeted goals:

	IV Quar. 1984		Year 1985		1st Sem. 1986		Total	
	<u>Budg.</u>	<u>Act.</u>	<u>Budg.</u>	<u>Act.</u>	<u>Budg.</u>	<u>Act.</u>	<u>Budg.</u>	<u>Act.</u>
NUMER OF LOANS								
First time credits:								
Southern Office	105	34	420	104	210	117	735	25
New Offices	0	0	385	0	560	30	945	3
	---	---	---	---	---	---	---	---
Total	105	34	805	104	770	147	1,580	28
	===	===	=====	===	=====	===	=====	==
Total credits:								
Southern Office	120	154	657	433	372	337	1,149	92
New Offices	0	0	430	0	716	58	1,146	5
	---	---	---	---	---	---	---	---
Total	120	154	1,087	433	1,088	395	2,295	98
	===	===	=====	===	=====	===	=====	==
U.S. DOLLARS (IN THOUSANDS)								
Loans	0	0	161	0	304	80	165	8
Recoveries	0	0	57	0	176	43	233	4
	---	---	---	---	---	---	---	---
Difference (1)	0	0	104	0	128	37	232	3
	===	===	=====	===	=====	===	=====	==

(1) Corresponds to the balance of principal to be recovered, denominated "Valor del Fondo Crediticio" in the OPG Proposal.

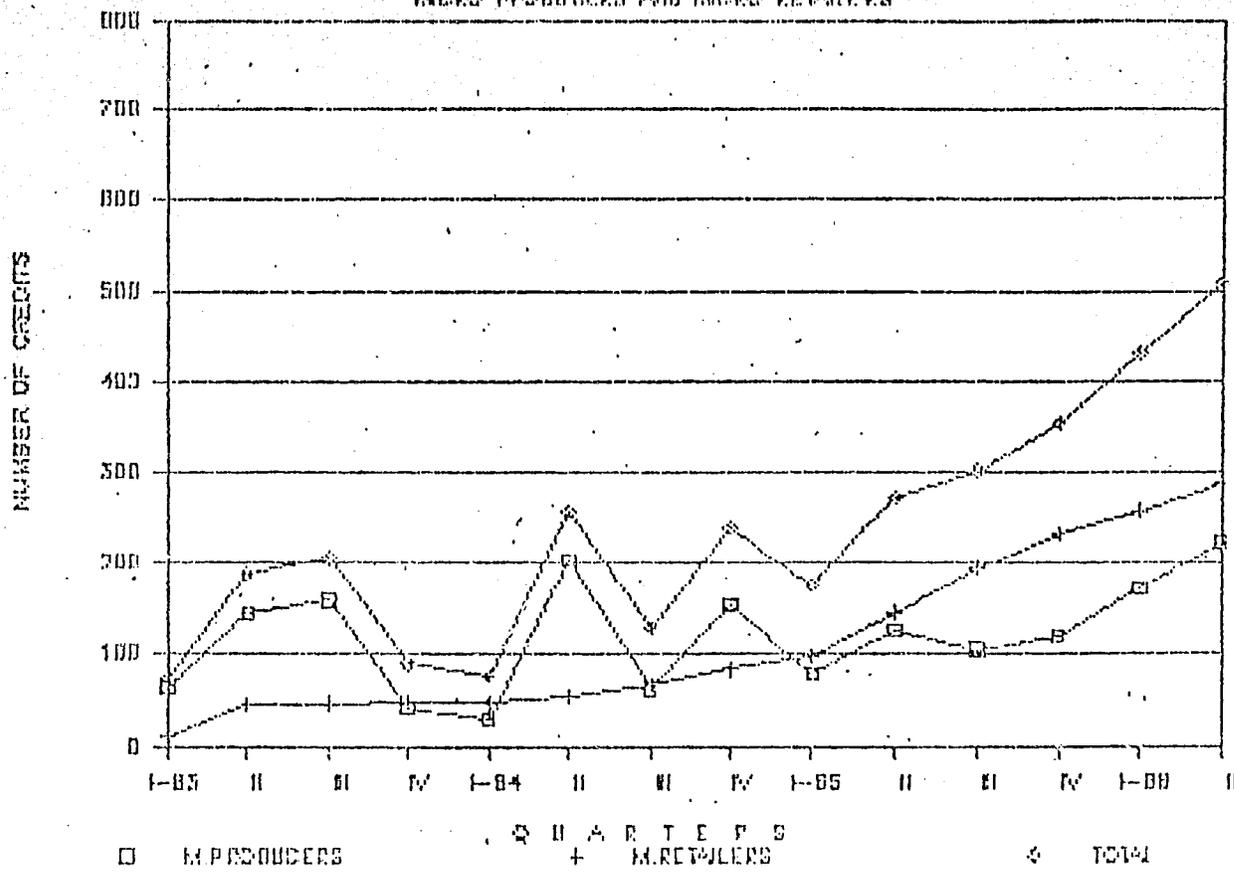
Amounts in U.S. Dollars do not include the southern office because, in accordance with the OPG Proposal, funds exist to cover the financial requirements of that office.

Regarding the number of loans, the table shows the following:

- a) At the southern office, actual figures are lower than the goals for first time credits by 65%, and by 20% for total credits granted.
- b) At the new offices, actual figures are lower than the goals for first time credits by 97%, and by 95% for total credits granted.

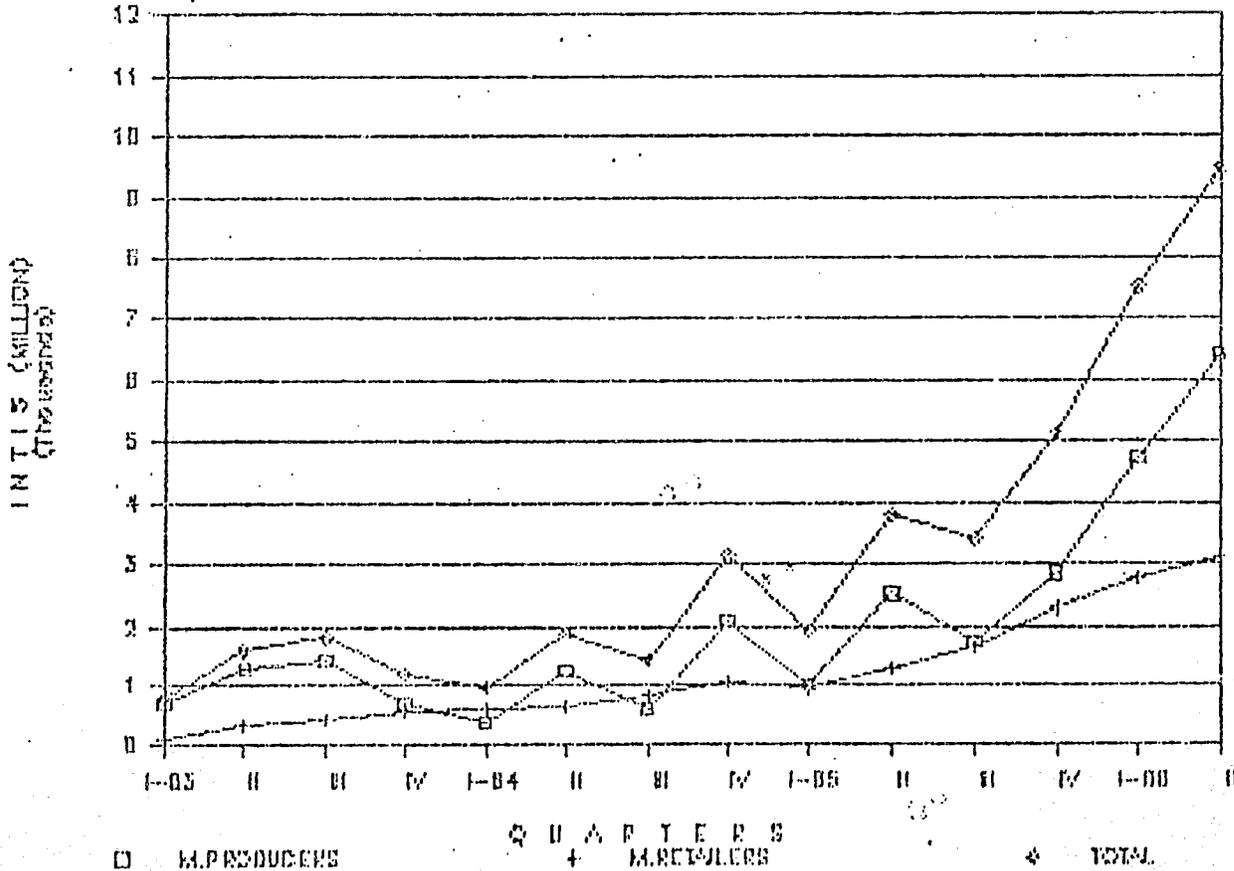
1.5 GRAPH OF CREDITS GRANTED

MICRO PRODUCERS AND MICRO RETAILERS



1.6 GRAPH OF LOANS GRANTED

MICRO PRODUCERS AND MICRO RETAILERS



As for amounts in U.S. Dollars, for the total of the new offices, loans granted and recoveries of capital are under budget by 83% and 82%, respectively. No loans were granted nor were any recoveries of capital made by the new offices during 1985, in which year operations should have commenced in accordance with the OPG Proposal.

Graphs 1.7 and 1.8 on page 13 show the comparison between budgeted goals and actual figures indicating unfavorable results in relation to the budget.

The foregoing could be due to the following:

- . Delays by the new offices in placement of loans to micro producers. Placement of these loans commenced only in February 1986.
- . Performance less effective than forecast.

Furthermore, a comparison between actual and budgeted figures of portfolio rotation at the new offices as of December 31, 1985 and as of June 30, 1986, shows the following:

	12-31-85		06-30-86	
	<u>Budgeted</u>	<u>Actual</u>	<u>Budgeted</u>	<u>Actual</u>
U.S. DOLLARS (IN THOUSANDS)				
Loans granted (a)	161	0	304	80
Average active portfolio (b)	57	0	116	22.5 (*)
Ratio (a/b)	2.8	0	2.6	3.6

(*) Includes interest.

The figures shown are the consequence of the matters previously commented on, that is: (a) during 1985 no loans to micro producers were granted and (b) during the first semester of 1986 the volume of loans was 74% less than budgeted.

Due to the foregoing, the average active portfolio of the first semester of 1986 was 81% less than budget. The ratio of loans granted over the active portfolio during this period, on the other hand, is favorable compared to the budget, 3.6 actual compared to 2.6 budgeted.

Schedule 2A, "Comparative Table of Budgeted vs. Actual Loans Granted to Micro Producers", shows the detail of the number and amount of loans granted by zonal office and the comparison with the budgeted figures set forth in the OPG Proposal.

Micro-retailers

The following summary shows the actual figures and budgeted goals:

	IV Quar. 1984		Year 1985		1st Sem. 1986		Total	
	<u>Budg.</u>	<u>Act.</u>	<u>Budg.</u>	<u>Act.</u>	<u>Budg.</u>	<u>Act.</u>	<u>Budg.</u>	<u>Act.</u>
NUMBER OF LOANS								
First time credits:								
Southern Office	24	54	96	207	48	119	168	380
New Offices	0	0	96	197	144	119	240	316
Total	24	54	192	404	192	238	408	696
Total credits:								
Southern Office	32	286	280	1,671	144	1,139	456	3,096
New Offices	0	0	240	597	336	705	576	1,302
Total	32	286	520	2,268	480	1,844	1,032	4,398

U.S. DOLLARS (IN THOUSANDS)

Loans:

Southern Office	9	204	104	657	54	495	167	1,356
New Offices	0	0	86	296	118	549	204	845
Total	9	204	190	953	172	1,044	371	2,201

Recoveries:

Southern Office	4	125	99	677	54	490	157	1,292
New Offices	0	0	76	222	98	487	174	709
Total	4	125	175	899	152	977	331	2,001
Difference (1)	5	79	15	54	20	67	40	200

(1) Corresponds to the balance of principal to be recovered, denominated "Valor del Fondo Crediticio" in the OPG Proposal.

Regarding the number of loans, the table shows the following:

a) In the southern office, actual figures are above the goals for first time credits by 126% and by 579% of the goal for total credits.

b) In the new offices, actual figures are above the goals for first time credits by 32% and by 126% of the goals for total credits.

The preceding indicates that ACP placed more credits with micro retailers than with micro producers in relation to budget goals.

Graphs 1.9 and 1.10 on page 13 show a comparison between budgeted goals and actual figures.

Furthermore, a comparison of the budgeted and actual rotation of the total portfolio for the four offices as of December 31, 1985 and as of June 30, 1986 shows the following:

	12-31-85		06-30-86	
	<u>Budgeted</u>	<u>Actual</u>	<u>Budgeted</u>	<u>Actual</u>
U.S. DOLLARS (IN THOUSANDS)				
Loans granted (a)	190	953	172	1,044
Average active portfolio (b)	10	71 (*)	25	259 (*)
Ratio (a/b)	19.4	13.4	6.9	4.0

(*) Includes interest.

The figures shown confirm somewhat the preceding commentary. During the 1985 period the volume of loans and the active portfolio exceeded the budget by 401% and 610%, respectively. In the first semester of 1986 the volume of loans and the active portfolio exceeded the budget by 507% and 936%, respectively.

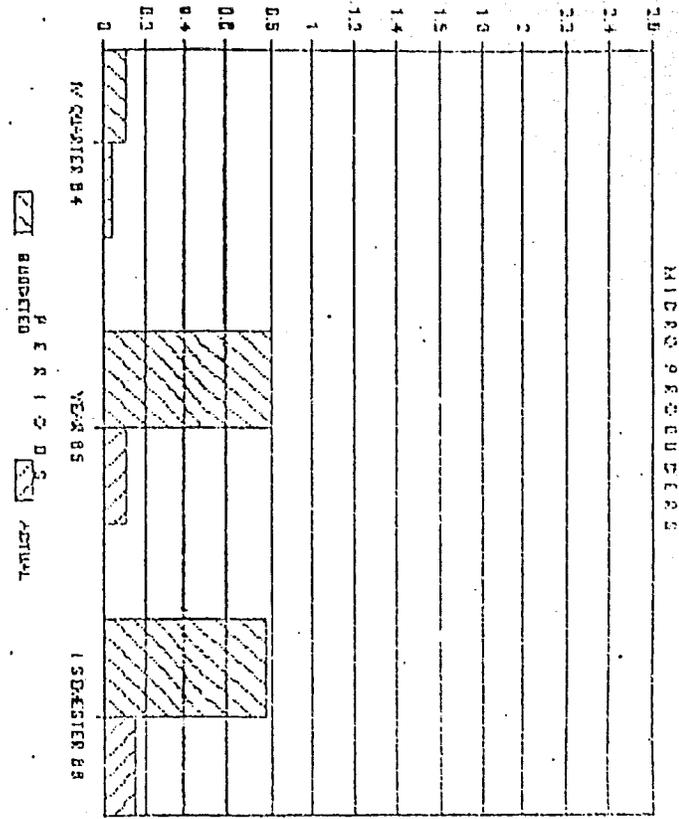
The ratios of loans over active portfolio in 1985 and the first semester of 1986 are 30% and 42% under budget, respectively.

Schedule 2B "Comparative Table of Budgeted Loans Granted vs. Actual - Micro Retailers" shows a breakdown of the number and amount of loans granted per zonal office and the comparison with figures budgeted in the OPG Proposal.

1.3 EVALUATION OF ACHIEVEMENT IN RELATION TO THE TRAINING AND ADVISORY SERVICE GOALS

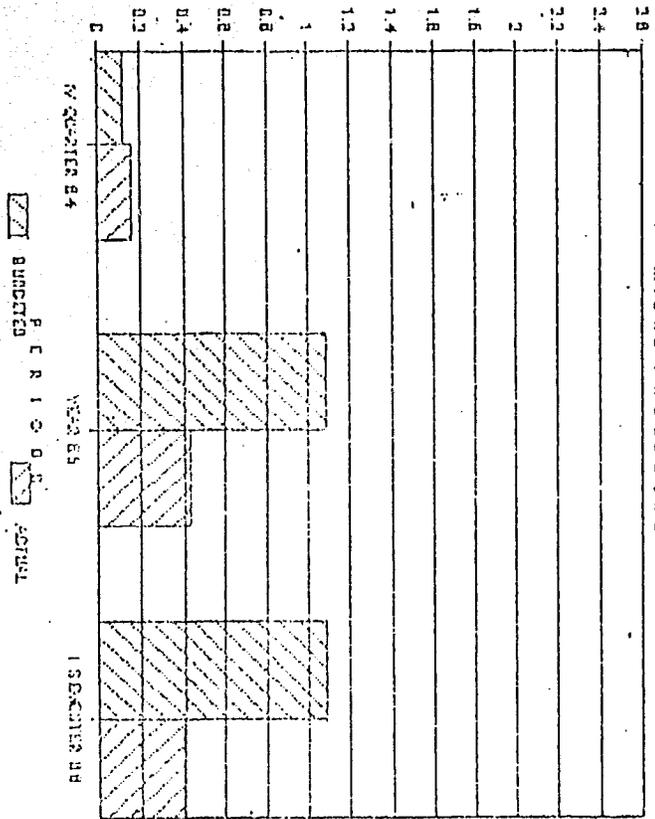
The purpose of the evaluation is to determine whether ACP's role relating to training and advisory services for micro producers attained the budgeted numerical goals established in the OPG Proposal, as well as to determine the quality level of the training courses and advisory visits. The evaluation of the quality level of training and advisory

NUMBER OF CREDITS (THOUSANDS)
(Thousands)

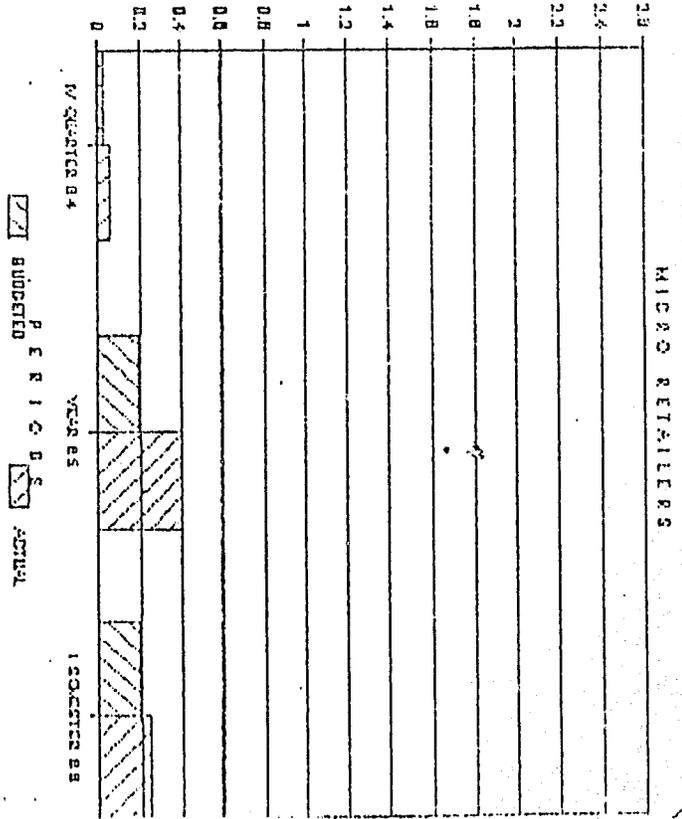


1.9 GRAPH OF CREDITS GRANTED
MICRO PRODUCERS

NUMBER OF CREDITS (THOUSANDS)
(Thousands)

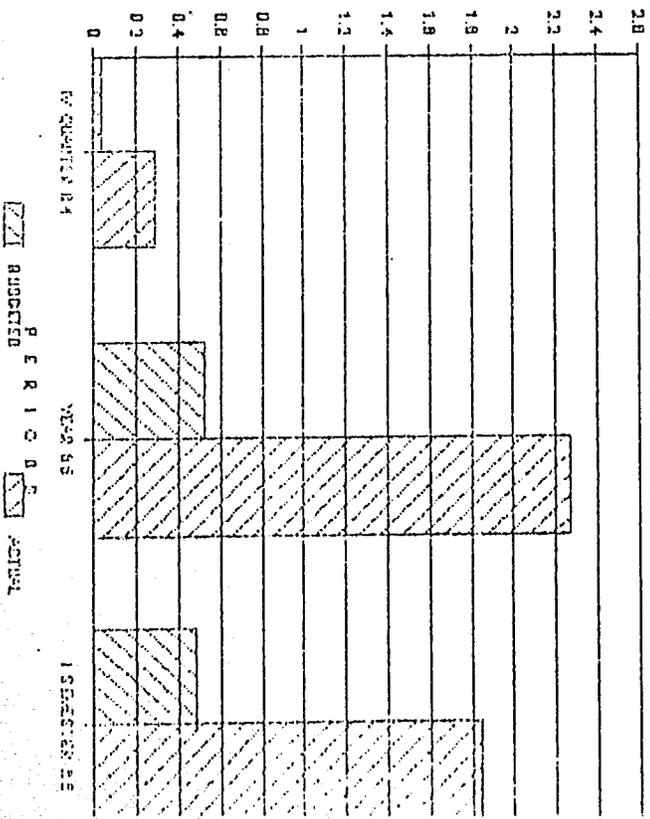


NUMBER OF CREDITS (THOUSANDS)
(Thousands)



1.10 GRAPH OF CREDITS GRANTED
MICRO RETAILERS

NUMBER OF CREDITS (THOUSANDS)
(Thousands)



services are oriented towards determining whether the objectives of these services have been covered, that is to elevate the technical level of the micro retailers in the handling of their business with respect to production, selling, costs, finances, administration, etc.

