

Picos Capacity Strengthening and Credit Program

GRANTEE

The FAMI-Picos Association currently consists of 267 members from three rural savings and loan groups: Manhanga, Picos Acima and Achada Igreja, located in the Picos Parish of Santa Catarina District on Santiago Island. The Catarina District is the second largest in the country with an area of 242,098 km² and a population of around 50,000. Picos Parish is made up of 15 dispersed communities with approximately 16,000 inhabitants. Assomada, with 40,000 inhabitants, is the main town in Santa Catarina District and its Administrative Seat. Picos belongs to this District and is approximately 6 miles from Assomada by road. Its importance to the project derives from the fact that it the location of the largest market serving the Picos and surrounding areas and micro-entrepreneurs from all the district and other regions of Santiago are concentrated there. It is also the headquarters for all public and commercial services.

Approximately, 65 percent of members are women. Although the association was formally established at the end of 1997, individually, the 3 groups have been operational since 1991. The goal of these saving and loans groups is to provide financial services to their members in order to support their individual businesses, as well as encourage savings. The newly established FAMI Association is made up of all the members of the groups that elect 13 members each to the Association General Assembly. The competent authorities approved and registered its statutes on May 10, 1999, on pages 65 and 66 of registry book number 25/D.

PROJECT GOALS

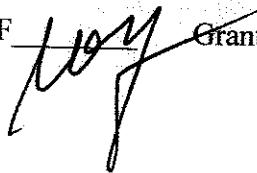

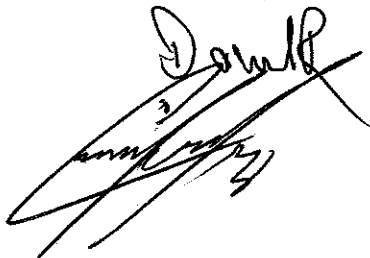
- Strengthen FAMI's technical and institutional capacities to enable it to integrate micro-entrepreneurs from Picos and Assomada regions into the Capeverdean economic fabric and its development process; and
- Establish a self-sustainable credit lending entity to support micro and small enterprises operated by local individuals or groups.

PROJECT OBJECTIVES

- strengthen FAMI's intervention capacity in micro and small business activities promoted by Picos and Assomada micro-entrepreneurs by providing technical assistance and training to the Credit Unit staff and to credit agents;
- establish and provide access to a sufficiently capitalized loan fund that will serve an estimated minimum of 2,800 loans during the project life span;

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- increase membership from the current 267 by an average of 20% a year during five years to attain a membership of 800;
- increase the members' level of savings from the current approximate CVE 58,000 to at least CVE 3,000,000 within the next five years with the projected 800 members; and
- improve members' management performance levels and develop viable businesses.

DESCRIPTION OF PROJECT ACTIVITIES

The FAMI-Picos Association is requesting ADF assistance to strengthen its capacity to assist members to develop and/or reinforce their micro businesses through a revolving credit program. Initially, the project will involve 267 members of FAMI-Picos who, under normal circumstances, depend primarily on agricultural production to earn their livelihood. The loans will enable the members to undertake income-generating activities either in groups or as individuals to compensate for that which they did not generate from the agricultural production.

FAMI-Picos needs institutional capacity building and financial resources to create a micro-credit system capable of responding to members' micro-entrepreneurial needs in Capeverdian communities within Picos Parish.

FAMI-Picos further intends to convert its Micro-Credit activity into a self-sustainable and viable micro-credit financial institution that will extend micro-credit services to all of its members. The project will provide training in project management operations, credit and savings management, project evaluation, monitoring, and micro business management. Institutional support will include office furniture and equipment, an initial capital fund, and means for procuring adequate transportation for monitoring purposes.

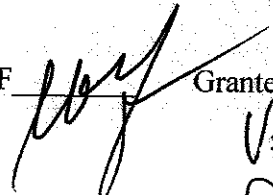
Revolving Loan Fund

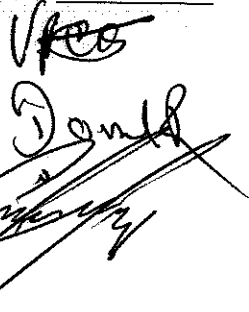
ADF funds will be used to reinforce a revolving loan fund that will enable members of FAMI-Picos in Santa Catarina District to have access to credit services. FAMI-Picos will provide an estimated 2,842 loans, of which approximately 2,311 will be 3-month loans and 531 6-month loans, during the project life span, to a minimum of an estimated 800 micro entrepreneurs.

