

Content

- FOGAPI AND LIMA CHAMBER OF COMMERCE
- LENDING ACTIVITY
- FOGAPI IN FIGURES
- FOGAPI: FOUNDATION AND COMPANY
- IBERO-AMERICAN FORUMS ON SYSTEMS OF GUARANTEE AND FINANCING FOR SMALL, MEDIUM AND MICRO-BUSINESSES
- QUESTIONS RAISED BY MYPES

FOGAPI AND LIMA CHAMBER OF COMMERCE

In April this year an important agreement was entered into between Lima Chamber of Commerce and the **FOGAPI** Foundation, aimed at providing members with the different forms of individual guarantee products.

The work of both institutions is oriented towards giving a greater number of companies access to state acquisition processes, for which purpose information will be exchanged, joint services promoted and advice and training given, among other things.

Other institutions such as PROMPYME, CONSUCODE and INDECOPI will also be involved in promoting and regulating state acquisitions.

The Chamber of Commerce will set up a Centre for the Development and promotion of Pymes, which will provide business advice and an exchange for information, promotion, training and state acquisitions.

Small and micro-businesses have shown great interest in direct adjudication of small acquisitions by the Peruvian State and they now have the support of the centre in order to participate in state purchasing processes and benefit from the country's largest purchaser: the Peruvian State which in 2002 carried out 704,408 acquisition processes, to which MYPES had access.

The Chamber will communicate directly by e-mail to member companies handling the products and services that state entities and/or institutions require; the Chamber will mediate directly and effectively so that MYPES receive promotion and information and have their guarantee requirements met by **FOGAPI**.

FOGAPI will have access to this information in order to promote its guarantee services; in addition, Lima Chamber of Commerce will tell its members about state acquisitions and the co-operation agreement with **FOGAPI** so that they can obtain access to guaranteed financing after individual evaluation.



The lending activity of FOGAPI during the second quarter of 2003 has developed substantially and very good results have been achieved in all operations involving both individual guarantees (letters of guarantee), and portfolio guarantees.

Some figures and indicators of the organisation's lending activities are given below:

NUMBER OF CLIENTS AND OPERATIONS

19,615 clients were served in the second quarter of 2003, which represents an increase of 371% compared to the same period in 2002.

Guarantee operations in the second quarter of 2003 grew by more than 216% compared to the same period in 2002, equivalent to an increase of 2.17 times.

AMOUNT GUARANTEED

The increase obtained in the second quarter of 2003 compared to 2002 exceeded 223% equivalent to 2.24 times growth.

LOANS GUARANTEED

As a result of our guarantee operations, guaranteed loans have also increased significantly compared to 2002.

During the second quarter of 2003, we have employed resources or guaranteed loans amounting to US \$ 47.3 million compared to US \$ 17.2 million in 2002, an increase of 174.5% or growth of 1.74 times.

NEW RESOURCES

One of the principal concerns of our foundation has been to ensure that our own resources and those of the backup fund increase each year, as this enables greater coverage of our operations, as well as demonstrating good management of the funds managed by FOGAPI.

This year we can see that this favourable situation is being maintained, consolidating our support for small and micro-businesses in Peru in every area of the economy.

FOGAPI IN FIGURES

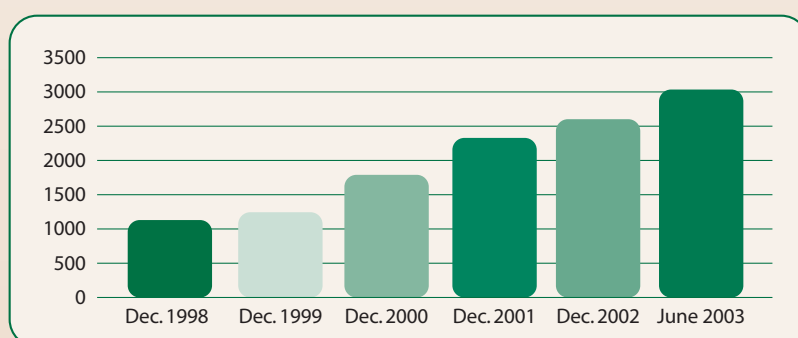
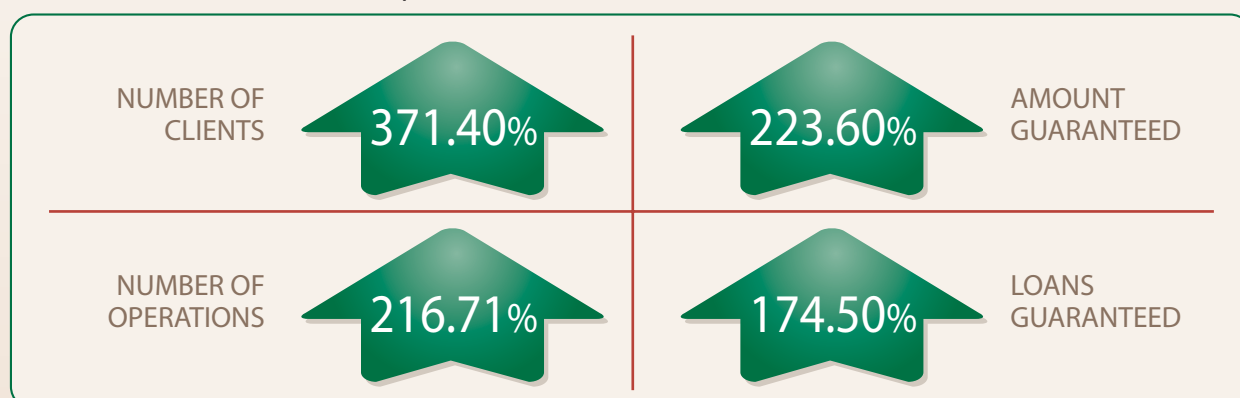
MANAGEMENT INDICATORS