The results of the survey involving 60 micro producers concerning training and advisory services described under Section 4.0 is reported in this section.

The following table shows comparisons of budgeted goals vs. actual figures relating to individuals trained and advisory visits made:

Office	IV Sem. 1984		Year 1985		I Sem. 1986		...	Total	...
	Budg.	Act.	Budg.	Act.	Budg.	Act.				Budg.	Act.	Variatic
COMPANIES TRAINED									
I	0	83	306	214	216	363	522	660	138
II	0	0	306	0	216	175	522	175	(347)
III	0	0	36	0	162	112	198	112	(86)
IV	0	0	36	0	162	107	198	107	(91)
Total	0	83	684	214	756	757	1,440	1,054	(386)
	===	===	=====	=====	=====	=====	=====	=====	=====
ADVISORY VISITS									
I	464	322	2,740	2,591	1,497	1,004	4,701	3,917	(784)
II	0	0	1,378	0	1,388	4	2,765	4	(2,762)
III	0	0	55	0	706	204	761	204	(557)
IV	0	0	55	0	706	51	761	51	(710)
Total	464	322	4,228	2,591	4,297	1,263	8,989	4,176	(4,813)
	===	===	=====	=====	=====	=====	=====	=====	=====

Training

Budgeted figures are those established in the OPG Proposal as "Companies Trained". It is not clearly defined in the Proposal whether the following factors were taken into account at the time of establishing the budget goals:

- a) Period of duration of each course.
- b) Participation of the individuals receiving training in one or more training courses.
- c) Training courses given with or without cost to participants.

The analysis of the preceding table shows that actual training figures are 27% less than the budget for total of the four offices. Analyzing the figures of each office, the following is noted:

- a) At the southern office actual figures exceed budget by 26% due mainly to the training courses given during the fourth semester of 1984, which were not included in the budget.
- b) At the new offices actual figures are 60% under budget on average due mainly to a delay in beginning training courses for micro producers.

The results of the survey related to training showed the following:

	Percentage of Replies		
	<u>Southern Office</u>	<u>New Offices</u>	<u>Total Offices</u>
<u>Attendance at training courses</u>			
- Attended courses	34	36	35
- Did not attend	66	64	65
	---	---	---
Total	100	100	100
	---	---	---
<u>Interest in technical courses</u>			
- High	19	28	24
- Normal	59	50	55
- Low	13	4	8
- Prefer not to attend	9	18	13
	---	---	---
Total	100	100	100
	---	---	---

As can be noted 65% of persons surveyed did not attend the training courses which explains in part why the actual figures are below the budget. The principal reasons given for not attending the courses were lack of time and problems with time of courses and transportation.

During the project evaluation period, ACP prepared several courses comprising the following subjects:

- . Accounting (3 modules)
- . Production cost (3 modules)
- . Sales techniques (3 modules)
- . Introduction to management (4 modules)
- . Human relations (2 modules)
- . Finances (2 modules)

These modules have been elaborated by ACP personnel considering the average knowledge level of the micro producers.

All of these course modules have been given at Office I (Southern). At Offices III and IV (East and West) only the first modules relating to the introduction to management and human relations have been given. These were given during the period of the granting of the first time credits. At office II (North) all modules relating to introduction to management and human relations have been given.

The training courses were given (a) at the Southern Offices by the instructor in charge of the training program, the coordinator and the promoters, and (b) at the new offices (North, East and West) by the coordinators and the promoters of each of these offices.

In accordance with the findings of the visits carried out in connection with the survey, the techniques disclosed during the courses generally are not applied indicating that the purpose of the training and advisory visits is not being achieved.

Also according to the results of the survey relating to the level of interest in technical assistance training courses, we observe that 78% of the persons desire to attend the courses. However, ACP has not implemented a program for the courses.

Advisory Services

We would like to point out that the actual figures refer to the number of visits made by ACP promoters to individuals receiving credit as indicated in the reports of each zonal office.

The table on page 14 shows that the actual figures of advisory visits are 54% under budget for the total of the four offices. Analyzing the figures corresponding to each office we observe the following:

- a) At the Southern Office, the actual figures are 17% under budget.
- b) At the new offices, the actual figures are under budget by an average of 95%.

The results of the survey relating to advisory services revealed the following:

	Percentage of Replies		
	<u>Southern Office</u>	<u>New Office</u>	<u>Total Offices</u>
<u>Advisory visits</u>			
- Received visits	41	46	43
- Did not receive visits	59	54	57
	---	---	---
Total	100	100	100
	---	---	---
<u>Subjects Discussed During Visits</u>			
- Credit applications and verification	15	15	15
- Orientation to handling of group credits	54	70	62
- Administrative control of the business	31	15	23
	---	---	---
Total	100	100	100
	---	---	---

As can be seen 57% of the individuals surveyed did not receive advisory visits which explains why the actual figures are less than budget.

Regarding the quality of the advisory visits we note from the survey results that the subjects dealt with related in 77% of the cases to administrative handling of credit services. We also observed that the advisory visits were carried out without an organized plan which could result in aspects on improving the managing of the business not being dealt with during the visits.

In addition to the survey carried out, the coordinators of each zonal office informed us that at present advisory activities are directed towards: (a) administrative handling procedures relating to the granting and follow-up of credits and (b) in a lesser degree to the use and handling of notebooks for controlling the business.

In the OPG Proposal it was clearly stated that the methodology process of the advisory service was to assure that the retailer would prepare statistical data of his business operations by means of control records and to later provide him with advice involving the use of new techniques of production, sales, costs, finance, etc. In global terms these objectives are not being complied with.

1.4 CONCLUSION

Credits

The evaluation made to measure the credit service growth revealed the following:

- . The growth in the placement of loans to micro producers throughout the 1984-1986 period was as follows:
 - .. In 1984 there were increases of 5% in constant Intis and 9% in the number of credits compared to the previous year.
 - .. In 1985 there was a 90% increase in constant Intis and a 4% decrease in the number of credits compared to the previous year.
 - .. In the first semester of 1986 compared to the first semester of 1985 there were increases of 216% in constant Intis and 91% in the number of credits.

Of the total growth in constant Intis and number of credits in the first semester of 1986, 20% and 31%, respectively, were due to loans granted by the new offices which initiated loan placements during this period.

Graph 1.2 on page 6 shows the growth of loans to micro producers in constant Intis. It can be noted that the growth tendency begins at the start of the donation period - IV quarter of 1984 - and the growth becomes more significant as from 1986 when the new offices begin to grant loans to micro producers.

In summary, the amount of loans, measured in constant Intis, has increased 6 times from the start of the donation period. Nevertheless, the amount of loans is less than the goals established in the OPG Proposal as commented on later on in this report.

- . The growth trend in the placement of loans to micro retailers during the period 1984-1986 was as follows:
 - .. In 1984 there were increases of 139% in constant Intis and 70% in the number of credits, compared to the previous year.
 - .. In 1985 there were increases of 98% in constant Intis and 165% in the number of credits, compared to the previous year.

Of the total growth in constant Intis and number of credits in 1985, 65% and 42%, respectively, were due to loans granted by the new office in the northern zone.

.. In the first semester of 1986 compared to the first semester of 1985 there were increases of 164% in constant Intis and 124% in number of credits.

Of the total growth in constant Intis and number of credits in 1986, 76% and 56% respectively, were due to loans granted by the new offices.

Graphs 1.3 and 1.4 on page 6 show the growth of loans to micro retailers. An increased growth trend can be noted from the beginning of the donation period with a significantly increased growth trend as from 1985 with the loans granted by the new offices.

In summary, the amount of loans measured in constant Intis has increased 4 times from the beginning of the donation period and has surpassed the goals of the OPG Proposal as commented on later on in this report.

The comparison of the volume of credits to micro producers and micro retailers indicates that the participation of the micro producers in 1983, 1984, 1985 and the first semester of 1986 in the total volume of operations was 76%, 58%, 57% and 66%, respectively. In 1985 compared to 1984, the percentage decreased due to that during this period loans were placed only with micro retailers at the northern office. Excluding the northern office, participation of loans to micro producers was 66% in 1985.

In the first semester of 1986, the participation of loans to micro producers at the southern and new offices was 78% and 33%, respectively.

The preceding indicates that a defined policy to channel an established percentage of the funds to micro producers and micro retailers does not exist; notwithstanding that the yield and capital requirements are affected according to the participation assigned to each type of loan.

Also, from the performance of the southern office it can be seen that it is possible to obtain high percentages of participation in loans to micro producers.

The results of the evaluation made to measure the progress towards achieving the numerical reference points set forth in the OPG Proposal revealed the following:

Actual figures of the number of credits granted to micro producers are under budget 20% at the southern office and 95% at the new offices. As to loans granted and capital recoveries (U.S. Dollars), the percentages are 83% and 82% under budget, respectively, at the new offices. This comparison demonstrates that ACP is not meeting the budgeted volume of loans to micro producers, which could result in sufficient funds not being available, thereby obliging ACP to turn to other sources for financing its operations.

The actual volume of loans granted and of the active portfolio for the first semester of 1986 compared to the budget are 74% and 81% under budget, respectively. The ratio of loans to the active portfolio for the first semester of 1986 compared to budget is, however, favorably greater.

Actual micro retailer figures as to the number of credits granted are over budget 579% at the southern office and 126% at the new offices. The amounts of loans granted and recoveries of capital (U.S. Dollars) are over budget by 711% and 723%, respectively, at the southern office and by 314% and 307%, respectively at the new offices. This comparison demonstrates that ACP is making loans to micro retailers in volumes greater than those budgeted which may result in costs relating to handling of micro retailer credits becoming very high and thereby resulting in lack of necessary funds and thus obliging ACP to turn to other sources for financing its operations. During 1985 and the first semester of 1986 the actual volume of loans granted was greater than budget by 401% and 610%, respectively, and the active portfolio was greater than budget by 507% and 936%, respectively. The ratio of loans to the active portfolio in the first semester of 1986 is, however, less than budget.

Training and Advisory Services

The results of the evaluation made to measure the achievement of numerical goals relating to training and advisory services and to the quality level of the training courses and advisory visits indicated the following:

Training:

Actual figures exceeded budgeted goals by 26% at the southern office and were under budget by 60% at the new offices.

The latter is due principally to no loans being granted to micro producers in the new offices during 1985 and, consequently, training courses were not carried out in these offices during 1985.

The micro producers receiving training since the project began total 1,054 of which 63% correspond to the southern office and 37% to the new offices.

- The results of the survey revealed non-attendance at the courses of 65%. The reasons most frequently given for non-attendance of the courses were lack of time, problems with the time of the courses and problems with transportation. It was also noted that the techniques taught in the courses were generally not applied which evidences limited attainment of training and advisory visit objectives. The survey also indicated a 78% preference for technical courses to be given. These courses are not programmed by ACP.
- During the period under evaluation the courses were given by ACP permanent personnel, including the instructor in charge of the training program, coordinators and promoters. This could be limiting the topics and efficiency of training services.

Advisory Services:

- The number of advisory visits made were 17% below budget at the southern office and 95% below at the new offices.
- The survey indicated that 57% of the business men receiving credits did not receive advisory visits. It also indicated that 69% of the advisory visits of the southern office and 85% at the new offices dealt with subjects related to the service of credits. Only in 31% of the visits in the southern office and 15% in the new offices was the subject of control of the business as covered in the training courses dealt with.

The advisory visits are carried out without a structured plan directed towards the development of the visits and the reduction of time in topics other than management.

- The advisory visits do not include technical subjects mainly due to the visits being made by the promoters of each office who are not prepared for providing such assistance.

2.0 OPERATING COSTS AND COST OF SERVICES

The purpose of this section is to estimate the incidence of ACP's operating costs in credit, training and advisory services, in order to determine what portion of these costs is recovered through service prices.

Operating costs include direct costs of the zonal offices and the general administrative expenses of the head office.

The actual cost of services has been calculated based on an estimate of expenses during the first semester of 1986 and related to the activity levels during this period.

2.1 METHOD OF COMPUTING COSTS

The procedures followed for determining the incidence of operating costs in the services is as follows:

- a) An estimate was made of operating costs of zonal offices and the head office for the first semester of 1986.

Because the accounting records were not up to date, operating costs were estimated as follows:

- . Disbursements during the first semester of 1986 were classified based on supporting source documents.
- . Comparison with expenses recorded for 1985 which were converted to U.S. Dollars using average rates of exchange for the periods involved.
- . Adjustment of figures resulting from the classification of disbursements for the first semester of 1986, for the purpose of including AITEC assistance costs, depreciation provisions and other items not included in the documents classified.

Schedule No. 3 contains the estimated operating costs for the first semester of 1986 by office.

- b) An estimate of the time dedicated to each service.

The time dedicated by personnel of the zonal offices to each of the services: credits, training and advisory visits were estimated by means of interviews with the coordinators of the southern and northern offices.

Schedule No. 4 contains the estimated percentages of time allocated to each service by zonal office personnel.

c) Distribution of operating costs to services.

For distributing operating costs to each of the services, costs have been determined as follows:

- . Zonal office personnel expenses have been allocated according to the percentage of time dedicated to each service.
- . Other zonal office operating costs have been allocated according to the percentage of zonal office personnel expenses for each service.
- . Head office personnel expenses directly related to training activities were assigned to training services in equal parts to each zonal office.
- . Other head office expenses were allocated as follows:
(a) 25% to each zonal office and (b) distribution to each service according to the percentage of zonal office personnel expenses in each service.

Schedule No. 5 contains the table of distribution of operating costs for the first semester of 1986 resulting from the aforementioned distribution procedure.

d) Estimate of service costs.

Service costs have been estimated relating operating costs to the current levels of activity.

2.2 RESULTS OF THE DETERMINATION OF OPERATING COSTS

2.2.1 OPERATING COSTS - FIRST SEMESTER 1986

Table 2.1 on the following page contains the summary of current operating costs that for one semester are estimated at U.S. \$134,400, that is, \$22,400 per month.

Distribution for each service is therefore as follows:

	<u>Semester</u>	<u>Month</u>	<u>%</u>
	(U.S. \$)		
Credit	91,300	15,200	68
Training	24,700	4,100	100
Advisory visits	18,400	3,100	14
	-----	-----	---
	134,400	22,400	100
	=====	=====	===

TABLE 2.1

ACCION COMUNITARIA DEL PERU

TABLE SUMMARY OF OPERATING COSTS - FIRST SEMESTER 1986

(Expressed in U.S.Dollars)

ZONAL OFFICES	ZONAL OFFICES COST	ASIGNED COST PRINCIPAL OF.	TOTAL COST	AVERAGE COST MONTHLY
SOUTHERN:				
Credit	10,490	12,680	23,170	3,900
Training	3,060	4,130	7,190	1,200
Advisory Services	2,720	3,370	6,090	1,000
Total	16,270	20,180	36,450	6,100
NORTHERN:				
Credit	10,940	14,270	25,210	4,200
Training	2,310	3,340	5,650	900
Advisory Services	2,020	2,570	4,590	800
Total	15,270	20,180	35,450	5,900
EASTERN:				
Credit	6,750	13,870	20,620	3,450
Training	1,640	3,730	5,370	900
Advisory Services	1,280	2,580	3,860	650
Total	9,670	20,180	29,850	5,000
WESTERN:				
Credit	8,630	13,670	22,300	3,700
Training	2,360	4,130	6,490	1,100
Advisory Services	1,470	2,380	3,850	600
Total	12,460	20,180	32,640	5,400
TOTAL:				
Credit	36,810	54,490	91,300	15,250
Training	9,370	15,330	24,700	4,100
Advisory Services	7,490	10,900	18,390	3,050
Total	53,670	80,720	134,390	22,400

It is noted that 2/3 of the ACP cost is allocated to the service of credits. The costs related to training and advisory visits correspond to the proportion of the resources of the Institution that is channelled towards, or should be channelled towards, the development of these services.

The distribution of the costs of the offices is as follows:

	<u>Semester</u> (U.S.\$)	<u>Month</u>	<u>%</u>
South	16,300	2,700	12
North	15,300	2,600	12
East	9,700	1,600	7
West	12,400	2,100	9
	-----	-----	---
Sub total	53,700	9,000	40
Head Office	80,700	13,400	60
	-----	-----	---
Total	134,400	22,400	100
	=====	=====	===

A- significant part of the institution's total operating costs consists of the head office costs. Expense classifications of the head office which make up nearly 90% of that office's operating costs are: (a) personnel expenses 29%, (b) professional fees 18%, (c) AITEC 35% and (d) depreciation 6%.

The comparison of direct monthly costs of each zonal office with its respective monthly average activity as measured by the number of loans granted is as follows:

	<u>Direct Costs</u>		<u>Credits</u>	
	<u>U.S.\$</u>	<u>%</u>	<u>No.</u>	<u>%</u>
South	2,700	30	246	64
North	2,600	29	114	30
East	1,600	18	7	2
West	2,100	23	15	4
	-----	---	---	---
Total	9,000	100	382	100
	=====	===	===	===

The new offices are working at low levels of activity which is explained by the short time they have been operating.