The loan size will average CVE 45,000 for a 3-month loan, and CVE 85,000 for a 6-month loan. Interest rates to be charged for the period of the loans are 10% and 20% respectively.

A technical assistant consultant (TAC), a credit manager, a credit agent, and an accountant will be engaged over a 12-person/month period to provide assistance and guidance in the management and operations of a micro finance institution. The consultant

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will train the group credit committee in credit system operations, in loan concession and management techniques, project preparation, evaluation and monitoring, and micro business management.

Loan Procedure

As per guidelines established by FAMI-Picos, a loan can only be granted only to Association members. The member can only be entitled to a loan if, in addition to contributing to the capital stock, he has made regular deposits during the previous 4-month period. The loan amount each member is entitled to is indexed to his respective savings, usually not surpassing four times that engagement. An applicant must have saved at least 25% of the amount requested. FAMI will also use a solidarity guarantee system. Two or more members, serving as guarantors, must have a savings equivalent to 75% of the loan, which is also frozen until the loan is repaid. Consequently, 100% of the loan will be guaranteed before a loan is disbursed. In exceptional cases, the group may accept personal property as a guarantee.

Loan applications will be reviewed by the local group loan committee and then approved by the Association Loan Committee once it is satisfied that: 1) the project is viable and able to generate enough funds to reimburse the loan, 2) the applicant has the necessary experience to undertake the proposed activity, and 3) the applicant's character references are positive.

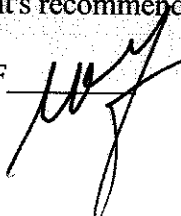
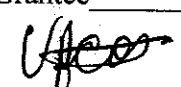
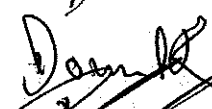
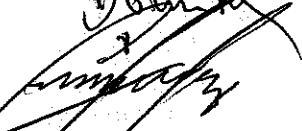
A loan candidate must have a resource generating activity or a viable project from the technical, economic and financial point of view; have the skills to manage and to implement the project or business; possess a permanent address; be an active member of one of the Association saving and loans groups, that is, to have paid the initial fee and the monthly fees in the last four months, at least; constitute regular savings deposits in his saving and loans group in the last four months or to prove that he owns enough savings to contribute for the project's funding; and possess means to guarantee the loan(s).

The micro business in which the member might be involved varies according to interest and capacity. Some of the activities include: micro-projects and micro-enterprises including agricultural and animal production, transformation of agricultural products, craft, embroideries and sewing, mechanical repairs, carpentry, locksmith, metalworking, plumbing, painting and electricity workshops, building, and sale and small trade micro enterprises.

Once the above criteria are met and the local loan committee has approved the application, it is then forward to the FAMI loan committee for final approval and loan distribution.

Loan Approval and Disbursement

Each potential beneficiary fills out an application form that is submitted to the community group where he resides. The local credit agent verifies the proponent's eligibility; prepares and completes the dossier with additional information relative to the type of business, trustworthiness of the applicant and type of guarantee and guarantors; and will forward it to the local loan committee. The local loan committee reviews the business potential cash flow and the credit agent's recommendations.

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The local loan committee will then establish the:

- amount of the loan and, consequently, the contribution at the beneficiary's responsibility;
- loan disbursement plan including duration of the loan; the amounts and scheduling; the deferment period and the reimbursement period; and
- warranties that will have to be mobilized to protect the recovery of the granted loan.

At this point, the loan committee and credit agent will explain the expected cash flow and the conditions in which the loan would be granted to the client. In case the proponent disagrees with those conditions, the loans committee will evaluate the invoked reason and, if deemed just, it will proceed with the necessary adjustments. In case a loan request is refused, the reasons for the rejection are also explained to the proponent, who will be urged to remedy the inadequacies and resubmit the request.

The loans submitted to the local loan committee during the period (2 weeks) are then compiled, prioritized, and, along with those from the other communities, submitted to the Association's Loan Committee that will review and approve them. In case the number of loans submitted for approval surpasses the amount of funds available at the time, then selection of loans to be disbursed first will be carried out according to the priority criteria initially established. The Loan Committee will also issue specific guidelines regarding each individual loan concerning the terms and conditions of the loan and any special condition it deems necessary to ensure the good use of loan funds.