(In figures, percentages & US\$)

CONCEPTS	2003 April-June	2002 April-June	VARIATION	
			DIFFERENCE	%
Nº of Clients	19,615.00	4,161.00	15,454.00	371.40
Nº of Guarantees	23,288.00	7,353.00	15,935.00	216.71
Amount guaranteed Resources or loans guaranteed	23,488,966.23	7,258,545.19	16,230,421.04	223.60
	47,282,254.41	17,225,016.36	30,057,238.05	174.50

INCREASE OF INDICATORS

(Comparative II Trimester 2003 / II Trimester 2002)

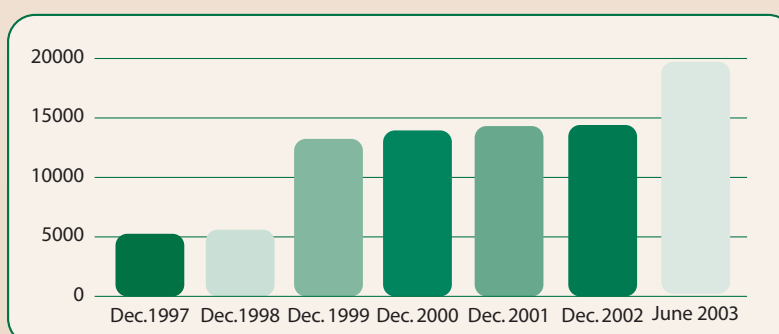


EVOLUTION OF OWN RESOURCES

(in US\$ x 1,000)

EVOLUTION OF BACKUP FUND

(in US\$ x 1,000)



CONCEPTS

Article 64 of the 1936 Civil Code states that "the purpose of foundations is to encumber assets for a specific purpose"; this proved to be insufficient and imprecise as it allowed foundations to be created on the basis of private interest to benefit given families or individuals.

In contrast, the 1984 Civil Code, compared to that of 1936, partially defined the purposes of a foundation, allowing them to carry out any activity in the public good.

We now consider that there are three elements that converge with the nature of the new concept of foundations:

- The equity affected,
- Organisation of people and
- The carrying out of interests in the public good.

As the concept evolved between one civil code and the other one can see the development from a "quasi" individual and the attention to a collective interest which requires the joint support of anyone able to encumber assets to be managed administratively through a foundation.

The equity dimension of the foundation has been extended to cover the management of encumbered assets, which then become an instrument necessary to support the aims of a business.

The activity of a foundation must be aimed at helping disadvantaged social groups regardless of the reasons, whether financial or otherwise, for their plight, and should include complementing direct action by the State.

THE FOGAPI FOUNDATION

Now, in applying these concepts the mission of **FOGAPI** as a foundation is to support, promote and advise small and micro-businesses (MYPES) in gaining access to credit, this being a sector whose social and economic situation is disadvantageous, for the following reasons:

1. They have difficulties in obtaining access to credit in order to satisfy their business needs including primary needs in the case of micro-businesses arising from a lack or insufficiency of guarantees.
2. Permanent inequality and socio-economic disadvantage that impedes the development of such an important sector of society.



The impact of **FOGAPI's** activities in providing the guarantees required by the sector, enables jobs to be created and, therefore, income for those who have to work for a living.

The final part of article 59 of Peru's Constitution agrees with this idea when it states: The state provides opportunities for sectors suffering from inequality to overcome this deficiency; it therefore encourages small companies of every type.

We consider that the promotional activities carried out by **FOGAPI** in its capacity as a foundation are of social interest, and managed by a company.

What is more, **FOGAPI** is a part of Peru's financial system without affecting its nature as a foundation, as it is regulated and supervised by the Banking and Insurance Regulator in accordance with the sixth final and complementary disposition of law N° 26702, the Financial and Insurance System and Banking and Insurance Regulation Act.

Thus, **FOGAPI** is the only financial institution in the Peruvian financial system that operates as a foundation.

In addition it is a foundation which operates as a company in the financial market, accepting the risks associated with the operations it is authorised to conduct, and must be managed as a company to provide competitive services under the same conditions as other legal or business entities.

This has nothing to do with the concept of "mercantilism", rather it has to do with efficient management: a businesslike management with an eye to profit and the finance business, aimed at meeting aims and objectives, whose profits are capitalised to the benefit of small and micro-businesses (MYPEs).