To achieve the same level of results as the southern office (costs vs. number of credits) which began operating in November 1982, the north, east and west offices would have to increase their operations 2, 19 and 12 times their current volumes, respectively.

The monthly direct and distributed costs of the zonal offices are as follows:

	<u>Direct Costs</u>	<u>Distributed Costs</u>	<u>Total</u>	<u>%</u>
South	2,700	3,350	6,050	27
North	2,600	3,350	5,950	27
East	1,600	3,350	4,950	22
West	2,100	3,350	5,450	24
Total	9,000	13,400	22,400	100
	=====	=====	=====	===

2.2.2 INCIDENCE OF OPERATING COSTS IN THE SERVICES

Operating costs of administering the credits

Operating costs corresponding to the administering of credits were estimated at approximately U.S.\$91,300 for the first semester of 1986, that is, a monthly average of U.S.\$15,200.

The activity level of loans granted during the first semester of 1986 was as follows:

	<u>Loans (U.S.\$)</u>	<u>No. of Loans</u>	<u>Average Loan (U.S.\$)</u>
MP (Micro producers)	592,000	395	1,500
MR (Micro retailers)	1'044,000	1,844	566
Total	1'636,000	2,239	
	=====	=====	

The incidence of operating costs to the total of loans is an average of 5.6%.

The following two factors have been analyzed to determine the incidence of operating costs for each type of loan - micro producers (MP) and micro retailers (MR):

- Adjusting the loans to micro retailers to make them equivalent to the loans to micro producers considering the loans to micro retailers are repaid in 8 weeks while loans to micro producers are repaid in 6 months.

Schedule 6A contains the computation of the incidence of the operating costs by type of loan, taking into consideration the compensation for different repayment periods, resulting in a relation of operating expenses to loans for micro producers and micro retailers of 10.1% and 3.0%, respectively.

- Cost difference of activities that can be identified for each type of loan. Costs corresponding to making loans to micro producers and to micro retailers in equal amounts and periods of time have been compared to determine the cost difference.

Schedule 6B contains the detailed estimates of time and costs of those tasks or activities directly required for making loans to micro producers and to micro retailers. This schedule compares the operating costs of: (a) 2 loans to micro producers with (b) 15 loans to micro retailers. Both operations - a and b - are equivalent in terms of amount and period of credit.

According to Schedule No. 6B, estimated operating costs directly related to the handling of 1 loan to a micro producer totals U.S.\$8 which corresponds to 7.5 loans to micro retailers with costs amounting to U.S.\$22. The cost difference represents an amount approximately 1% to 1.2% over the average amount of the loan.

The previously noted relation of operating expenses to loans for micro producers of 10.1% and for micro retailers of 3.0% have been corrected to 9.4% and 3.5%, respectively, to consider the factor noted in the preceding factor.

The effective annual rates corresponding to the incidence percentages (effective cost rates) are 41% and 51% for micro producers and micro retailers, respectively.

**

based on 15 participants per course. This cost does not include fees that must be paid to instructors contracted especially for specific courses.

According to the OPG Proposal, the training cost per participant was estimated at U.S.\$35 - only considering training personnel expenses -. It was also expected that the following income would be received:

<u>Year</u>	<u>Training Value</u>	<u>Participants Trained</u>	<u>Total (U.S.\$)</u>
1	10.00	396	3,960
2	17.50	1,476	25,830
3	25.00	1,728	43,200

Comparatively, in the first semester of 1986 only U.S.\$383 was collected in total from 273 participants who attended non-gratis courses, that is, an average fee of U.S.\$1.40 per participant.

Operating costs of advisory visits

The operating costs of advisory visits were estimated at U.S.\$18,400 for the first semester of 1986. During this period approximately 4,200 visits were made resulting in a cost of U.S.\$4.40 per visit.

No income was generated by the advisory services. According to the OPG Proposal, the collection of a fee established at U.S.\$3.50 per advisory visit was considered.

Should the situation relating to obtaining income for training and advisory services not be changed, the larger part of operating costs for these services will have to be covered by income obtained for loans, thereby making it more difficult to achieve self-sufficiency. As training and advisory costs are equivalent to 50% of the credit service costs, the effective rate of cost increases significantly to cover the total costs of the institution.

2.3 CONCLUSION

The calculation of the estimated operating costs indicate the following:

- Operating costs of the institution are estimated at U.S.\$22,400 per month or U.S.\$268,800 per year.

Costs of the head office represent 60% of the total costs. The classifications representing 90% of the operating costs of this office are: personnel expenses, 29%; professional fees, 18%; AITEC, 35% and depreciation, 6%. Consequently, the costs of the head office must be reduced to reduce their high incidence in total operating costs.

The direct and allocated monthly costs of the zonal offices vary between U.S.\$5,000 and U.S.\$6,000 per office.

Monthly operating costs attributable to each service is estimated as follows: credit U.S.\$15,200; training U.S.\$4,100; and advisory visits U.S.\$3,100. As can be seen, 2/3 of ACP costs correspond to the cost of providing credits and 1/3 to providing training and advisory services.

The incidence of operating costs in administering the credits in accordance with the levels of activity attained in the first semester of 1986 in terms of an effective annual (%) rate (effective cost rate) is as follows:

	Effective Cost Rate	
	<u>MP</u>	<u>MR</u>
Southern	12	16
Northern	55	67
ACP (4 offices)	41	51

The effective cost rate indicate the percentage points of the interest rate (40%) that must be destined to cover operating costs.

It can be observed that the operating costs to service the credits are relatively high; therefore:

a) The southern office should increase its level of activities without proportionately increasing its operating costs.

Thus, if the southern office increases its present level of activity by 20% - U.S.\$1,000,000 in the first semester of 1986 - without increasing its operating costs, the incidence of the operating costs in terms of effective annual rate would decrease to 10% and 14% for micro producers and micro retailers, respectively.

b) The northern office and the eastern and western offices must attain adequate volumes of credit operations, similar to that of the southern office, which would reduce the incidence of operating costs to a fraction of the rate of interest that is being collected for the loans. Until these offices reach adequate levels of activity it is essential that donations finance their operations.

c) A larger amount of the available resources must be channelled to loans to micro producers.

The operating costs of training in the first semester of 1986 resulted in U.S.\$218 per course and U.S.\$15 per participant, considering 15 participants per course. Income obtained for this service in the mentioned semester was only U.S.\$383, that is, 2% of the estimated operating costs attributed to training.

The operating costs of the advisory visits carried out in the first semester of 1986 were U.S.\$4.40 per visit. No income was generated by these services.

Should the total of the operating costs of training and advisory services not be covered by fees for such services, the difference would have to be covered by the interest collected on loans making it more difficult to achieve financial self-sufficiency. As costs of training and advisory services are equivalent to 50% of the costs of servicing credits, the effective cost rate increases significantly considering the total costs of the institution.

3.0 FINANCIAL EVALUATION

The purpose of this section is to evaluate the performance and financial perspective of the institution in order to determine the possibilities of ACP continuing to function when donations are no longer received to support its operations.

The following are analyzed in this section to accomplish the preceding evaluation:

- a) The statement of revenues and expenses of the institution, comparing figures originally budgeted in the OPG Proposal with actual figures.
- b) The present sources of funds for granting credits and the financial management of these sources.
- c) The financial feasibility of the project based on future expectations of the levels of activity of the services.

3.1 REVENUES AND EXPENSES OF THE INSTITUTION

The following table shows a comparison of budgeted and actual figures of the institution's revenues and operating costs.

U.S. DOLLARS (IN THOUSANDS)

	Year 1985		1st. Sem 1986	
	<u>Budg.</u>	<u>Act.</u>	<u>Budg.</u>	<u>Act.</u>
Revenues:				
Financial margin	34	103	32	25
Training	10	4	14	0
Advisory visits	14	3	16	0
	---	---	---	---
Total income	58	110	62	25
	---	---	---	---
Operating expenses	188	219	127	134
	---	---	---	---
Deficit	(130)	(109)	(65)	(109)
	===	===	===	===

The actual financial margin corresponds to the amount of interest collected on loans to micro producers and to micro retailers less financial expenses (interest on overdrafts and commissions on loans).

The budgeted financial margin is that established in the OPG Proposal under the heading "Revenues" which was computed by applying a percentage factor to the total

amounts loaned - 5% for micro producers and 3.75% for micro retailers -. Although it is not clearly defined in the OPG Proposal, it is assumed that these income components were computed after deducting financial expenses related to obtaining funds for granting the loans.

The percentage relationship existing between financial expenses and interest income is as follows:

	<u>Year</u> <u>1985</u>	<u>1st. Sem.</u> <u>1986</u>
Southern office	41.5	83.1
Northern office	103.9	28.4
Eastern office	--	1.4
Western office	--	36.4
	-----	-----
Average	47.2	67.9
	-----	-----

Out of the total financial expenses, 90% corresponds to interest on an overdraft line with the Banco Wiese.

Training income corresponds to amounts collected from individuals attending courses. The following summary shows a comparison between the total of individuals trained and those paying for the courses:

<u>Year</u>	<u>Total Attendance</u>			<u>Paid Attendance</u>	<u>% Paid</u>
	<u>MP</u>	<u>MR</u>	<u>Total</u>		
1985	2,591	2,603	5,194	468	9
1986 (1st. Semester)	1,263	1,241	2,504	313	12
	-----	-----	-----	---	--
Total	3,854	3,844	7,698	781	10
	-----	-----	-----	---	--

The table shows that an average of only 10% of the individuals who attended training courses paid for the course. If everyone who attended the courses would have paid the average course price applicable to paid courses, then the proposed targets would have been readily surpassed. Consequently, it is necessary to improve, promote and demonstrate the usefulness of the courses to progressively increase income from training services.

Advisory visit income was budgeted in the OPG Proposal considering fees of U.S.\$3.50 per visit made. During the period under evaluation, ACP only received U.S.\$3,200 - August to December 1985 - for advisory services which was collected as commission for the granting of loans.

A comparison of actual figures with those budgeted indicates the following:

- . The actual financial margin during 1985 was 203% over budget and for the first semester of 1986 it was 22% under budget.
- . Actual training income during 1985 was 60% under budget. During the first semester of 1986, training income was less than one thousand dollars.
- . Actual advisory services income during 1985 was 79% under budget. There was no income for advisory services during the first semester of 1986.
- . Actual operating expenses during 1985 and during the first semester of 1986 were over budget by 16% and 6%, respectively.
- . The actual deficit during 1985 was 16% lower than budget forecast. During the first semester of 1986 the actual deficit was 79% over budget.

3.2 SOURCES OF FUNDS FOR GRANTING LOANS

ACP has entered into agreements with the Interamerican Development Bank (IDB) and with the Inter-American Foundation (IAF) for obtaining funds for granting loans.

These agreements include: (a) a component for granting credits and (b) a component for strengthening the institution in the case of IDB and for training in the case of IAF. The amounts and purposes of the credit components of the agreements are as follows:

	<u>Amount</u>	<u>Purpose of the Credit</u>
- IDB 1st. Agreement	U.S.\$ 500,000	MP - marginal zones of Lima
- IDB 2nd. Agreement	Sw.Fr. 1'304,000	MP and MR - Northern zone
- IAF	U.S.\$ 361,650	MP and MR - Eastern and Western zones

The following table contains the principal characteristics of the agreements; it does not contain the agreements entered into with AID and with Private Agencies Collaborating Together Inc. (PACT), which exclusively finance operations, this latter in force until December 31, 1985.

SUMMARY TABLE OF AGREEMENTS THAT PROVIDE FUNDS FOR CREDITS

	INTER AMERICAN FOUNDATION (PU-238)	BID 2nd. Agreement (SP/SD-85-04-PE)	BID 1st. Agreement (SP/SF-82-PE)
DATE	September 1985	October 1985	May 1982
TERM	Oct.85 - Sept.87	24 months	Sub Prog. A: Nov.1984 Sub Prog. B: 18 months
AMOUNT	<u>U.S.\$</u>	<u>Sw. Fr.</u>	<u>U.S.\$</u>
	Rotat. Loan Fund 361,650	Credit Concess. 1'304,000	Credit Concess. 500,000
	Pers. training	(Sub Prog. A)	(Sub Prog. A)
	Exchange Progr. 45,000	Inst. Strengthening 214,000	Inst. Strengthening 50,000
	Auditing 5,000	(Sub Prog. B)	(Sub Prog. B)
	TOTAL 411,650	TOTAL 1'518,000	TOTAL 550,000
PURPOSE	<ul style="list-style-type: none"> Offices 3 and 4 credits for next 2 years for MP and MR Personnel training - cred. superv. operat. comput. and adm. of rotat. funds - and interchange of personnel with organizations of other countries 	<ul style="list-style-type: none"> Northern zone credits (*), including east and west; MP and MR Contracting individual Consultants (3) - finance, social-economic evaluation and systems analysis - equipment and materials for training; and a vehicle 	<ul style="list-style-type: none"> Credits for MP, marginal areas of Lima Contracting Consulting services for (a) raising ACP's operating and administrative capacity, (b) promote training in Business Administration for MR and (c) production methods for MR.
CONDITIONS	Donation	Sub program A: Commission: 1% per year as from BID's last disbursement; Term: 30 semesters Sub program B: Donation	Sub program A: Commission: 1% per year as from BID's last disbursement; Term: 20 semesters Sub Program B: Donation
APPLICATION OF THE INTEREST DIFFERENTIAL		15% operating costs Balance: Capitalization and uncollectables - 2% balance of portfolio	3% Financial Institution 5% ACP Balance: Capitalization and uncollectables - 2%

* *

(*) In accordance with the contract, the object is to concede credits to micro businesses in the northern zone. In accordance with BID officials the area also covers the east and west zones.

Cost of Funds

The cost of the funds relating to the credit components is as follows:

- a) BID - 1st. and 2nd. Agreement: The BID loans and their repayments are in local currency and earn a 1% commission as from the last BID disbursement. The first and second agreements are to be repaid in 20 and 30 semesters, respectively.
- b) IAF: donation.

ACP also has available a current account credit line at the Banco Wiese which currently bears an annual effective interest of 40%, the Bank being able to adjust the rate of interest in accordance with modifications made by the Central Bank (BCR). The Executive Director of ACP has informed us of the intention of the Wiese Bank to make donations equivalent to 8 points of the annual effective interest to compensate credit activity costs of the institution.

Control and handling of finances

Funds received under the agreements are controlled as indicated below:

. BID - 1st. Agreement

2 bank accounts in the Wiese Bank are used:

- Account No. 067-4923 in which funds received from BID have been deposited and in which loan recoveries are deposited.
- Account No. 067-5040 in which debtor balances of account 067-4923 are transferred and which serves for the disbursement of loans by ACP.

. BID - 2nd. Agreement

Account 067-5032 at the Wiese Bank is used in which funds received from BID and loan recoveries are deposited. Loan disbursements and interest on overdrafts are made from this account.

. IAF

2 bank accounts in the Wiese Bank are used; account No. 067-5059-056 and account No. 067-5067-037 for controlling the loan funds of the eastern and western offices, respectively.

Wiese Bank - Overdraft Line

Account No. 067-5008 has been opened with the Wiese Bank overdraft for granting loans to micro businesses of the southern cone. Recoveries of these loans are deposited in this account. The overdraft line also covers overdrafts that may occur in other accounts at the Wiese Bank, such as: 067-4923 and 067-5040. In June 1986 the line was guaranteed by AITEC (U.S.\$50,000) and by ACP's Bank Certificates in Foreign Currency (CBME) (U.S.\$71,428).

The institution purchased the CBME with loan recoveries from the 1st. Agreement with BID and with its own funds; the amount of the CBME being as follows at 31st. December 1985 and 30th June 1986:

	December 31, <u>1985</u>	June 30, <u>1986</u>
	(U.S.\$)	
CBME (BID)	248,320	252,383
CBME (ACP)	119,435	109,280
	-----	-----
Total	367,755	361,663
	=====	=====

Through holding the CBME after July 1985 when certificate redemption and payment in foreign currency was suspended and through not having decided to redeem the CBME in local currency, ACP has incurred an annual loss estimated at approximately U.S.\$100,000 as follows:

. CBME in July 1986 = U.S.\$350,000	
. Rate of exchange per U.S.\$1 = I/. 14	
. CBME in Intis = I/. 4'900,000	
. Interest on loans in Intis	I/.
- September 1985 (75%)	234,000
- October to December 1985 (45%)	500,000
- January to August 1986 (40%)	1'420,000

Total	2'154,000

Less: Interest on CBME	(318,000)
(I/. 4'900,000 x 6.5% (*))	-----
Difference	1'836,000
	=====

(*) Estimated CBME average annual interest rate.

The estimate of the loss incurred does not take into consideration donations promised by the Wiese Bank in compensation of the overdraft interest which would decrease the amount of the loss.

We understand that the purpose for holding the CBME after July 1985 was to await government dispositions authorizing CBME redemptions and accrued interest in foreign currency to maintain the dollar value of the funds, or to await a devaluation that would be more beneficial than the interest in local currency.

The CBME funds, however, could have been used for granting loans and for reducing interest charges on overdrafts. As at June 30, 1986 the balances of the overdraft and of the CBME were as follows:

	I/.
	(In thousands)
. Overdraft - accounts of the 1st. BID Agreement	3,990
. Overdraft - Wiese Bank line	2,594

Total overdraft	6,584

Less:	
. CBME - BID	3,533
. CBME - ACP	1,530

Total CBME	5,063

Difference	1,521
	=====

The difference of I/. 1'521,000 is equivalent to the amount of the overdraft line that would have been required had the CBME been redeemed and used. The annualized cost attributable to the non-redemption of the CBME resulting from differences in interest collected - less than 6% per year - and interest paid - 40% per year - is estimated at I/. 2'330,000 which is 150% greater than the amount that would have been required.

The estimate of the imputed cost from not redeeming the foreign currency bank certificates does not consider amounts to be donated by the Wiese Bank in compensation of interest paid on the overdraft.

3.3 FINANCIAL FEASIBILITY OF THE PROJECT

The feasibility of the project is analyzed under two forms:

a) Considering ACP as an institution having its own funds that are used for granting loans.

b) Considering ACP as a financial intermediary.

Because, apart from donations, income from credits granted is practically the only source of income of the institution the analysis emphasizes credit service.

An Institution having its own funds

This form could be considered valid in the case of funds obtained through IAF donations and BID loans granted under exceptional conditions. An official of BID indicated that BID can not make donations; therefore, it has granted loans to ACP in conditions such that they are practically donations. We were informed that this type of operation is granted only once to an institution but exceptionally a second agreement has been entered into with ACP because another institution of similar characteristics and magnitude does not exist.

Under this form, the financial objective of the institution would be to maintain the value of the funds, recuperating inflation losses and operating costs through revenues.

In accordance with the effective rate of prevailing interest (40% per year), repayments of loans granted do not maintain the value of the loans after deducting inflation losses, considering the annualized inflation rate of from 60% to 70%.

Effective rates of interest have historically been negative in relation to inflation and it is not expected that this situation will change.