Before the loan disbursement, any special conditions established by the Loan Committee is reviewed and discussed with the client. The beneficiary eligibility conditions are re-checked, including the constitution of savings and/or the savings availability to co-fund the project. The need for training will also be evaluated and in the affirmative case, the loan can only be disbursed after the client has attended the training.

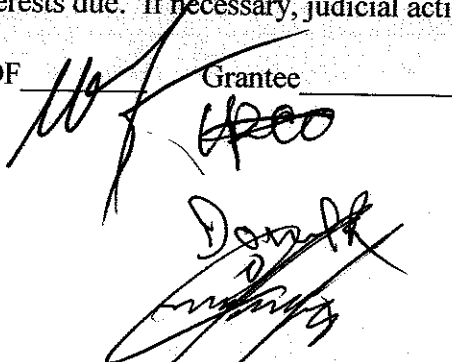
For each loan, the beneficiary, local loan committee president, and guarantors will sign a contract, whose format is approved and in which are expressed the characteristics of the granted loan and the beneficiary- obligations. Also, a passbook will be opened where the loan essential characteristics will be indicated (loan recipient identification, loan application, amount loaned, disbursement schedule, repayment schedule, including capital, and due interests, and the respective dates and warranties). A copy of that record will be given to the beneficiary so that he is aware of the amount and repayment conditions.

Loans Monitoring and Repayment

The local Loan Committee will disburse the granted loans in installments according to an established calendar. The Association will monitor the use of loan funds very closely; assuring that they are used for the ends initially programmed. Furthermore, it will try to assure the good implementation of activities funded by the project and the recovery of the loan according to the calendar previously established. In case of late payment, the situation will be evaluated with the client and the appropriate measures taken to assure the complete recovery of the loan and of interests due. If necessary, judicial action will be taken.

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The local credit agent will assist the local Loan Committee in loan recovery and in interest collection. He will ensure that the loans are put to good use, that the project is implemented in accordance with the terms in which the loan was authorized, and that the repayment of the loan is timely. The Credit Agent will work closely with the borrowers to alleviate or solve any internal problems that might arise, monitor the implementation of the project and of the businesses and report and/or recommend measures and solutions that safeguard the saving and loans groups and Association interests.

TRAINING

Staff Training

In order to create appropriate conditions for the credit program's implementation, the credit unit manager, bookkeeper, and field agents will participate in specially designed training courses prior to the credit component implementation given by the qualified technical assistant. The main goal is to provide the staff with skills and tools needed for efficient system management. The training curriculum is described in the training plan and schedule as cited below. The projected staff training duration is 50 hours.

Additionally, in order to enable the staff to use computers in monitoring activities the FAMI headquarters staff and field agents will receive 30 hours of computer training that includes word processing and spreadsheet skills. All training will be carried out at the Association's headquarters premises.

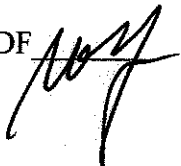
Beneficiaries training

No ADF funds are being requested for this activity. It is an on-going activity within the communities in which members of the community voluntarily participate for a nominal fee. The components of the training, however, will benefit the participants in this project.

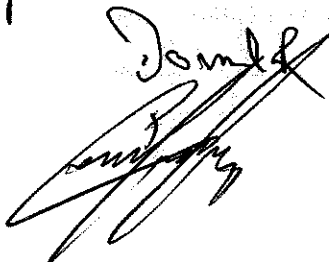
The training component will have a double propose: informing and preparing the beneficiaries to use the loan and fulfill the contractual obligations; and providing the borrowers with the needed skills and tools to manage the economic activities/units created with the loan.

The unit staff and the Technical Assistance Consultant will provide training to first time loan applicants who will be organized in groups of 20. Field agents select the participants during the selection phase. The beneficiaries will be grouped according to the place of applicant's residence, interest, proposed activities, and education level. Each group training will last 15 hours. Those targeted for the borrowers will be undertaken at the local community facilities.

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Technical Assistance

A technical assistant consultant (TAC) will be engaged over a 12 person/month period to provide assistance and guidance in the management and operations of a micro finance institution. The consultant will provide technical assistance and train the group credit team in credit system operations, in loan concession and management techniques, project preparation, evaluation and monitoring, and micro business management etc. He/she will prepare a procedures manual and the group's operational conditions for granting loans.