In addition to inflation losses, operating costs must be considered. The incidence of these costs is in relation to the level of activity. The following table shows the operating costs of an office (direct costs and costs allocated by the head office) in terms of an annual rate for different levels of activity in relation to amount of loans granted.

Loans per Semester (In thousands of U.S.\$)	Effective Cost Rate	
	MP	MR
1,000	12	16
1,200	10	14
1,400	8	11

The indicated levels of activity correspond in the order shown to the first semester of 1986, and the projected normal and projected maximum of the southern office for the 2nd. semester of 1987.

By estimating that training and advisory services will not generate income, the cost rates would increase by 50%.

The total annual losses in the value of the fund under the following conditions: rate of interest, 40%; inflation rate from 60% to 70%; a level of activity of U.S. \$1'000,000 of loans per semester in each office; and with 80% of funds assigned to micro producers loans are estimated between 20% and 25%. This means that in three years the value of the fund in real terms would fall between 40% and 50% of the original value.

The following have not been considered: (a) the costs of training and advisory services that are not covered by fees for such services and (b) the percentage points that the Wiese Bank would charge as collecting agent.

An Intermediary Institution

This form could be considered valid if the Institution becomes financial self sufficient.

Under this form the financial objective of the Institution would be to cover its operating costs with the margin resulting from the difference between the rate of interest on loans granted and the rate on the funds obtained to finance the loans.

The following summary shows the rate of the funds that must be obtained at different levels of activity for covering the operating costs.

<u>Loans per Semester</u> (In thousands of U.S.\$)	<u>Effective Interest</u> %	<u>Operating Cost of Credits</u> (1)	<u>Rate of Funds</u>
1,000	40	13	27
1,200	40	11	29
1,400	40	9	31

(1) Rates considering that the amounts of loans are divided in 80% to micro producers and 20% to micro retailers.

The following have not been considered: (a) the cost of training and advisory services that are not covered by fees for such services and (b) the percentage points that the Wiese Bank would charge as collecting agent.

As can be seen, the average annual rate of interest of the funds to finance loans granted must be 27% to cover the operating costs for the service of credits, according to the current level of activity of the southern office. This level of activity could be attained by all of the offices in a short period (2 years) as indicated in section 6.0. The preceding summary also indicates the annual rates for higher levels of activity.

Should 90% of the fund credit resources be granted to micro producers, the average rate of funds would increase from 27% to 28%.

Should the Wiese Bank, where the cost of the funds is equal to the amount collected by ACP on loans granted, make donations equivalent to 8 percentage points of annual interest as a credit margin for the institution, it would help to cover the operating costs; however, it would not be sufficient to cover the costs.

3.4 CONCLUSION

Revenues and expenses of the Institution

The results of the financial evaluation relating to revenues and expenses of the Institution, comparing figures originally budgeted in the OPG Proposal with actual figures, indicate the following:

- . Revenues of the Institution, such as the financial margin, fees for training and advisory services show that: (a) in 1985 actual figures were over budget by 203% for the financial margin and revenues for training and advisory services under budget by 62% and 79%, respectively and (b) in the first semester of 1986, the actual figures were 22% under budget for the financial margin and there were no significant revenues for training and advisory services.
- . Actual operating expenses of the Institution during 1985 and the first semester of 1986 were over budget by 16% and 6%, respectively.
- . The actual deficit of the Institution (revenues less operating expenses) in 1985 was 16% less than budgeted. During the first semester of 1986 it was over budget by 68%.

Based on the results of the evaluation, we note that there is a decline in actual revenue in relation to budget between the first semester of 1986 and the year 1985; consequently, taking into account that the level of operating costs was maintained, the deficit of the institution increased which is unfavorable to the institution in that it would always require funds from other Institutions for covering its deficits.

Sources of funds

ACP's actions in obtaining and handling funds for granting loans has been as follows:

- Significant funds have been negotiated and obtained for granting credits in the form of a donation from IAF and under exceptional conditions in local currency loans from BID that bear only a 1% commission per year, repayable under the 1st. and 2nd. agreements in 20 and 30 semesters respectively.

- The amounts authorized for granting credits are:

	<u>Amount</u>
BID - 1st. Agreement	U.S.\$ 500,000
BID - 2nd. Agreement	SW.FR. 1'304,000
IAF	U.S.\$ 361,650

- A credit line has been obtained at the Wiese Bank. This credit bears a 40% annual interest rate which, therefore, does not leave a margin for covering the Institution's operating expenses. The ACP Executive Director has indicated that the Wiese Bank intends to make donations equivalent to 8 percentage points of the annual interest.
- CBME were acquired with loan repayments under the 1st. BID Agreement and with funds of the Institution. As at June 30, 1986, ACP held CBME for a value of U.S.\$361,663 (U.S.\$252,383 and U.S.\$109,180 corresponding to the BID program and ACP, respectively).

Having maintained the CBME subsequent to the month of July 1985 in which redemption and payment in foreign currency was suspended, and not having redeemed the CBME in local currency has represented to ACP an estimated annual loss of approximately U.S.\$100,000.

As of June 30, 1986 the institution obtained funds of I/. 6,500,000 by utilization of Wiese Bank overdrafts. If the CBME would have been redeemed an overdraft of only I/. 1'500,000 would have been required. The annualized cost of the net funds required (I/. 1'500,000), according to the present mode of operation, is I/. 2'330,000 or in excess of 150%.

Financial feasibility

In the event that donations are not obtained to support the institution's operations, the analysis of its outlook indicates the following:

- The funds of the Institution - under this form funds provided by IAF and BID may or may not be contemplated - do not maintain their value due to the negative rates of interest in relation to inflation.

If it is considered that interest income must cover all operating expenses of the credit activities and it is assumed that: (a) annual inflation rates are between 60% and 70% and (b) all zonal offices have a level of activity equal to the level attained by the southern office in the first semester of 1986 (U.S.\$1'000,000 of loans granted per semester), the value of the fund would fall between 40% and 50% of its original value within a period of 3 years. Consequently, to consider a permanent functioning under this treatment would require continually obtaining donations to recover the rapid decapitalization of the funds and sustain the volume of credit service.

- For ACP to operate as an intermediary credit Institution it would have to cover its operating expenses for credit activities with the margin resulting from the difference in interest on loans granted and the interest on funds obtained. To accomplish this ACP would have to:
 - Obtain funds in sufficient quantities and at a cost relative to that obtained on loans made which would provide a financial margin of 12% annual.
 - Achieve average levels of activity for each office of approximately U.S.\$1'000,000 of loans granted and channel 90% of the available credit funds to micro producers.
 - Reduce operating expenses channelling a higher percentage of the funds to micro producers, operating more efficiently and eliminating any unnecessary expenses.

4.0 EVALUATION OF THE IMPACT OF THE PROJECT ON ECONOMIC DEVELOPMENT

The purpose of this section is to measure the impact of the project on the national economy by means of evaluating: (a) its capacity for creating employment and (b) its impact on the national income generated by the economic activities of the beneficiaries of the loans.

To determine the preceding, an investigation was made of the economic effects of the project by means of surveys of micro producers. Micro retailers were excluded from the investigation due to their characteristics and magnitude being such that their participation in creating employment is minimum.

The report "Promoviendo Empresarios Urbanos: Una Evaluación del Fondo de Desarrollo Urbano" (Promoting Urban Entrepreneurs: An Evaluation of the Urban Development Fund), prepared by Development Alternatives Inc. (DAI) in April 1985 which contains the results of a survey of 84 companies in Peru confirms the preceding.

The study concludes that micro retail companies which received an average of U.S.\$3,480 (I/.60,000) in a year, only created 22% of the number of new jobs created in small producer companies which received average loans of U.S.\$3,980 (I/.69,000).

In our case the volume of operations of each micro retailer is significantly lower and the maximum of loans that in theory an ACP beneficiary - just entering into the loan system - could receive in a year would be U.S.\$860 (I/.11,000), that is approximately one tenth of the amount of the small businesses referred in the DAI report.

The micro retailers who are ACP beneficiaries are fundamentally vendors of groceries, foodstuffs and other items who sell their products within or outside of a market, who use the loans as working capital for improving their operations and their income. However, the great competition existing in the market indicates that, should the beneficiaries of the project not have received funds for increasing the availability of their products for sale, others would probably have made those sales and, therefore, it is deemed that the increase in the national income would be insignificant.

Consequently, the evaluation of the economic impact of the project at a national level has been carried out on the basis of the results of the survey of micro producers.

It is important to point out that the proportion of the available resources used in making loans during the period of evaluation was 80% to micro producers and 20% to micro retailers entering into the system during this period.

4.1 METHOD OF THE SURVEY

A questionnaire was prepared - see copy in Schedule 7 - principally for the purpose of determining:

- a) The number of jobs created
- b) The increase in the direct value-added
- c) The increase in the indirect value-added

The questionnaire also was to evaluate the training and advisory services offered by ACP, the results of which have been discussed under Section 1.3. The questionnaire also revealed information concerning the beneficiaries' opinion regarding the credit system which served as a basis for the recommendations contained in Section 7.0.

The population surveyed included micro producers of the 4 zones who received the first loans as from October 1984, considered as the beginning of the project. The population was divided into: (a) the southern zone with 1,344 micro producers and (b) the northern, eastern and western zones with 280 micro producers.

The number of surveys carried out totalled 60, of which 32 were in the southern zone and 28 in the remaining 3 zones. The number of surveys made in the northern, eastern and western zones was distributed in a proportion similar to the number of beneficiaries.

Micro producers were selected at random, maintaining the quarterly proportion of the number of beneficiaries receiving first loans since the beginning of the project.

The list of micro producers surveyed appears in Schedule 8.

The figures obtained of sales, purchases and employee remuneration before the loans were converted to Intis of August 1986 using the general index of consumer prices of Metropolitan Lima.

The surveys were made by five professionals who had been working on the previous stages of revision and evaluation of the project. The use of qualified personnel familiar with the program permitted:

- . A reduction of errors in the obtaining of information.

- . A reasonable verification of the data covering sales, employee remuneration, purchases, etc., for which no records are maintained.
- . The use of questions with open answers for the purpose of not leading to the answers.
- . Evaluate directly and objectively the effects of the program.

4.2 PERIOD OF EVALUATION

The surveys were carried out between the 18th and 20th of August 1986. The period of evaluation, that is, the average time lapse from the time of making the first credits to the time of carrying out the surveys, is estimated at 10 months for the southern zone and 4 months for the remaining zones, calculated as follows:

<u>Quarter</u>	<u>% of First Credits</u>		<u>Months up to</u>
	<u>Southern</u>	<u>Other</u>	<u>Time of Survey</u>
	<u>Zone</u>	<u>Zones</u>	
<u>1984</u>			
IV	13		21
<u>1985</u>			
I	7		18
II	10		15
III	10		12
IV	16		9
<u>1986</u>			
I	21	32	6
II	23	68	3
	---	---	
	100	100	
	---	---	

. Average time of the southern zone: $0.13 \times 21 + 0.07 \times 18 + 0.1 \times 15 + 0.1 \times 12 + 0.16 \times 9 + 0.21 \times 6 + 0.23 \times 3 = 10$ months

. Average time for the remaining zones: $0.32 \times 6 + 0.68 \times 3 = 4$ months

The average weighted time for the total of the zones, in relation to the number of first credits made, is 9 months.

4.3 RESULTS OF THE SURVEY

4.3.1 CREATION OF JOBS

The results of the survey indicate that during the period under evaluation beneficiaries of the program created approximately 705 jobs, defining 1 job as that corresponding to full time work.

The following is a summary of the results of the survey regarding the creation of jobs:

	<u>Southern Zone</u>	<u>Other Zones</u>	<u>Total</u>
No. of MP's surveyed	32	28	60
Jobs created	13.91	11.97	
Average of jobs created/MP	0.435	0.428	0.43
Total population (MP)	1,344	280	1,624
Total jobs created	585	120	705
Average of loans granted to MP's surveyed (U.S.\$)	816	360	735
Loan per job created (U.S.\$)	1,860	840	1,390

The amount of loan for each job created by the micro producers is approximately U.S.\$1,390. This is favourably lower than that corresponding to small formal manufacturing companies which are beneficiaries of AID's fund for urban development (FDU) program, which is estimated at U.S.\$2,000.

Women occupy 38% of the jobs created. The structure by type of personnel engaged in micro businesses is as follows: 60% proprietors and relatives, 28% permanent employees and 12% trainees.

According to the surveys, the productive activities which use more labour and generate more jobs per micro business are: shoe making, bakery, dress making, knit goods and wood carpentry. These five activities created 90% of the total jobs created during the evaluation period and had 60% participation in the increase in the direct added value. 68% of the funds loaned were destined to these 5 activities.

None of the employees is covered by social security benefits. The majority of permanent workers receive remuneration equal to the minimum salary (U.S.\$40/month), in some cases in the form of piecework they receive up to 1.7 times the minimum salary. Generally trainees receive 50% of the minimum salary.

A comparison of the number of jobs created with targets established in the OPG Proposal - see Table No. 13 "Jobs Generated" of the proposal - is as follows:

	<u>Per OPG Proposal</u>	<u>Per Survey</u>	<u>Difference</u>
Southern office (1)	746	585	161
Other zones (II, III and IV)	824	120	704
Total	1,570	705	865

The percentage of target achievement is 45%. Even with the assumption that micro retailers also generated employment at 22% of that generated by a micro producer, the total of jobs created would be 1,040 considering that during the period of evaluation approximately 3,500 micro retailers entered the credit system. The percentage of target achievement would then be 66%.

The real increase in employee remuneration during the evaluation period of 9 months was 22%.

4.3.2 DIRECT VALUE ADDED

The direct value added (DVA) has been defined as the result obtained by subtracting from sales, the purchase of goods (raw materials, materials, fuel, electric power, etc.).

The increase in direct value added generated by the project during the period of evaluation (PE) is estimated at U.S.\$1'620,000, as follows:

	<u>Southern Zone</u>	<u>Other Zones</u>	<u>Total</u>
No. of MP surveyed	32	28	60
Monthly DVA increase in the sample at the end of the PE (U.S.\$)	7,535	5,061	12,596
Monthly average DVA increase per MP at the end of the PE (U.S.\$)	235	72	
Average DVA increase per MP during the PE (U.S.\$) (1)	1,175	144	997
Total population (MP)	1,344	280	1,624
Total DVA increase in the PE (U.S.\$)	1'580,000	40,000	1'620,000

(1) The DVA increase per MP during the period of evaluation has been calculated considering that at the beginning of the project the increment is nil and that it grows lineally throughout the PE. Consequently, the estimated result is the following:

- . Southern zone: US\$235 x 10 months x 0.5= \$1,175
- . Other zones : US\$72 x 4 months x 0.5= \$144

The DVA increase in the PE for each U.S.\$1.00 loaned is therefore U.S.\$1.36, that is U.S.\$1.80 per year, which is favourably higher than that of the small manufacturing companies receiving FDU loans which are estimated as generating U.S.\$1.50 of DVA increase per year for each dollar loaned.

Concentrating even more the resources by making more loans to microproducers, the DAV would increase in the same proportion as the increase in the resource flow to micro producers because it is estimated that the value added of the micro retailers is insignificant.

4.3.3 INDIRECT VALUE ADDED

The indirect value added (IVA) is defined as the value added in suppliers by the purchasing operations of micro producers and in the selling agents by the sales operations.

The increase in the indirect value added generated by the project in the PE is estimated at U.S.\$2'175,000, as follows:

	<u>Southern Zone</u>	<u>Other Zones</u>	<u>Total</u>
Monthly increase of purchases per MP at end of the PE (U.S.\$)	311	181	288
Monthly increase of sales per MP at end of the PE (U.S.\$)	545	253	495
Average IVA increase per MP during the PE (U.S.\$) (1)	1,550	340	1,340
Total population (MP)	1,344	280	1,624
Total IVA increase during the PE (U.S.\$)	2'080,000	95,000	2'175,000

(1) The IVA increase per MP during the PE has been calculated considering that at the beginning of the project the increment is nil and that it grows lineally during the PE. Also assumed are: (a) the cost of imported goods and of local purchases from suppliers operating at full capacity since the beginning of the production cycle as 25% of the IVA increase and (b) the average margin of intermediaries as 35% on the sales price of the MP and that 40% of the MP's sell through intermediaries. Consequently, the estimated calculation is as follows:

. Southern zone: $(\$311 \times 0.75 + \$545 \times 0.35 \times 0.4) \times 10 \times 0.5 = 1,550$

. Other zones: $(\$181 \times 0.75 + \$253 \times 0.35 \times 0.4) \times 4 \times 0.5 = 340$

The IVA increase in the PE for each U.S.\$1.00 loaned is therefore U.S. \$1.80, that is, U.S. \$2.40 per year, which is lower than that corresponding to the small manufacturing companies receiving FDU loans, which are estimated as generating U.S.\$3.10 per year of IVA for each dollar loaned.

Concentrating even more the resources by making more loans to micro producers, the IVA would increase in the same proportion as the increase in the resource flow to micro producers because it is estimated that the value added of the micro retailers is insignificant.

4.4 CONCLUSION

The impact of the project in the national economy in accordance with the results of the survey of micro producers carried out in the 4 zones for the evaluation period estimated at 9 months has been significant insofar as the creation of jobs and the net increase in the direct and indirect added values.

The results of the survey indicate that this type of program for micro businesses has comparatively favourable effects in relation to other programs of assistance oriented toward small companies of the urban sector - such as AID's FDU program.

The principal results of the survey of micro producers indicate the following:

- The amount of loan for each job created is calculated at U.S.\$1,390 for this type of borrower, favourably less than loans to small companies of the FDU program which are estimated at U.S.\$2,000.
- The average number of jobs created per micro producer during the period of evaluation (PE) is estimated at 0.43. Taking into account that the average number of workers per company is 2 or 3, the capacity of employment generation by micro businesses is significant.
- The 1,624 micro producers who have started receiving loans since October 1986 created 705 jobs. Even taking into account that micro retailers receiving loans since October 1984 would have participated in the creation of jobs, the maximum estimated total of jobs created would total 1,040, which is less than the employment generation target of 1,540 indicated in the OPG Proposal.
- The 5 activities that created most employment are: shoe making, bakery, dress making, kniwear and wood carpentry. These activities created 90% of the jobs during the period of evaluation and had a participation of 60% in the increase in direct added value. 68% of the amount loaned was in these activities.
- Women occupy 38% of the new jobs created.
- The increase in the direct and indirect value added for the first year of the project for each U.S.\$1.00 loaned is calculated at U.S.\$1.80 and U.S.\$2.40, respectively.

The increase in the direct value added for each dollar loaned is favourably higher than that of the small manufacturing companies of the FDU program which is estimated at U.S.\$ 1.50. The increase in the indirect value added on the other hand, is comparatively lower as in the small companies of the FDU program it is estimated at U.S.\$3.10 (*).

- The total of the increase in the direct and indirect value added originated by micro producers who started receiving loans as from October 1984 is calculated at U.S.\$1'600,000 and U.S.\$2'175,000, respectively.

(*) Variations in the methods used for determining the DVA to a certain degree explain this difference.

5.0 ORGANIZATION, PROCEDURES AND SYSTEMS

The object of this section is to describe weaknesses observed in aspects of organization, administrative procedures and computer systems which hamper the attainment of the institute's objectives as well as recommend corrective measures.

5.1 ORGANIZATION

Centralization of management and supervision functions

In the current organization of ACP, a marked centralization of management and supervision functions in the Executive Director has been observed. The positions of direct dependency are:

- Administrator
- Accountant
- Head of training
- Evaluation department
(economist and sociologist)
- Head of collections
- Coordinators of the zonal offices (4)
- Financial advisor
- Systems adviser
- AITEC adviser
- Secretary

We believe that this heavy management and supervision work could cause delays in decision making and an ineffective follow-up of activities carried out by the personnel holding the above mentioned positions.

A greater delegation and decentralization of management and supervision functions would enable the Executive Director more time to handle other functions of equal significance that might not be adequately carried out.

We recommend the decentralization of management and supervision functions of the Executive Director, delegating part of the functions and reducing the number of positions which depend directly on the Executive Director from 14 to approximately half this number. To accomplish this, we suggest that managers with authority and responsibility for handling functional areas be established, adopting measures such as:

- . Delegating the function of supervising zonal offices to a line executive who would be in-charge of supervising and coordinating the activities of the zonal offices.

- Regrouping the functions of training and evaluation and assigning this responsibility to an executive in order to improve coordination of the efforts of the personnel in these areas, upgrading the support given to zonal offices.

Coordinating Committee Meetings

Coordinating committee meetings are held weekly; in general, they are extensive and take place during working hours. Participants in these meetings are numerous and are individuals who hold key positions such as, for example, the 4 coordinators of the zonal offices.

We believe these committee meetings could be resulting in an excessive dedication of time and complicating the decision making process.

Recommendations:

- Reduce the number of participants so the committee may become more agile.
- Limit the subjects to be dealt with by the committee and to those that require inter-departmental coordination.
- Study the possibility of: (a) reducing the frequency of the committee meetings, holding them - for example - on a semi-monthly basis and (b) ensuring that meetings do not take up too many normal working hours.

Manual of Organization and Functions

The Institution does not have a manual of organization and functions containing:

- Organization charts
- Clearly defined lines of authority
- Objectives and functions by department and by office

The lack of such a manual may result in:

- Difficulties in acquiring a thorough knowledge of the area of responsibility of each of the organic units of the Institution and it may cause conflicts between executives when dealing with matters on the edge of their responsibilities.
- Some functions not being accomplished because it is not clearly defined as to who should carry out and/or approve the function.
- Difficulties in performance evaluation for the purpose of rotating personnel, promotions, remunerations, etc.

We recommend that a manual of organization and functions containing the preceding be prepared.

5.2 ADMINISTRATIVE PROCEDURES

Timing of signing loan documents by the Executive Director

In granting loans to micro producers, the Executive Director signs documents on two occasions:

- Signs the check (one day)
- Signs the contract and notes (another day)

Signing documents on different dates results in additional work.

We recommend that the procedures for granting loans to micro producers be changed so that the Executive Director receives the checks together with the contract and notes, thus enabling him to sign all of the documents at the same time.

Lack of uniformity in use of forms and in the application of procedures at zonal offices

A lack of uniformity in the use of forms and in the application of procedures relating to granting of loans in the zonal offices has been observed as follows:

- a) The verification of data corresponding to loan applicants is made on different forms in each zonal office as follows:

<u>Office</u>	<u>Denomination of Form Used</u>	
	<u>Micro Producers</u>	<u>Micro Retailers</u>
Southern	Credit analysis	Verification at field level
Northern	Field verification	Verification at field level
Eastern	Field verification	Verification at field level
Western	No form is used	No form is used

- b) At the southern office guarantee notes are signed by each group participant and by an individual guarantor, that is, for each group of micro producers, five notes are signed for a single loan. However, at the other zonal offices (northern, eastern and western) the 5 participants in a group of micro producers sign a single guarantee note and no additional guarantees are required.

- c) Disbursement checks for loans at the southern, eastern and western offices are prepared at the zonal offices. Disbursement checks for loans at the northern office are prepared at the main office.
- d) There is no uniform policy at the zonal offices concerning documents to be submitted by loan applicants for approval of their credit requests. In some cases, in addition to their voter registration card, the following documents are requested: tax registration card, electric bill, house appraisal, evidence of lot location, health certificate, etc.

We recommend that:

- . The use of forms for data verification of loan applicants by all four offices be standardized.
- . The requirements regarding signing of notes and guarantees required in all four offices be standardized in accordance with legal requirements.
- . The northern office prepare its disbursement checks until such time as checks for all offices are emitted by computer.
- . A uniform policy for the four offices be adopted giving priority to and standardizing requirements as to documents that are to be submitted by loan applicants for approval of their credit requests.

Unsuitable design of some forms

In some cases the zonal offices are using forms that are not functional:

a) There are four forms for office collections:

- Form A4, for the collection on account of micro retailer loans
- Form A5, for the collection of balances of micro retailer loans
- Form AG, for the collection of guarantee funds, training, and advisory services.
- Liquidation for the collection of protested notes.

The use of different forms may require more time for controlling the forms and cause difficulties in follow-up.

- b) The form denominated "Formato referente a memorandum informativo a desembolsos," is designed to report only two loans per page. This form is typed by each zonal office for reporting loans granted to the computer department which results in considerable work because the loans are generally numerous.
- c) The minutes of the zonal office credit committee and the request for check signature are extensive forms and contain similar information resulting in a duplication of data and a greater work load.

We recommend that:

- . A single collection form covering all the mentioned concepts to replace the four existing forms be designed.
- . The form used to report loans be replaced by the "Weekly Loan Report" (format attached in Schedule 9) to facilitate the preparation of the information and the transfer of the information to the computer.
- . The minutes for the credit committee meetings be prepared so that they also serve as a check request.

Recording notes receivable

At present notes are prepared manually by each zonal office and forwarded to the main office for recording in the auxiliary book of notes receivable and subsequent remittance to the bank for collection.

Subsequently, the bank remits a list of "notes in collection" which is entered into the computer which issues a list of notes held by banks. The note number assigned by the bank on the listing is the number that is used as a control in the auxiliary book and in the computer information. Due to the bank not numbering the notes consecutively, ACP dedicates great efforts to ensuring that the records are complete.

We recommend that:

- . The manual preparation of drafts be discontinued and that they be prepared by the computer in a manner similar to the coupons or receipts.
- . The number assigned to each note by ACP for control purposes be automatically generated by the computer consecutively for each zonal office.
- . The manual recording of notes receivable be discontinued after verifying that the issuance of the lists of notes is satisfactory for replacing the manual recording.

Manual of standards and procedures

The Institute does not have a manual of administrative and operating standards and procedures covering the various functional areas.

The lack of this manual may cause difficulties such as, for example:

- . In the supervision of activities of subordinates
- . In documentation flow
- . In the instruction and training of new personnel
- . When it is necessary to rotate personnel, etc.

The availability of this manual could facilitate the timely discovery of weaknesses in the control system that could result in possible errors or irregularities.

We recommend that the procedures and standards of the functional areas of the institute be formally established, in concordance with the related internal control procedures, over a period of time until the manual is completed. Each procedure should include:

- Objective and scope
- Operating standards
- Description
- Flow charts
- Forms

Budgetary control

For the purpose of obtaining funds from external sources for financing the project of the progress program, ACP prepared the OPG Proposal in which it included several tables showing the budget of numerical goals to be met within a period of twelve quarters, as from the date of commencement of the project. With regard to these budgets, we have observed the following:

- . There are no working papers to support the basis for the preparation of the budget, making it difficult to determine the items, concepts and criteria taken into account in the preparation of the budget.
- . There is no adequate follow-up of the budgets that permit a control of numerical goal achievement. Deviations (under or over) from the budget may be occurring without the institute taking any corrective measure or preparing comments on such deviations.
- . The budgets are not reviewed and updated to assist the institute in managing and controlling its activities.

We recommend that:

- . The working papers supporting budgets be saved for the purpose of facilitating the review, follow-up and control of the budget.
- . Budgeted figures be followed to ensure attainment of the projected goals and compliance with the objectives of the project.
- . Budgets be periodically reviewed (for example semi-annually) and the figures updated to improve management and control of the Institution's activities.

Unreported credit information

The zonal offices prepare monthly summaries containing information relating to credits (number of credits granted, number of beneficiaries, amounts, etc.). This information is not included in the monthly reports sent to the Executive Director.

A manually prepared summary consolidating the same information is prepared at the main office from the weekly reports prepared by each zonal office for the computer department.

The reports on credit information of the main office indicate the date of approval of the credit for micro retailers and the date of delivery of the check for micro producers.

The reports of each zonal office indicate the date of check delivery for both micro retailers and micro producers.

The preceding results in: (a) an excessive workload at the main office through having to prepare information that has already been summarized at each zonal office, (b) the duplication of reporting and reporting different information for micro retailers and micro producers.

We recommend that:

- . Monthly reports regarding credits prepared by each zonal office be sent to the main office for consolidation.
- . A standard basis for the preparation of the reports be established so that information is comparable.

5.3 COMPUTER SYSTEMS

Organization

For the development of its electronic data processing (EDP) system the Institution contracted 3 persons, as follows:

- . A systems adviser from November 1984 to June 1986 - 1 year and 8 months - who developed and put into operation the applications for granting and controlling loans.
- . A programmer since April 1986 who has been performing the functions of operator and who only has knowledge of DBase II for programming.
- . A systems consultant since July 1986 who is currently preparing a report on the present EDP situation.

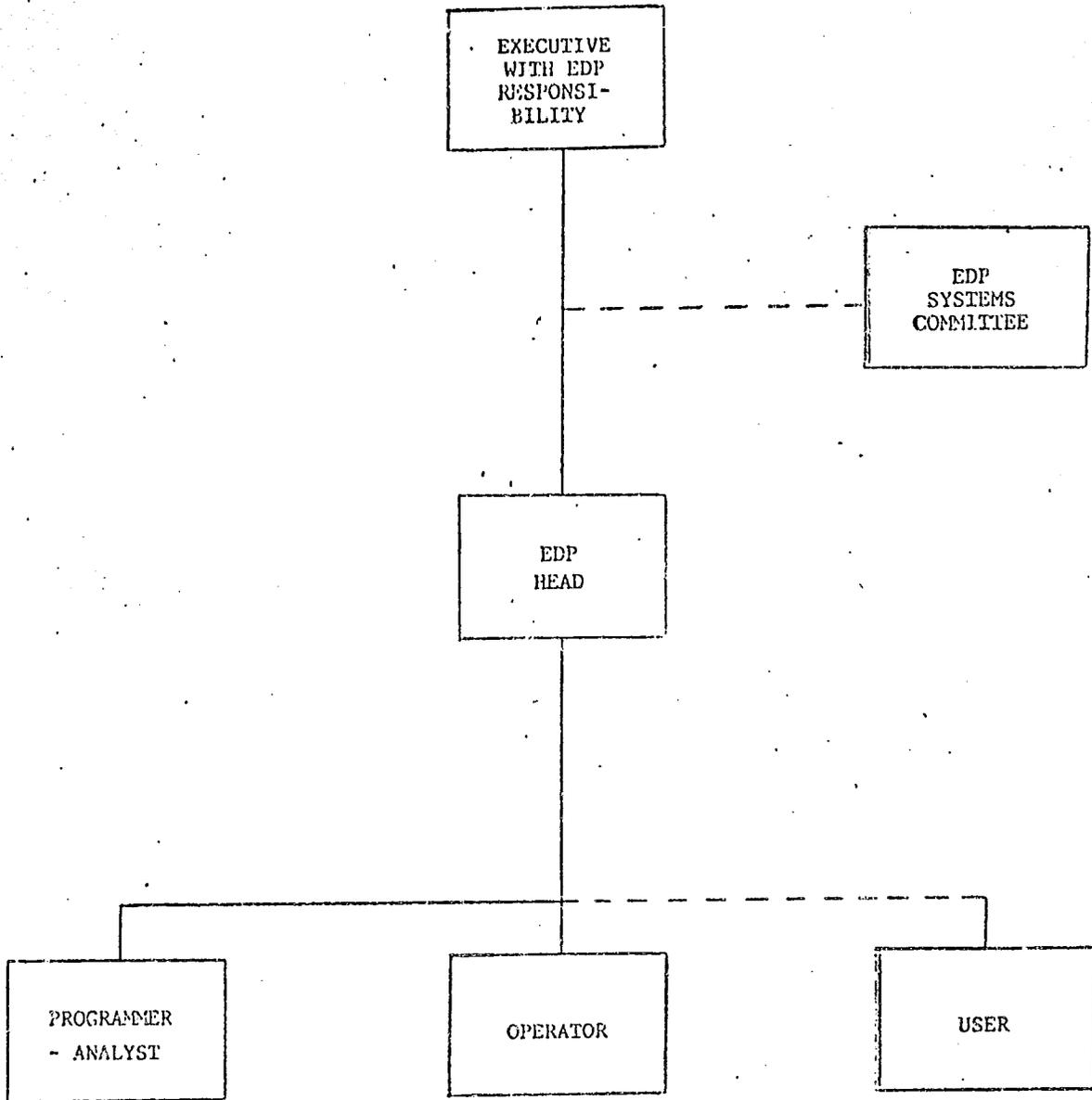
The ACP coordinating committee at some of its meetings has discussed EDP without, however, replacing the functions of a systems committee.

The preceding situations could result in applications not being adequately developed and within established time periods.

We recommend that:

- . The EDP department be organized as indicated in the organization chart on the following page.
- . The services of a programmer-analyst be contracted to handle the programming of the applications, after the equipment and language or source code to be used have been defined. This analyst should be contracted for the time required for the development and implementation of the system and a reasonable period of functioning of the system.
- . Define the duties and responsibilities of the EDP personnel. The principal duties to be carried out would be:
 - a) Systems consultant (Head of the EDP Department)
 - Initial investigation of the system
 - Preliminary study of the system
 - Planning of the system
 - Coordination with users of the system
 - Requirements of hardware, software, personnel, etc.
 - Direction and supervision of the development and implementation of the systems

STRUCTURE OF THE EDP ORGANIZATION



- - - Functional dependency

b) Programmer-Analyst

- Analysis and design of the applications
- Programming
- Documentation
- User procedures and training
- System testing
- System implementation
- Maintenance of applications

c) Operator

- Control of processing
- Control of users
- Control of data
- Support entering information
- Library of tapes and disks
- Supplies

- . Form the systems committee which should be integrated by the Executive responsible for the EDP department, the head of the EDP department and users of the system. This committee should be responsible for planning, analyzing, approving and controlling system projects presented by the EDP head.

Development of applications and their documentation

The only application that is operative is for granting and controlling loans, developed on DBase II, on which we have the following observations:

- . It has not been completed.
- . It has not been documented nor has a user's manual been prepared.
- . It does not provide for notes receivable to be issued by the computer nor does it contemplate the possibility of issuing loan disbursement checks.
- . It does not satisfy control procedures which are included in the programs for validating data entered in the computer.
- . Modifying and annulling data file records are not executed through the user's menu.
- . There are problems of logic in the programming.
- . It has required constant program modification using time needed for the development of other systems.

The accounting system acquired in August 1985 has not been tested and is not in production. It does not have the respective source programs which are essential for maintenance of the application.

We also observed that the computer equipment does not have the disk storage capacity necessary for processing new systems to be developed and for performing implementation tests.

The foregoing may cause:

- . Incorrect functioning of the applications or not complying with user requirements due to the applications not being adequately tested.
- . Not being able to adequately use the applications developed as a base for any new application due to the lack of documentation.
- . Unnecessary effort expended in the preparation of notes receivable and loan disbursement checks.
- . Inability to modify applications acquired from third parties due to the lack of the source programs.
- . Application programs not being properly programmed due to the lack of sufficient storage capacity in the computer.

We recommend that:

- . A new application for granting and control of loans be developed and programmed.
- . A study and analysis for developing the new applications required by ACP be carried out considering the interrelation between such applications and the purpose of maintaining the integrity of the data system. Each project for an application should include the following:
 - a) Objectives and scope
 - b) Description of the system
 - c) General flow chart
 - d) Reports
 - e) Terms and cost of developing the application

. The new applications to be developed should, as a minimum, include the following:

- Granting, recovery and control of loans
- Accounting
- Payrolls
- Fixed assets
- Budgetary control
- Financial reports

Computer Equipment

The systems presently installed occupy 98% of the capacity of the 10 mb hard disk of the present equipment. The remaining 2% of the capacity is insufficient for installing and testing other applications.

The preceding could result in the systems to be developed according to the projected growth of the Institution's operations not being able to function in the computer.

We recommend that:

- . The 10 mb hard disk installed in the unit be replaced by one of 20 mb so that information corresponding to granting and controlling loans may be processed.
- . The possibility of acquiring a computer unit that will permit the implementation of systems to be developed over the short and long terms be determined. Some equipment options that could be considered are the following:

. Option 1: IBM Unit 36/PC U.S.\$75,000

Hardware: 1 CPU with 80 mb, 3 terminals, 1 operator terminal, 1 emulation card and 1 printer of 400 Lpm

. Option 2: Wang VS-5 Unit U.S.\$42,000

Hardware: 1 CPU of 67 mb, 3 asynchronous terminals, 1 operator terminal, 1 emulator card, and 1 printer of 180 Lpm

. Option 3: Wang VS-15 Unit U.S.\$48,000

Hardware: 1 CPU of 76 mb with the remaining peripherals and accessories equal to option 2

The prices indicated are given as a reference and they include the basic software for operating the units.

The diagram in Schedule 11 shows the uniform configuration of the 3 options indicating the CPU corresponding to the Wang VS-5 unit.

Physical safety and protection

We observed that no procedures have been established for effecting the back up of the operating systems, utilities, source programs and data files contained in magnetic disks and tapes. Copies of the preceding as well as supplies of tapes, disks and manuals are stored in the computer center.

The preceding may cause:

- . Operating errors, which in turn may alter or destroy informations contained in magnetic disks and tapes.
- . In the event of fire there would be no back up of computer center information.

We recommend that:

- . Procedures for the back-up of the operating system, source programs and data files contained on magnetic disks and tapes be prepared.
- . The EDP department be provided with an adequate and safe area for the library of tapes, disks, back-up materials and manuals. The operator could be assigned the administration of the library, under the responsibility of the EDP department head.

6.0 EVALUATION OF THE TECHNICAL ASSISTANCE

The objective of this section is to evaluate the technical assistance component which comprehends: (a) Accion Internacional (AITEC) advisory services and (b) National Technical Cooperation, in accordance with the functions of this assistance as established in the OPG Proposal.

Accion Internacional (AITEC) Advisory Services

In accordance with the OPG proposal, the scope of the AITEC advisory services would include:

- a) Installation of the new offices.
- b) Design and implementation of program administration and control systems and training the individuals who manage these systems.
- c) Design the financial methodology for managing credit funds.
- d) Training instructors, advisers and businessmen in various aspects related to administration of companies, marketing and finances (this was considered the principal labor of the AITEC services).

The amount for the AITEC services is U.S.\$168,500 for the three years of the project. The relative cost of these services is significant as it represents more than 21% of ACP's total operating costs and more than 23% of the total donation agreement. The advisory service cost includes the remuneration of an adviser in Lima and certain other expenses and "overhead" incurred by AITEC.