A legal consultant will be hired for a 1 person/month period to assist the group in revising the group's statutes, designing legal documents (contracts, notification memos, establishing procedures for legal action against delinquent clients, and participating in the design of the loan procedures manual, credit committee internal regulations and other legal services and resulting formalities.

A computer programmer will be contracted for a 1 person/month period to design and install a computerized information management system to be used in tracking clients and overall institutional accounting needs. The consultant will work with the manager and bookkeeper and train them in the use of the computerized system and be available whenever the group needs specific technical assistance on any computer related issue. The computer specialist will cooperate with the management consultant and the legal consultant.

Special Condition: Prior to the disbursement of any loan capital from ADF and subsequent loan disbursement from the Association, the Association will submit a detailed procedures manual, and established guidelines for operational conditions for processing loans and mechanisms for loan recovery. The manual should include: a narrative explanation of the role FAMI-Picos will serve in managing the loan fund specifying the duties of the manager, accountant and credit agent, and other credit unit members, examples of forms that have been developed to be used to track loan disbursement and repayment records, and a description of the monitoring plan for client's activities and businesses financed through the loan fund.

Institutional Support

ADF funds will be used to cover the initial administrative costs including the first year's salaries for the credit manager, accountant, administrative assistant and one credit agent; purchase a computer system, that includes printer, UPS, software and supplies and miscellaneous office furniture and supplies;

ADF funds will also be used to purchase a motorbike and one year of its maintenance and insurance expenses. Solely the field agent in monitoring tasks will use the Motorbike.

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ADF Required Training

Through this project, the Fami-Picos Association will participate in bookkeeping training, a performance assessment and evaluation program and other training such as AIDS education as designed by ADF and in collaboration with the project's Project Development Committee.

Group Contribution

FAMI will contribute for the implementation of the project by making available the necessary office space in its headquarters. Another contribution to the project is the integration into the system of resources generated by the on-going loan and savings program estimated at CVE 1,000,000. The individual saving and loans groups will continue to provide voluntary work in receiving, screening and monitoring loans and assisting the field agents in their routine tasks. Also, all beneficiary training is provided on a fee basis by FAMI.

Implementation Plan

The project will be implemented in 2 phases. The first phase (year 1) will be dedicated to the preparation and installation of the new credit unit system. The second phase, which will start with the fourth quarter of year 1, will be the operational phase with actual field operations.

During the first phase, the program will mostly deal with the recruitment, training, and technical assistance to the professional staff. The following activities will be implemented. The second phase will start after the installation of the credit unit has taken place and the initial training and technical assistance to the staff has been implemented. The second phase will start at the beginning of the 4th quarter with the selection of loan recipients and the respective training.

Year 1

Quarters 1, 2, & 3

Micro-Credit Unit creation

Staff selection and recruitment: Credit Manager, Bookkeeper and administrative assistant

Credit Field Agent recruitment

Selection and hiring of Technical Assistance Providers

System procedures manual design

Credit Unit staff and Field Agents training (recurring event)

Purchase of equipment for the Unit office

Dissemination of information about the micro-credit system amidst members and potential members

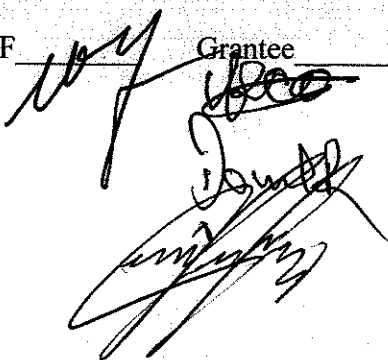
Quarters 4 and following

Identification and selection of applicants and activities / investment opportunities (recurring event)

Beneficiaries training (recurring event)

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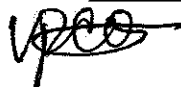
- Projects design and credit dossier completion (recurring event)
- Approval of loan proposals (recurring event)
- Loan disbursements (recurring event)
- Loan monitoring (recurring event)

Year 2

- Expansion into the Assomada market
- Hiring of new field agents as needed
- System operations evaluation after six month of first loan disbursement

The analysis to be done after the first semester of loan dispensing will allow the evaluation of used mechanism and instruments as well as the credit unit performance. Based on the evaluation results, needed adjustments will be put in place. The TA in conjunction with ADF staff and FAMI management will carry out the evaluation.

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