We understand that AID agreed to finance the AITEC advisory services, included in the donation agreement, to ensure that the program was appropriately carried out and the OPG objectives attained.

We believe that, given the significant amount of the advisory service cost and notwithstanding the quality of the services, AID expected a decisive participation by AITEC in the different aspects established in the agreement and that the suggestions of this advisory service be considered by the Executive Director of ACP in carrying out the program.

In accordance with the indicated considerations and based on the evaluations of the different matters of the project dealt with in the preceding sections, in our opinion the AITEC assistance has been as follows:

Satisfactory complied with advice concerning:

- . Physical establishment and functioning of the new offices (item "a" of the scope of advisory services), as these offices were implemented even though from 3-5 months later than the time table in the OPG proposal.
- . Establishment of the operating methods and procedures (credits, training and advisory visits) and training of the individuals in-charge (part of item "b" of the scope of advisory services); as these procedures are functioning.
- . Development of training services for which the AITEC adviser conducted meetings to motivate the instructors for teaching the courses and decentralizing the services to zonal offices; evaluation of the courses and participation of the restructuring of the courses (item "d" of the scope of advisory services).

It should, however, be pointed out that the AITEC services did not include the direct training of instructors, advisers and microbusinessmen in aspects related to techniques of administration as indicated in the OPG proposal. The AITEC adviser indicated that he did not consider it appropriate for him to teach training courses.

Did not participate in the following:

- . Organizational - as to the design and implementation of an organic structure adequate for the Institution.
- . Administration - as to the design and implementation of the Institution's accounting and administrative systems.
- . Financial - as to the design of a capable financial system for the permanent functioning of the program without continuing significant support by donations or subsidized loans.

The first two indicated items are included in item "b" of the scope of advisory services while the last item corresponds to item "c" of such scope.

The effect that we believe the lack of ADTEC assistance could have had on the indicated areas are the following:

1. Restrictions in the organization of ACP to expand the present level of services (credits, training and advisory visits) and operate more efficiently.
2. Control and evaluation weaknesses not corrected which would have permitted a more appropriate handling of program resources.

3. Unsatisfactory progress in attaining the economic self-sufficiency of the project.

The first two comments are based on the deficiencies encountered in the administrative performance evaluation described in section 5 and the disbursement review report dated September 3, 1986.

The third comment is supported by the lack of a plan for attaining the self sufficiency of the project, observing an inadequate financial management of the funds (see page 36, titled "Control and handling finances").

We believe the reasons that could have caused the non-participation of AITEC assistance in the areas previously referred to are as follows:

- . The taking on of these duties by the Executive Director.
- . The lack of detailed reference terms of the technical assistance.
- . The lack of a mechanism by which AID could be ensured of AITEC participation in all areas of assistance and that the respective suggestions of AITEC would be taken into account by the Executive Director.

We believe that the successful development of the project requires that the technical assistance be directed towards the institutional strengthening of ACP - see recommendations on page 85 regarding the specific areas that should be covered by technical assistance - looking towards the consolidation of the institution before opening new zonal offices.

The recommendations regarding contracting of technical assistance that we suggest be contemplated are the following:

- a) Change the method from having one permanent adviser to the use of specialists (either firms or individuals) in each of the matters requiring assistance.
- b) Establish for each technical assistance engagement the objectives, scope, reference terms, execution period and /or time table, budget of labor days by activity and consultant, and engagement cost.
- c) Establish procedures to ensure that technical assistance recommendations are taken into account by the ACP Executive Director. These procedures may consist of: (a) periodic reports of the Institution on the action taken regarding the technical assistance suggestions and (b) a program for the follow-up of the measures.

- d) Study the alternative of national technical assistance due to: (a) the existence in the country of specialists in the areas where assistance is required and (b) lower cost than foreign advisory services.

National Technical Cooperation

In accordance with the OPG proposal, the National Technical Cooperation consists in contracting 3 experts to assist in installing the new offices and elevating the operating capacity and the administrative bases of ACP to carry out its programs. ACP contracted 2 professionals to assist in the areas of systems and finances as follows:

Systems Assistance

In accordance with the OPG proposal the systems expert was to design the electronic data processing systems in the areas of accounting, finances, marketing and production. It also may be assumed from the description of the activities of the National Technical Cooperation that this expert should participate in the establishment of an information system regarding the beneficiaries of the credit program.

On November 5, 1984 ACP contracted a systems consultant, who worked until June 30, 1986, for carrying out the following:

- a) Analysis of systems
- b) Design of systems
- c) Development of systems
- d) Supervision of programming
- e) Personnel training
- f) Manual of organization and functions
- g) Manual for users
- h) Hardware and software evaluation
- i) Reports

Of the items mentioned, the systems consultant only partially carried out the following:

- (1) Regarding item (a), a preliminary study of the systems to be developed entitled by the consultant: "feasibility study" was made.
- (2) Regarding items (c) and (d), the system for granting and controlling loans to micro producers and micro retailers was made which contains a series of deficiencies that have been referred to under section 5.3.
- (3) Regarding item (i), reports covering the current EDP situation were made.

Considering the deficiencies mentioned under section 5.3, which largely reflect the activities developed by the consultant, the preceding comments and the objectives to be attained, we believe that the work carried out during the period of evaluation is less than the level established in the OPG proposal.

Financial Assistance

In accordance with the OPG proposal, the financial expert was to furnish financial advice to both ACP and program beneficiaries.

ACP contracted a professional as financial adviser in March 1986. No written contract establishing the scope of his work was prepared. During our evaluation we noted that this professional also assisted in areas other than finances.

Considering the short time this individual worked during the evaluation period and the fact that he is no longer working at the Institution, we believe that the advances to comply with the OPG proposal objectives regarding financial assistance have been unsatisfactory.

In accordance with the OPG proposal, a third national adviser should be contracted to advise micro businessmen in marketing to increase sales of their products. This expert was not contracted and, therefore, the assistance in this area as set forth by ACP has not been provided.

7.0 PROJECTIONS AND FINAL RECOMMENDATIONS

The purpose of this section is to make projections at the level of expected activity during the remaining period of the OPG proposal and to submit recommendations for actions that we consider should be taken in order that the program becomes a successful project.

7.1 PROJECTIONS

The magnitude of the informal sector has not been established with precision. In the opinion of several specialists involved with the informal system, it is a universe that is extremely difficult to measure.

According to a report issued by the Ministry of Labour and Social Promotion (MTPS), entitled: "Survey of Unorganized Stratas in Metropolitan Lima - May 1982", the percentage structure of the productive units and of the population economically active (PEA) of the informal sector by activity is as follows:

	Percentage	
	<u>Units</u>	<u>PEA</u>
Commerce	52	47
Manufacturing	26	35
Transportation	12	5
Services	10	13
	---	---
Total	100	100
	---	---

According to the MTPS, the informal sector is constituted by small productive units, generally integrated by members of a single family who participate in the global productive process performing a heterogeneous series of activities.

The ILD considers that the informal sector not only includes the productive units indicated by the MTPS, but also includes the "inhabitants of shanty towns who built their homes without possessing title to the property, formal companies which have part of their production outside of the official records, all professionals who have not filed tax returns and, in general, all those who in one way or another carry out their activities outside the legal structure". The entire informal sector according to ILD includes approximately 60% of peruvians.

Opinions of what other experts consider that the sector represents in the urban PEA indicate percentages varying from 33% to 50%.

Some sources estimate that one hundred thousand micro producers operate in Metropolitan Lima.

Considering: (a) Urban Lima PEA at 2'000,000, (b) 33% of participation by the informal sector and (c) the percentage structure of the MTPS report, the following estimate of workers in the informal sector is reached:

	<u>Workers</u>
Commerce	310,000
Manufacturing	231,000
Services	86,000
Transportation	33,000

Total	660,000
	=====

Considering an average number of workers per productive unit of between 1.0 and 1.5 for commercial activities and at between 2 and 3 for manufacturing and service activities, the number of micro retailers and micro producers are approximately 250,000 and 130,000, respectively.

ACP's Executive Director has indicated that, according to his estimates, the global number of micro retailers and micro producers is 800,000. He has no breakdown by type of activity.

In any case, the magnitude of the informal sector is such that the demand for ACP's services does not represent a restriction for the expansion of activities.

Projections of credit volume

The Institution has no updated forecasts covering the volume of loans to be granted on which we could express our opinion and perform an analysis of the expectations of the project.

Due to the indicated reason, we have made projections of the number and amount of loans for the next 4 semesters. These projections are those that would result from maintaining the present trend without adopting corrective measures.

Projections as to training and advisory services are not considered in view of the fact that budgets covering future performance result from pre-established programs and not from historical trends.

Projection bases and assumptions

The projections were elaborated as follows:

a) At the southern office (I) the lineal regression method has been used for projecting the loans to micro producers and micro retailers.

b) At the northern office (II) two assumptions were made:

- For micro producers, the number of credits budgeted in the OPG proposal have been considered due to the fact that the granting of these loans only began in February 1986. The amounts of the loans were determined by multiplying the number of credits by the following average amounts per loan: 2nd. semester 1986, U.S.\$862; 1st. semester 1987, U.S.\$1,150; 2nd. semester 1987, U.S.\$1,437 and 1st. semester 1988, U.S.\$1,500; assumed in accordance with ACP current progressive scale of loans for first and subsequent credits.

- For micro retailers, the same rate of growth in the number of credits of the southern office was assumed. The amount of the loans was determined by multiplying the number of credits by the average amount per loan of the southern office obtained in the first semester of 1986.

c) At the eastern (III) and western (IV) offices two assumptions were considered:

- For micro producers, the number of credits was established based on the OPG proposal for the 2nd. semester of 1986 and then on a growth rate equal to that of the northern office for 1987. The amount of loans were determined by multiplying the number of credits by the average amount per loan considered by the northern office indicated in (b).

- For micro retailers, the number of credits has been established on the basis of the OPG proposal for the second semester of 1986 and 1st. semester of 1987. For the 2nd. semester of 1987 the same rate of growth has been assumed as for the preceding semesters. The amount of loans was determined by multiplying the number of credits by the average amount per loan considered by the northern office.

Table 7.1 on the following page contains the number and amount of loans projected in accordance with the mentioned bases and taking into consideration a margin of variation of + or - 15%.

Comparison of projections with OPG proposal

The comparison of the average projected figures with those originally budgeted in the OPG proposal for the last quarter of the project period, that is, the 2nd. semester of 1987, is made for the purpose of evaluating in advance the level of activity that the Institution would reach at the termination of the OPG project maintaining the present trend and not adopting recommendations for improvement.

Micro Producers

	... XII Quarter of the Project ...		
		OPG	
	<u>Projection</u>	<u>Proposal</u>	<u>Difference</u>
NUMBER			
Southern office	180	186	(6)
Northern office	180	186	(6)
Eastern office	100	186	(86)
Western office	100	186	(86)
	---	---	---
Total	560	744	(184)
	===	===	===

U.S. DOLLARS (IN THOUSANDS)

Southern office	273	100	173
Northern office	258	100	158
Eastern office	144	100	44
Western office	144	100	44
	---	---	---
Total	819	400	419
	===	===	===

According to projections as to loans to micro producers, the following is expected in the last quarter of the project:

- That the southern and northern offices place practically the same number of loans as budgeted in the OPG proposal, but with an average of 166% more in the amount of the loans.
- That the eastern and western offices place a lower number of loans than budgeted in the OPG proposal, but with an average of 44% more in the amount of the loans.
- That the Institution places twice the amount of loans established in the OPG proposal.

TABLE 7.1

ACCION COMUNITARIA DEL PERU

NUMBER OF CREDITS AND LOANS GRANTED PROYECTION

	II SEMESTER 86			I SEMESTER 87			II SEMESTER 87			I SEMESTER 88		
	MINIMUM	NORMAL	MAXIMUM	MINIMUM	NORMAL	MAXIMUM	MINIMUM	NORMAL	MAXIMUM	MINIMUM	NORMAL	MAXIMUM
MICRO PRODUCERS												
NUMBER OF CREDITS												
Office I	244	287	330	275	323	371	306	360	414	337	396	455
Office II	162	190	219	255	300	345	306	360	414	315	370	426
Office III	89	105	121	145	170	196	170	200	230	179	210	242
Office IV	89	105	121	145	170	196	170	200	230	179	210	242
Total	584	687	790	819	963	1107	952	1120	1288	1098	1186	1364
LOANS GRANTED (U.S.Dollars 000,)												
Office I	371	436	501	417	491	565	464	546	628	511	601	691
Office II	139	164	188	293	345	397	440	517	595	472	555	638
Office III	77	91	104	166	195	225	244	287	330	268	315	362
Office IV	77	91	104	166	195	225	244	287	330	268	315	362
Total	664	781	898	1043	1227	1411	1392	1638	1884	1518	1766	2054
MICRO RETAILERS												
NUMBER OF CREDITS												
Office I	1022	1202	1382	1150	1353	1556	1279	1505	1731	1408	1656	1904
Office II	706	830	955	825	970	1116	876	1030	1185	918	1080	1242
Office III	82	96	110	122	144	166	184	216	248	272	320	368
Office IV	82	96	110	122	144	166	184	216	248	272	320	368
Total	1890	2224	2558	2219	2611	3003	2522	2967	3412	2870	3376	3882
LOANS GRANTED (U.S.Dollars 000,)												
Office I	444	522	600	500	588	676	556	654	752	612	720	828
Office II	306	360	415	358	422	485	380	468	515	399	469	539
Office III	35	42	48	53	63	72	80	94	108	118	139	160
Office IV	35	42	48	53	63	72	80	94	108	118	139	160
Total	821	966	1111	965	1135	1305	1096	1289	1483	1247	1467	1687

Micro Retailers

... XII Quarter of the Project ...

	OPG		
	<u>Projection</u>	<u>Proposal</u>	<u>Difference</u>
NUMBER			
Southern office	752	72	680
Northern office	515	72	443
Eastern office	108	72	36
Western office	108	72	36
	-----	---	-----
Total	1,483	288	1,195
	=====	===	=====

U.S. DOLLARS (IN THOUSANDS)

Southern office	327	27	300
Northern office	224	27	197
Eastern office	47	27	20
Western office	47	27	20
	---	---	---
Total	645	108	537
	===	===	===

According to the projections, it is expected that the following shall occur in the last quarter of the project with regard to loans to micro retailers.

- . That the southern and northern offices place an average of 9 and 10 times the number and amount of loans budgeted in the OPG proposal, respectively.
- . That the eastern and western offices place a larger number of credits and amount of loans of 50% and 74% over the figures budgeted in the OPG proposal, respectively.
- . That the Institution places 6 times the amount of loans established in the OPG proposal.

Summarizing, global expectations are substantially higher than those set forth in the OPG proposal as to the volume of the credit services at the conclusion of the OPG project, estimating that in the last semester the amount of loans granted to micro producers and micro retailers will be 2 and 6 times, respectively, the amounts originally budgeted.

The projections also indicate that the proportion of loans placed with micro retailers in relation to the total will be significantly greater than that contemplated in the proposal.

The level of credit activity, measured by the amount of loans per semester, is as follows:

	U.S.\$ Dollars (in thousands)
Southern office	1,200
Northern office	965
Eastern office	381
Western office	381

Total	2,927
	=====

Considering a + or - 15% margin of variation, the average level of activity projected per office is estimated at between U.S.\$600,000 and U.S.\$800,000. The incidence of the Institution's total operating costs - including training and advisory service costs - for these levels is high as indicated below:

Activity level - semester	Effective Cost Rate		
	<u>MP</u>	<u>MR</u>	<u>Average(1)</u>
U.S.\$600,000	20	29	22
U.S.\$800,000	15	20	16

(i) The average has been calculated according to MP and MR loans projected for the end of the project period.

We note that, even though the projections are much higher than the OPG proposal, the level of activity at the end of the OPG project would be inadequate to ensure ACP operating without support donations.

7.2 FINAL RECOMMENDATIONS

ACP should establish operating objectives that would permit it to become an economically viable Institution. To accomplish this the global goals that we believe should be established in the short term (4 semesters) are the following:

- Average loans granted of U.S. \$1'000,000 per office; that is, U.S.\$4'000,000 for the institution in total.
- Channel credit fund resources to placing 90% of loans to micro producers and 10% to micro retailers.
- Increase the credit fund to U.S.\$1'900,000 to cover capital requirements to maintain the portfolio.

- Reduce the incidence of the costs of the credit service to 12% by increasing the level of activity, channelling 90% of funds to micro producer credits and reduction in expenses from efficiency and eliminating unnecessary expenses.
- Cover training and advisory service costs by income from these services.

The comparison of the goals and expected results with the projections for the short term (4 semesters) is as follows:

	<u>Goals</u>	<u>Projection</u>
. Semester loans (U.S.\$ 000,s)		
MP	2,920	1,790
MR	1,080	1,470
	-----	-----
Total	4,000	3,260
	=====	=====
. Portfolio (U.S.\$ 000's)		
MP	1,700	1,050
MR	190	260
	-----	-----
Total	1,890	1,310
	=====	=====
. Number of credits		
MP	1,460	1,190
MR	1,800	3,380
	-----	-----
Total	3,260	4,570
	=====	=====
. Average operating cost of credit (1)		
	12%	16%
. Average operating cost of training and advisory services (1)		
	6%	8%

(1) Expressed at annual effective rate.

It can be observed that the level of activity per the goals is greater than the projection by 22% achieving a marked reduction in the incidence of the operating costs from an annual effective rate of 24% (considering costs of credit, training and advisory services) to 18%.

The economic impact of the project would also be benefited, estimating that the greater number of credits to micro producers would give rise to 900 jobs and 8 million dollars of direct and indirect value added in excess of the projection.

The actions that we believe should be taken to consolidate the program, improve efficiency in providing credits, training and advisory services and attain economic self sufficiency are as follows:

ECONOMIC ASPECTS

Function as an intermediary credit institution

ACP should function as an intermediary credit institution with a financial margin - determined by the difference between the rate of interest on the source of funds and the rate on loans to borrowers - that would cover its operating costs on the credit service.

To operate solely with its own funds does not ensure permanent operation due to the fact that the effective rates of interest that are charged to the beneficiaries of the program are negative in relation to inflation, which results in the value of the funds rapidly decreasing.

Calculations indicate that within 3 years the value of the funds will drop by between 50% and 40% of the original value if annual percentages of inflation of 60% and 70%, respectively are considered and should it be necessary to cover all of the institution's operating costs by means of income from interest.

If we consider: (a) a level of activity for credits of U.S.\$1'000,000 per office and per semester and (b) 90% of the funds destined to loans to micro producers, the financial margin required to cover the total operating costs of the credit activity would be 12% annually.

The options considered for obtaining funds in sufficient quantities and that would result in an adequate financial margin are as follows:

- Establish a credit line with the Central Reserve Bank (BCR) to be used for granting credits to the informal sector at maximum interest rates with a financial margin for acting as intermediary.

The benefits of the projected impact on the national economy - see section 4.0 - are sufficient reasons for the government to establish this credit line.

On the other hand, given that (a) in loans of money between persons outside the financial system the collection of commissions or other charges are not permitted and (b) the intermediary financial margin may not cover the expected operating costs of the credit activity at efficient operating levels, it is suggested

that the possibility of establishing a legal entity different from ACP to render training and advisory services be studied. This new institution could collect a "flat" percentage on the loans to cover the costs of these services and leave a surplus to cover part of the costs of the credit service.

The "flat" percentage would be on the order of 2% for loans of 6 months and 0.6% for loans of 8 weeks, which would cover operating costs of training and advisory services and also leave a margin.

The training services included in the percentages collected would be only orientation discussions and courses on introduction to management of a business. Courses on production and administrative techniques would be collected for from course participants.

Funds received by the intermediary institution from private companies to grant loans to micro businesses.

This option has the disadvantage that interest received by the companies on their funds is subject to income tax as they are not financial entities. Consequently, government dispositions making these operations exempt from income tax would contribute to obtaining these funds.

Agreements with banks or other financial institutions to establish credit lines for micro business persons with a financial margin for the institution.

There is evidence that banks would be prepared to participate in a loan program for the informal sector.

Increment of the level of credit activity and the channelling of resources to micro producers

It is necessary for ACP to increase the volume of its credit operations to reduce the incidence of operating costs.

An average level of activity per office of loans totalling U.S.\$1'000,000 each semester could be a goal feasible of attaining over the short term adopting the following measures:

- . A reduction in the normal repayment period of first and second credits to micro producers from 6 to 4 and 5 months, respectively.
- . To consider loans for a specific "campaign" - school, independence day, christmas, etc. - as repayable at the conclusion of the campaign.

- . To channel 90% of available funds to micro producer loans, limiting loans to micro retailers to 10% of funds.
- . To increase the amount of each loan to micro retailers of the southern office to levels similar to those of the northern office. This implies a 60% increase by the southern office.
- . To adjust quarterly the Inti amount of each loan granted in order to maintain the purchasing power of the loan.
- . To develop a marketing program for the promotion of the credits aimed at micro producers with the assistance of an expert in the area to collaborate the visits of the promoters of the zones and the promotion being carried out by current beneficiaries.

Increase of the fund

For the purpose of granting loans of U.S.\$1'000,000 each semester as an average for each office and to channel 80% of the amount of loans to micro producers, it is necessary for the Institution to increase the amount of the fund to approximately U.S.\$1'900,000.

Increase of income from training services

The global training cost is estimated at 18% of the total cost of the Institution. Income from this service during the first semester of 1986 covered only 1/6 of the costs attributed to training. Out of the total of 1,688 participants, only 273 attended non-free courses.

Corrective measures recommended for changing the previous situation and to increase training income are as follows:

- . Establish the procedure that no course is free and that the fee for the course should cover its cost, except for justified exceptions approved by the Executive Director.
- . Program courses covering material having a practical application and which motivate attendance. See recommendations concerning training on page 83 .
- . Establish that during advisory visits, promoters are to review and reinforce the application of courses, carrying out a promotional function for course attendance.
- . Obtain participation of university students to reduce expenses.
- . Develop with the aid of an expert a marketing program for promoting courses.

Control of the Institution's operating costs

In addition to emphasizing the granting of loans to micro producers which reduces credit handling costs, the Institution should control its operating costs with the object of reducing their incidence in the cost of the services.

To accomplish the preceding, we recommend:

- . The implementation of accounting by cost center.
- . The implementation of a system of budgets and budgetary control of expenses.
- . Maintain the accounting up to date.
- . The implementation of a plan for the reduction of costs, analysing the percentage relationship of the costs and obtain savings in the items of greater incidence that may be reduced without affecting the achievement of the objectives of the Institution.

Financial Management

The investment in CBME made with collections of loans made with funds under the 1st. BID agreement and with funds of the Institution has not produced an adequate yield since July 1985, at which date the peruvian government suspended their redemption and payment in foreign currency and froze the exchange rate of the CBME.

Speculative operations, such as looking towards a devaluation to produce a greater benefit than interest in local currency, does not correspond to the objectives of the institution and should not be considered.

We recommend that ACP redeem in local currency the CBME held and use the funds to make loans to micro business persons.

INSTITUTIONAL REINFORCEMENT

Organization

It is necessary that a new organizational structure be implemented considering:

- . The decentralization of the management and supervision duties for which the Executive Director is at present responsible, reducing the number of positions that report directly to him from 14 to approximately half that many, establishing managers with authority and responsibility for functional areas.

- . The establishment of functional committees (planning, budgeting, EDP, etc.), restricting the functions of the committee to the coordination of duties which requires participation of all departments.
- . The assignment of the Institution financial administration functions to an executive who is an expert in this area.

The new organization should be approved by the Board of Directors and formalized by means of the elaboration of a manual of organization and functions.

Procedures

It is necessary to perform activities in order to rationalize the administration of the institution, establishing procedures that are in harmony with the principles of internal control of the functional areas and with the computerized systems to be developed.

The procedures should be formally established by means of a manual which contains for each procedure:

- Objective and scope
- Operating standards
- Description
- Flow charts
- Forms

Weaknesses encountered in relation to existing procedures are discussed under section 5.2 on page 54.

Computer Systems (EDP)

The unsatisfactory progress of the computerized systems illustrates the need for reinforcing and securing an organic development of these systems, for which we recommend the following measures:

- . The organization of the EDP department consisting of the following departmental personnel: head of EDP, an analyst-programmer (during the period required for developing and implementing systems) and an operator. Establish a systems committee.

- Changing the 10 mb disk installed in the present computer for a 20 mb disk and defining the possibility of purchasing a computer unit that will enable the systems to be developed over the short and long terms to be implemented.
- The development of systems in an integrated manner with adequate documentation. The systems should at least include the following:
 - Granting, controlling and recovering of loans replacing the current application which is deficient.
 - Accounting
 - Payrolls
 - Fixed assets
 - Budgetary control
 - Financial reports

Section 5.3 on page 59 contains the detail of matters concerning EDP commented on here.

TRAINING AND ADVISORY SERVICES

A greater interrelationship between the courses and the advisory services to beneficiaries of the Institution should be achieved to ensure that: (a) the courses are applicable and practical, and (b) the advisory services are oriented towards putting the courses into practice and verifying the suitability of the courses.

Actions that we consider should be taken are:

- The programming of technical courses for micro producers who during the survey stated their interest in the following subjects:

<u>Activity</u>	<u>Techniques in</u>
Knitwear	Embroidery with knitting machine
"	Knitwear design
Dresswear	Industrial cutting and confection
"	Dresswear design
"	Cutting and confection
Footwear	Finishings
"	Footwear design
Mechanics	Automotive electricity
"	Gasoline engines
"	Automotive mechanics
Wood carpentry	Machinery maintenance
"	Furniture design
"	Furniture finishing
Metallic carpentry	Carpentry metallic lathing
Upholstery	Upholstery for automobiles
"	Upholstery for furniture
Bakery	Elaboration of cakes and pastries
"	Decoration of cakes and pastries
Handicrafts	Wood handicrafts
"	Toy handicrafts
Photography	Colour development and photo-f nishing
Cooking	Confectionary and cooking

. The preparation of specific application of the courses in administration techniques in the following fields: making of footwear, bakery, making of dresses, making of knitwear and wood carpentry. For example, for each activity prepare a standard form for calculating costs, describe marketing practices, etc.

. Where specialized assistance is required make arrangements with educational entities for giving the courses - entities such as IDAMPEI - SEIATI which give most of the technical courses listed above.

. Evaluate the application and practicality of the courses during the promoters advisory services; the promoters should periodically issue detailed written reports.

. Study the possibility of requiring the application of certain administrative techniques (accounting, costs, etc.) by micro producers of a certain size and amount of loan received.

. The preparation of a training program containing principally:

- Definition of the objectives of the courses and modules.

- Date and timetable of the programmed courses.
 - Prices for the courses.
 - Basic outlines to be followed by instructors for teaching the courses.
 - Budget of the program containing: forecast of the number of participants, income, direct costs and margin of the courses.
- . The preparation of periodical reports by each zonal office and at Institution level for the control of the training program.

TECHNICAL ASSISTANCE TO ACP

The technical assistance that we consider is required by the Institution is related to the area of institutional reinforcement in the following aspects:

- . Organizational - To define a functional structure of the entity and establishing administrative procedures, principally relating to computerized systems to be developed.
- . Accounting system - To design the accounting system (chart of accounts, accounting procedures, records and reports) and assisting in the implementation of the system with the computer.
- . Budget and budgetary control - Elaborate a budget and budgetary control system for the entity; by cost center and by type of loan (MP and MR).
- . Marketing advice - To promote the credit services to micro producers and for promoting training courses.

The Institution as financed under the 2nd. BID Agreement is to contract 3 experts in the areas of finance, socio-economic evaluation and system analysis, each to work for 12 months at the northern office and other new offices. These experts will in practice advise the entire institution; therefore, assistance in these areas is not being considered.

DeWitt Robinson

SCHEDULES

ACCION COMUNITARIA DEL PEFU

STATISTICAL TABLE OF CREDITS, BENEFICIARIES AND GRANTED LOANS

YEAR- TEES	SOUTH OFFICE (I)				NORTH OFFICE (II)				EAST OFFICE (III)				WEST OFFICE (IV)				NEW OFF
	No	INTIS US \$	No	INTIS US \$	No	INTIS US \$	No	INTIS US \$	No	INTIS US \$	No	INTIS US \$	No	INTIS US \$	No	INTIS US \$	
	(000.)	(000.)	(000.)	(000.)	(000.)	(000.)	(000.)	(000.)	(000.)	(000.)	(000.)	(000.)	(000.)	(000.)	(000.)	(000.)	
1983																	
I	64	686	45	34	170	246	34	0	0	0	0	0	0	0	0	0	
II	145	1,390	82	150	750	1,000	64	0	0	0	0	0	0	0	0	0	
III	159	1,420	64	356	750	1,362	79	0	0	0	0	0	0	0	0	0	
IV	43	675	42	162	810	1,791	113	0	0	0	0	0	0	0	0	0	
TOTAL	411	4,032	254	504	2,520	4,799	272	0	0	0	0	0	0	0	0	0	
1984																	
I	30	365	23	159	795	2,011	126	0	0	0	0	0	0	0	0	0	
II	203	2,256	73	183	915	2,147	133	0	0	0	0	0	0	0	0	0	
III	63	113	599	35	227	1,135	2,830	166	0	0	0	0	0	0	0	0	
IV	154	2,083	117	286	1,450	3,553	204	0	0	0	0	0	0	0	0	0	
TOTAL	450	4,303	253	855	4,275	10,541	631	0	0	0	0	0	0	0	0	0	
1985																	
I	79	182	999	51	306	1,530	3,056	154	0	0	0	0	0	0	0	0	
II	127	333	2,531	125	337	1,935	3,457	169	0	0	0	0	0	0	0	0	
III	106	231	1,755	76	487	2,335	3,606	159	0	0	0	0	0	0	0	0	
IV	121	207	2,361	124	512	2,560	4,924	175	0	0	0	0	0	0	0	0	
TOTAL	433	1,213	8,156	376	1,672	8,540	14,123	657	0	0	0	0	0	0	0	0	
1986																	
I	154	479	3,835	190	559	2,795	4,752	233	9	45	120	6	310	1,550	4,648	229	
II	183	737	5,777	322	580	2,700	4,732	262	27	137	438	25	343	1,715	5,556	308	
TOTAL	337	1,216	9,612	512	1,139	5,495	9,484	495	46	182	558	31	653	3,265	10,204	537	
TOTAL	1631	3,493	26,153	1,395	4,170	20,850	38,548	2,055	36	182	533	31	1,250	6,250	16,938	833	

ACCION COMUNITARIA DEL PERU

COMPARATIVE TABLE OF BUDGETED LOANS GRANTED VS. ACTUAL

MICRO PRODUCERS

	---IV QUARTER 1984---			-----YEAR 1985-----			---I SEMESTER 1986---			-----T O T A L-----			
	BUDGET.	ACTUAL	VARIAT.	BUDGET.	ACTUAL	VARIAT.	BUDGET.	ACTUAL	VARIAT.	BUDGET.	ACTUAL	VARIAT.	%
NUMBER OF LOANS													
First Time Credits:													
Office I	105	34	(71)	420	104	(316)	210	117	(93)	735	255	(480)	(65)
Office II	0	0	0	315	0	(315)	210	19	(191)	525	19	(506)	(96)
Office III	0	0	0	35	0	(35)	175	2	(173)	210	2	(208)	(99)
Office IV	0	0	0	35	0	(35)	175	9	(166)	210	9	(201)	(96)
TOTAL	105	34	(71)	805	104	(701)	770	147	(623)	1,680	285	(1,395)	(83)
Credits Granted:													
Office I	120	154	34	657	433	(224)	372	337	(35)	1,149	924	(225)	(20)
Office II	0	0	0	360	0	(360)	336	36	(300)	696	36	(660)	(95)
Office III	0	0	0	35	0	(35)	190	13	(177)	225	13	(212)	(94)
Office IV	0	0	0	35	0	(35)	190	9	(181)	225	9	(216)	(96)
TOTAL	120	154	34	1,087	433	(654)	1,088	395	(693)	2,295	982	(1,313)	(57)
U.S.DOLLARS (in thousands)													
Loans Granted:													
Office I (1)													
Office II	0	0	0	137	0	(137)	164	31	(133)	301	31	(270)	(90)
Office III	0	0	0	12	0	(12)	70	42	(28)	82	42	(40)	(49)
Office IV	0	0	0	0	0	(12)	70	7	(63)	82	7	(75)	(92)
TOTAL	0	0	0	161	0	(161)	304	80	(224)	465	80	(385)	(83)
Recoveries:													
Office I (1)													
Office II	0	0	0	57	0	(57)	126	13	(113)	133	13	(170)	(93)
Office III	0	0	0	0	0	0	25	29	4	25	29	4	16
Office IV	0	0	0	0	0	0	25	1	(24)	25	1	(24)	(96)
TOTAL	0	0	0	57	0	(57)	176	43	(133)	233	43	(190)	(82)
DIFFERENCE (2)	0	0	0	104	0	(104)	128	37	(91)	232	37	(195)	

(1) figures are not shown, because in accordance with the OPG Proposal funds exist to cover this office.

(2) Corresponds to the balance of principal to be recovered, denominated "Valor del Fondo Crediticio" in the OPG Proposal.

ACCION COMUNITARIA DEL PERU

COMPARATIVE TABLE OF BUDGETED LOANS GRANTED VS. ACTUAL

MICRO RETAILERS

	---IV QUARTER 1984---			-----YEAR 1985-----			---I SEMESTER 1986---			-----T O T A L-----			
	BUDGET.	ACTUAL	VARIAT.	BUDGET.	ACTUAL	VARIAT.	BUDGET.	ACTUAL	VARIAT.	BUDGET.	ACTUAL	VARIAT.	%
NUMBER OF LOANS													
First Time Credits:													
Office I	24	54	30	96	297	111	48	119	71	168	380	212	126
Office II	0	0	0	96	197	101	48	73	25	144	270	126	83
Office III	0	0	0	0	0	0	48	0	(48)	48	0	(48)	(100)
Office IV	0	0	0	0	0	0	48	46	(2)	48	46	(2)	(4)
TOTAL	24	54	30	192	404	212	192	238	46	408	656	288	71
Credits Granted:													
Office I	32	286	254	280	1,871	1,391	144	1,139	995	456	3,096	2,640	853
Office II	0	0	0	240	597	357	144	653	509	384	1,250	866	226
Office III	0	0	0	0	0	0	96	0	(96)	96	0	(96)	(100)
Office IV	0	0	0	0	0	0	96	52	(44)	96	52	(44)	(46)
TOTAL	32	286	254	520	2,268	1,748	480	1,844	1,364	1,032	4,398	3,366	326
U.S.DOLLARS (in thousands)													
Loans Granted:													
Office I	9	204	195	104	657	553	54	495	441	167	1,356	1,189	712
Office II	0	0	0	86	296	210	54	537	483	140	833	693	495
Office III	0	0	0	0	0	0	32	0	(32)	32	0	(32)	(100)
Office IV	0	0	0	0	0	0	32	12	(20)	32	12	(20)	(63)
TOTAL	9	204	195	190	953	763	172	1,044	872	371	2,301	1,830	493
Recoveries:													
Office I	4	125	121	99	677	578	54	490	436	157	1,212	1,135	723
Office II	0	0	0	76	222	146	54	481	427	130	763	573	441
Office III	0	0	0	0	0	0	22	0	(22)	22	0	(22)	(100)
Office IV	0	0	0	0	0	0	22	6	(16)	22	6	(16)	(73)
TOTAL	4	125	121	175	899	724	152	977	825	331	2,001	1,670	505
DIFFERENCE (1)	5	79	74	15	54	39	20	67	47	40	200	160	

(1) Corresponds to the balance of principal to be recovered, denominated "Valor del Fondo Crediticio" in the GPG Proposal.

91

ESTIMATED OPERATION COSTS - FIRST SEMESTER 1986

(Expressed in U.S.Dollars)

O F F I C E S

OPERATING COSTS	PRINCIPAL	SOUTHERN	NORTHERN	EASTERN	WESTERN	T O T A L
PERSONNEL EXPENSES:						
Salaries	19,198	6,117	5,514	3,168	3,553	37,550
Bonuses	955	1,315	1,124	917	716	5,027
Vacations	477	658	204	330	358	2,027
Temporary employees	1,441	0	0	0	0	1,441
Snacks	187	103	54	13	23	380
Transportation	229	655	583	136	160	1,763
Social ins	1,057	1,524	1,418	931	1,007	5,937
Total	23,544	10,372	8,897	5,495	5,817	54,125
SERVICES FROM OTHERS:						
Insurance	494	11	44	0	0	549
Professional fees	14,632	0	0	0	0	14,632
Maintenance of office and equipment	1,668	601	997	933	609	4,808
Maintenance of microcomputer	606	0	0	0	0	606
Light and water	354	156	81	0	49	640
Print materials	28	994	1,030	1,028	968	4,048
Third party services	46	141	351	209	948	895
Miscellaneous	957	38	38	13	37	1,083
Total	18,785	1,941	2,541	2,183	1,611	27,261
MISCELLANEOUS CHARGES:						
Rent	327	464	2,194	172	1,259	4,416
Entertainment	632	0	0	138	0	770
Microcomputer supplies	836	0	0	0	0	836
Travel expenses	382	0	0	0	0	382
Stationery	98	1,251	531	505	2,039	4,474
telephone	1,452	49	36	30	51	1,618
Fuel and oil	1,279	215	193	319	417	2,623
Legal expenses	7	7	7	7	7	35
Training	98	900	17	45	87	1,077
Other	89	209	178	218	196	892
Total	5,200	3,095	3,156	1,434	4,258	17,123
TAXES	10	0	7	0	4	21
PROVISIONS:						
Depreciation	5,000	300	300	300	300	6,200
Severance indemnities	194	561	368	251	289	1,663
Total	5,194	861	668	551	589	7,863
AITEC	28,000	0	0	0	0	28,000
T O T A L	80,733	16,269	15,269	9,663	12,458	134,393

SCHEDULE 4

ACCION COMUNITARIA DEL PERU

DISTRIBUTION OF TIME ASSIGNED TO EACH SERVICE

(Expressed in %)

O F F I C E S

	SOUTHERN	NORTHERN	EASTERN	WESTERN
COORDINATOR:				
Credits	60	60	60	60
Training	20	30	30	30
Advisory Services	20	10	10	10
Total	100	100	100	100
PROMOTER:				
Credits	60	70	70	70
Training	10	10	10	10
Advisory Services	30	20	20	20
Total	100	100	100	100
SECRETARY:				
Credits	95	95	95	95
Training	5	5	5	5
Advisory Services	0	0	0	0
Total	100	100	100	100
OFFICE ASSISTANT:				
Credits	100	0	100	100
Training	0	0	0	0
Advisory Services	0	0	0	0
Total	100	0	100	100
INSTRUCTOR:				
Credits	0	0	0	0
Training	100	0	0	0
Advisory Services	0	0	0	0
Total	100	0	0	0

93

TABLE OF DISTRIBUTION OF REPAIRING COSTS

(Expressed in U.S. Dollars)

CONCEPT	SOUTHERN OFFICE			NORTHERN OFFICE			EASTERN OFFICE			WESTERN OFFICE			TOTAL OFFICES		
	CREDIT TRAINING SERVICES	ADVISORY SERVICES	TOTAL	CREDIT TRAINING SERVICES	ADVISORY SERVICES	TOTAL	CREDIT TRAINING SERVICES	ADVISORY SERVICES	TOTAL	CREDIT TRAINING SERVICES	ADVISORY SERVICES	TOTAL	CREDIT TRAINING SERVICES	ADVISORY SERVICES	TOTAL
TRAVEL COSTS - ZONAL OFFICES															
Commodities	1,216	406	2,503	1,753	785	2,485	1,272	626	2,121	1,793	299	2,989	5,856	2,733	1,179
Printers	2,566	438	4,227	3,138	482	4,882	1,895	271	2,708	1,843	381	1,949	8,942	1,539	1,235
Secretaries	2,335	118	2,355	1,455	77	1,530	751	38	769	612	0	612	5,971	155	0
Office assistant	570	30	600	0	0	0	0	0	0	373	0	373	943	28	0
Instructor	0	917	917	0	0	0	0	0	0	0	0	0	0	917	0
Total	6,587	1,899	10,175	6,159	1,310	8,427	3,899	745	5,598	4,121	683	5,924	20,756	5,271	6,284
Ratio (%)	64	19	17	166	72	15	13	190	70	17	13	100	69	19	12
	65	20	18	103	39	8	54	9	13	16	4	23	17	34	29
	420	124	111	655	420	87	523	23	136	111	19	160	1,046	264	1,572
	495	144	129	758	459	95	637	25	149	127	22	183	1,175	258	254
Office Costs - ZONAL OFFICES															
Personnel Charges:															
Salaries	7	2	11	31	7	6	44	0	0	0	0	0	0	0	0
Benefits	365	114	601	717	150	130	997	653	420	933	121	609	2,175	539	425
Light and water	99	33	156	53	12	21	0	0	34	34	6	49	191	51	44
Print materials	636	189	994	741	155	124	1,030	719	1,028	668	134	968	2,764	703	555
Third-party services	90	27	141	252	55	46	351	146	209	102	27	148	590	144	115
Miscellaneous	25	7	32	27	6	5	38	9	13	26	2	37	87	22	17
Total	1,242	369	1,941	1,826	323	332	2,541	1,527	2,183	1,250	344	1,811	5,845	1,458	1,163
Miscellaneous Charges:															
Part	297	88	464	1,589	329	285	2,194	121	172	269	22	1,259	2,867	685	577
Entertainment	0	0	0	0	0	0	0	97	138	0	0	0	97	23	13
Stationery	800	238	1,251	382	80	69	531	353	505	1,441	251	2,059	2,976	631	593
Telephone	32	9	49	26	5	5	36	21	30	35	6	51	114	29	33
Fuel and oil	157	41	215	129	29	25	193	224	319	426	117	74	926	241	177
Legal expenses	5	1	7	5	1	1	7	5	7	7	1	7	20	4	4
Training	576	171	900	12	3	2	17	31	45	12	3	17	631	185	183
Other	133	40	209	128	27	23	178	153	218	136	28	198	559	142	111
Total	1,930	583	3,095	2,272	471	410	3,156	1,005	1,634	2,924	895	4,228	8,181	2,110	1,652
Taxes	0	0	0	5	1	1	7	0	0	3	1	4	8	2	1
Depreciation	192	57	590	216	45	39	306	210	300	207	57	360	825	219	185
TOTAL COSTS - ZONAL OFFICES	10,456	3,057	16,259	10,937	2,368	2,023	15,268	6,745	9,664	8,632	2,361	1,467	36,500	9,362	7,445
PRINCIPAL OFFICE COSTS															
Training personnel	0	364	0	364	0	0	364	0	364	0	0	364	0	1,456	6
Office	4,489	1,570	7,000	5,040	1,850	910	7,890	4,900	7,090	4,820	840	7,090	19,250	4,900	2,850
Other	8,204	2,436	2,179	12,819	9,230	1,466	12,819	8,974	1,466	12,819	8,945	2,435	35,253	8,974	7,649

ACCION COMUNITARIA DEL PERU
 INCIDENCE OF OPERATING COSTS

	M. PRODUCERS	M. RETAILERS	TOTAL
Loans (US\$)	592,000	1,044,000	1,636,000
Loan Equivalents- six months	592,000	309,000 (1)	901,000
Percentage	65.7%	34.3%	100.0%
Operating Costs	60,000	31,300	91,300
Ratio (2)	10.1%	3.0%	5.6%

Notes: (1) Figure obtained by dividing U.S.\$ 1,044,000 by 3.38 to consider the equivalent of an 8 week loan with another loan of 6 months.

(2) Percentage obtained by dividing operating costs by the amount of loans.

ESTIMATED COST OF LOAN OPERATION TO MP AND MR

CONCEPT	MICRO PRODUCER (1)				MICRO RETAILER (2)			
	COORDINATOR	PROMOTER	SECRETARY	COST (U.S.\$)	COORDINATOR	PROMOTER	SECRETARY	COST (U.S.\$)
<u>Zonal Office - time in hours</u>								
1. Orientation talk No. 1	0.500	2.000	0.750		0.750	2.000	2.250	
2. Talk No. 2, introd. to management			0.563				1.688	
3. Form completion		4.000	0.083				0.167	
4. Review and recording of documents			0.421				1.579	
5. Field verification (1.5 hrs. trip)			0.211				0.789	
6. Field verification file			0.029				0.221	
7. Preparation of documents for committee			0.235				1.765	
8. Credit committee	0.105	0.421	1.263		0.395	1.579	4.737	
9. Preparation of minutes and check request	0.029						0.500	
10. Typing of memo to computer								
11. Typing and review of other documents (receipts, notes)	0.105							
12. Order receipts, checks, application								
13. Order contract, notes, application payment control								
14. Collection of the 1% and audit	0.017		0.250		0.125		0.750	
15. Delivery of checks and note signing	0.368	1.474	0.100		1.382	5.526	2.763	
16. Audit of documents	0.105		0.737		0.395		0.395	
17. Prep. of memos - checks delivered			0.105		0.250		0.500	
18. Prep. of memos - checks, notes, contract	0.125		0.250					
19. Reception of new applications - control of payments								
<u>Total time in hours</u>	<u>1.354</u>	<u>7.895</u>	<u>0.125</u>		<u>3.913</u>	<u>15.105</u>	<u>18.354</u>	
<u>Cost of personnel per hour (U.S.\$)</u>	<u>2.750</u>	<u>0.920</u>	<u>0.740</u>		<u>2.750</u>	<u>0.920</u>	<u>0.740</u>	
<u>Cost of time - personnel (U.S.\$)</u>	<u>3.720</u>	<u>7.260</u>	<u>3.790</u>		<u>10.760</u>	<u>13.900</u>	<u>13.580</u>	<u>38.240</u>
<u>Head Office - time in hours</u>								
1. Review of documents & check signing	0.033	0.033	0.033		0.250	0.250	0.250	
2. Entry of computer memo							0.250	
3. Issuance of receipts and lists							0.100	
4. Recording of notes							0.100	
5. Receive collection							0.100	
6. Signature of notes and contract	0.033	0.083	0.100					
<u>Total time in hours</u>	<u>0.066</u>	<u>0.116</u>	<u>0.233</u>		<u>0.250</u>	<u>0.250</u>	<u>1.500</u>	
<u>Cost of personnel per hour (U.S.\$)</u>	<u>6.830</u>	<u>2.750</u>	<u>0.920</u>		<u>6.830</u>	<u>2.750</u>	<u>0.920</u>	
<u>Cost of time - personnel (U.S.\$)</u>	<u>0.450</u>	<u>0.320</u>	<u>0.210</u>		<u>1.710</u>	<u>0.690</u>	<u>1.380</u>	<u>3.780</u>
<u>Cost of forms</u>								<u>2.400</u>
<u>Total Cost</u>								<u>44.420</u>

(1) (2 loans: 1st. and 2nd. credit of 1 group)

ACCION COMUNITARIA DEL PERU

ENCUESTA
=====

1. Nombre de la empresa/propietario:
2. Ubicación:
3. Distrito: Cono:
4. No de grupo: No de préstamos recibidos:
Fecha del primer préstamo:
5. Actividad:
6. Clasificación de los meses según el nivel de ventas

Temporada	Meses (marque con una X)	No
Baja	E F M A M J J A S O N D	.....
Normal	E F M A M J J A S O N D	.....
Alta	E F M A M J J A S O N D	.....
Total		12

7. cuál es el número de personas que trabaja en su taller?

	-----Antes del proyecto-----												-----Presente-----															
	BAJA				NORMAL				ALTA				BAJA				NORMAL				ALTA							
	Número				Número				Número				Número				Número				Número							
	H	M	To	Dd	H	M	To	Dd	H	M	To	Dd	H	M	To	Dd	H	M	To	Dd	H	M	To	Dd	H	M	To	Dd
Prop.
Fam.
Trab.
Apre.
Total

*Dedicación: 1=tiempo completo (8 horas)
0.5=medio tiempo
0.25=un cuarto de tiempo

8. Cuál es el nivel promedio de los salarios (I/. por semana)
 Antes del proyecto Presente

Propietario	.....	.....
Familiares	.....	.....
Trabajadores	.....	.....
Aprendices	.....	.....

9. Brinda algunos de estos beneficios? (anotar si o no)

Refrigerio	....	Uniforme	....
Movilidad	....	Seguro social	....
Otro	.....	

10. Cuál es el nivel mensual de sus ventas (I/.)?

T.Baja T.Normal T.Alta

Antes del proyecto	.....	.....	.....
Presente	.....	.....	.....

A quienes vende:

11. Cuál es el nivel del volumen de compras (I/.)?

T.Baja T.Normal T.Alta

Antes del proyecto	.....	.....	.....
Presente	.....	.....	.....

12. Cuánto paga mensualmente por:

T.Baja T.Normal T.Alta

Energía	.....	.....	.....
Servicio de terceros	.....	.....	.....
Otros insumos	.....	.....	.....

13. Cuánto es lo máximo que podría producir mensualmente con sus instalaciones actuales? Antes del proyecto I/.....

Presente I/.....

14. Qué uso le da a los créditos de ACP? (colocar sí o no)

Compra de materiales:
 Adquisición de equipo y/o maquinaria:
 Otros

inversión realizada desde el primer préstamo: I/.

CAPACITACION

15. A qué cursos dictados por ACP ha asistido?
(si es ninguno pasar al No 18)

16. Los considero prácticos? Si No

17. Por qué? (Preguntar en qué lo aplicó)
.....

18. Por qué no ha asistido a los cursos de ACP?
.....

19. Qué cursos desearía que se dictaran?
.....

20. Cree que a cursos de Asistencia Técnica si asistiría?
Grado de interés 1.Bajo.... 2.Medio.... 3.Alto....

21. Qué cursos de Asistencia Técnica requeriría?
.....

ASESORIA

22. Ha recibido visitas de asesoría? Si No

23. Cuántas, desde que recibió el 1er crédito?

24. Que temas ha tratado?

25. Considera prácticos los temas tratados? Si No

26. Por qué? (Preguntar en qué lo aplicó)
.....

27. En qué necesita asesoría?

CREDITOS

28. Qué dificultades tiene en la consecución de créditos? Sobre:

Montos:

Procedimientos:

Plazos y condiciones:

Otros:

LIST OF MICRO PRODUCERS SURVEYED

<u>No.</u>	<u>Proprietor's Name</u>	<u>Activity</u>
SOUTHER OFFICE;		
01	Andres Carrion	Tailoring
02	Maria Murga	Dresswear confection for young
03	Juan Llanos	Automobile electric services
04	Hermogenes Chacco	Manufacture of footwear - footwear renewal
05	Jose Diaz	Wood carpentry
06	Maria Diaz	Bakery - bread, rusks and pastries for sweet fillings (alfajor)
07	Rubi Arias	Dresswear confection
08	Elba Yanavilca	Confection of plastic baby panties
09	Rufino Ayquipa	Dresswear confection and knitted jumpers
10	Bruna Gambini	Confection of jumpers and knitted dresses
11	Jorge Montero	Manufacture of ladies' footwear
12	German Quispe	Bakery - cakes
13	Juan Cordova	Wood carpentry
14	Elsa Poma	Confection of dresswear for young girls
15	Nelly Lavado	Lathe mechanics
16	Casiano Mendoza	Wood carpentry
17	Agustin Ortega	Dresswear confection for adults
18	Fulgencio Lerna	Wood carpentry
19	Jonas Victoriano	Footwear manufacture
20	Domitila Juan de Dios	Confection of knitwear
21	Juan Gomez	Metallic carpentry
22	Flor Elias	Confection of knitwear
23	Gilberto Chipana	Bakery - bread and cakes
24	Victor Mejia	Automobile upholstery
25	Leonilda Sarmiento	Restaurant
26	Mario Solano	Wood carpentry
27	Manuel Arroyo	Tailoring
28	Timoteo Suarez	Workshop - mechanics, plating and painting of cars - buys-sells cars
29	Maximo Munive	Manufacture of footwear
30	Magna Bardales	Confection of knitwear jumpers
31	Paulino Velasquez	Confection of dresswear - jackets, trousers
32	Agripina Gonzales	Confectionery and sponge cakes

<u>No.</u>	<u>Proprietor's Name</u>	<u>Activity</u>
NORTHERN OFFICE:		
33	Juan Secien	Wood carpentry
34	Valentin Condori	Dresswear confection - jackets
35	Damian Carrillo	Wood carpentry
36	Haydee Vargas	Craftsmanship of wood and bronze pictures
37	Teoma Huerta	Confection of dresswear - gymn suits, shirts and suits for boys
38	Augusto Tafur	Manufacture of ladies' footwear
39	Efrain Narvaja	Manufacture of footwear - renewal
40	Anastacio Monotupa	Tailoring
41	Alicia Mantari	Craftsmanship - lamp-toys
42	Julio Vargas	Manufacture of footwear
43	Isidro Sanchez	Manufacture of footwear for ladies
44	Fidel Quispe	Furniture upholstery
45	Nelson Pinedo	Footwear - manufacture
46	Amalio Ferrer	Confection of knitwear jumpers
47	Andres Cabana	Manufacture of slippers for ladies
48	Victor Martinez	Wood carpentry
49	Elva Herrera	Confection of bedsheets
WESTERN OFFICE:		
50	Santos Vasquez	Automotive mechanic
51	Juan Poma	Manufacture of footwear - renewal
52	Guillermo Cantos	Manufacture of footwear - renewal
53	Elejalde Gonzales Inga	Photography and sales of related articles
54	Santiago Rojas	Locksmith
55	Jose Cerquin	Manufacture of briefcases, necesaires, purses - linings
56	Rafael Carrasco	Passenger transportation service
EASTERN OFFICE:		
57	Betsi Pedroza	Confection of dresswear for women
58	Jorge Ayala	Restaurant - grocery store
59	Hector Hilari	Confection of knitwear items
60	Heriberto Azanero	Carpentry - plated furniture

O F I C I N A	P R O G R A M A	F E C H A	P A G I N A
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CODIGO O L.E.	MONTO I/.	SEXO	TIPO	GIRO	No. PREST.	CODIGO O L.E.	MONTO I/.	SEXO	TIPO	GIRO	No. PREST.
COORDINADOR O No. GRUPO: _____ PLAZO: -----						COORDINADOR O No. GRUPO: _____ PLAZO -----					
COORDINADOR O No. GRUPO: _____ PLAZO: -----						COORDINADOR O No. GRUPO: _____ PLAZO -----					
COORDINADOR O No. GRUPO: _____ PLAZO: -----						COORDINADOR O No. GRUPO: _____ PLAZO -----					
COORDINADOR O No. GRUPO: _____ PLAZO: -----						COORDINADOR O No. GRUPO: _____ PLAZO -----					

CODIFICACION

PROGRAMA:	TIPO:	GIRO: (de acuerdo a fecha de datos)	No. Pr
MP: Microproductor	1. MP - Grupo	11. Confecciones	41. Peluqueria
MN: Micronegociante	2. MP - Individ.	12. Carpinteria	42. Restaurant
	3. MN	13. Calzado	43. Rep. Radio, TV.
SEXO:	4. Micro Serv.	14. Artesania	44. Rep. Electrodom.
	5. Proy. Especial	15. Metalmeccanica	45. Renov. de calz.
		31. Abarrotes	1° Pré:
		32. Bodegas	2°
		33. Verduras	3°
		34. Carniceria	4°
		35. Carne de aves	5°

ACCION COMUNITARIA DEL PERU

NUMBER OF CREDITS AND LOANS GRANTED PROYECTION

	II SEMESTER 86			I SEMESTER 87			II SEMESTER 87		
	MINIMUM	NORMAL	MAXIMUM	MINIMUM	NORMAL	MAXIMUM	MINIMUM	NORMAL	MAXIMUM
MICRO PRODUCERS									
NUMBER OF CREDITS.									
Office I	244	287	330	275	323	371	306	360	414
Office II	162	190	219	255	300	345	306	360	414
Office III	89	105	121	145	170	196	170	200	230
Office IV	89	105	121	145	170	196	170	200	230
Total	584	687	790	819	963	1107	952	1120	1288
LOANS GRANTED (U.S.Dollars 000,)									
Office I	371	436	501	417	491	565	454	546	628
Office II	139	164	188	293	345	397	400	517	595
Office III	77	91	104	166	195	225	244	287	330
Office IV	77	91	104	166	195	225	244	287	330
Total	664	781	898	1043	1227	1411	1392	1638	1884
MICRO RETAILERS									
NUMBER OF CREDITS									
Office I	1022	1202	1382	1150	1353	1556	1279	1505	1731
Office II	706	830	955	825	970	1116	874	1030	1185
Office III	82	96	110	122	144	166	184	216	248
Office IV	82	96	110	122	144	166	184	216	248
Total	1890	2224	2558	2219	2611	3003	2522	2967	3412
LOANS GRANTED (U.S.Dollars 000,)									
Office I	444	522	600	500	588	676	558	654	752
Office II	306	360	415	358	422	485	380	448	515
Office III	35	42	48	53	63	72	80	94	106
Office IV	35	42	48	53	63	72	80	94	108
Total	821	966	1111	965	1135	1305	1096	1289	1483

CONFIGURATION OF A COMPUTER UNIT

(Wang VS-5 option)