Edgard Coquis Fernandez-Dávila
General Manager of **FOGAPI**

IBERO-AMERICAN FORUMS ON SYSTEMS OF GUARANTEE AND FINANCING FOR SMALL, MEDIUM AND MICRO-BUSINESSES

CREATION

In 1996, the National Guarantee Fund of Colombia organised the 1st Ibero-American Forum on Systems of Guarantee in Bogota, inviting guarantee institutions to an event that would bring them under one roof in an atmosphere of good will.

In subsequent years forums were held in Venezuela (1997), Spain (1998), Mexico (1999), Portugal (2000), El Salvador (2001) and Argentina (2002).

In 2003, the city of Lima, Peru, has been chosen as the venue of the 8th Ibero-American Forum on Systems of Guarantee and Financing for Small, Medium and Micro-businesses, with **FOGAPI** as the organiser.

PURPOSE OF THE FORUM

The aim is to hold an annual convention of guarantee institutions at which participants in the Forum and users of REGAR can exchange experiences of guarantee and financing systems and institutions; in the presence of experts from the Iberian Peninsula and America and other nations, at which best practices and experiences can be evaluated, together with new public and institutional policies for the provision of financial services .

These forums are also used to expand knowledge of the services and experiences provided by international aid to guarantee systems and institutions, as well as the actual experiences of small, medium and micro-businesses; reports are also presented on new and modified legislation concerning guarantee systems.



REGAR (the Ibero-American Guarantee Network)

Origin

The network arose in 1998 as a consequence of talks in Valladolid and Burgos, Spain, between the representatives of Ibero-American guarantee institutions attending the 3rd Ibero-American Forum on systems of Guarantee and Financing for Small, Medium and Micro-businesses.

Purpose

To share mutual knowledge, exchange experiences and best practices and to identify the environment in which Ibero-American guarantee systems and institutions operate.

Activities

- 5 annual forums have been organised with the collaboration of local institutions and the organising / institutional counterpart of the Latin American

Economic System - SELA, the IBERPYME Programme, ALIDE and IBERAVAL.

- Four annual summits have been organised in order to co-ordinate activities and relations between the guarantee institutions.
- A website has been developed together with electronic bulletins as a means of internal and external communication and publication.
- The activities of guarantee institutions in the Iberian Peninsula and the Americas have been promoted, developed and consolidated.
- The realities and needs of Ibero-American guarantee systems and institutions have been made known.



REGAR
red iberoamericana
de garantías



QUESTIONS RAISED BY MYPES

WHAT IS THE DIFFERENCE BETWEEN DIRECT LOANS AND INDIRECT LOANS?

Under current competitive circumstances, companies without a clearly defined financial structure are condemned to collapse or to receive nasty surprises when they attempt to conciliate their expenses and investments with their income; that is, balancing their cash flow through corresponding financial aid.

During different visits to small and micro-business owners we have found a tendency towards short-termism in financial planning. This tendency restricts the modular development of MYPES, which are limited to complying only with short term commitments and hoping for business opportunities to arise.

The reasons for this short-term view, may be the result of limited technical knowledge on the part of businessmen or restricted access to the financial system.

As far as economic resources are concerned, planning converts into cash; better planning means higher savings.

In all cases it is very important to have definitions for the short term (this year), medium term (1 to 3 years) and long term (more than 3 years).

The short term concerns obligations to suppliers and current expenses, whilst the medium and long term require more detailed planning because they involve decision on capital assets and important investments.

Each day the financial system offers more products, not all of them suitable for Mypes which is why businessmen generally seek credit outside the system, this is clearly more expensive but access is easier for them.

A direct loan is granted by an institution to its client and the latter receives funds; in contrast, an indirect loan involves a guarantee, the client is being guaranteed or backed by an institution to a third party who provides the funds.

Knowing when to use both systems of credit is a key requirement of

any businessman and one which may enable him to make substantial savings in interest paid on funds received.

The financial system has special products for fixed assets (machinery and equipment, premises, etc.), purchases or renewals of which are planned over the medium or long term.

Direct loans are also made for working capital (suppliers, production and sales costs, etc.), which improve short-term cash flows.

Indirect loans having a minimal cost should be used with suppliers to finance material acquisitions and with clients for cash advances. These indirect loans (letters of guarantee) can also be used to gain access to important business opportunities involving purchases by the state or private contracts.

And when should indirect loans be used? Whenever possible, because they are to 6 times cheaper than direct loans.

At FOGAPI we usually tell our clients that they should analyse which parts of their businesses are stable (with contracts) and try to finance these with indirect loans; whilst the rest of their operations can be financed using direct loans, taken out only when really necessary.

And now for the final important point: it is advisable to have access to both types of financing, maintaining lines for both needs, so that they are available quickly.

Rodolfo Vargas Chávez
FOGAPI Research & Development



Prize Enterprise
Creativity



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FOGAPI

Augusto Tamayo 160 third floor - San Isidro Phone: 421-3139 Fax: 440-1589

E-mail: gg-fogapi@millicom.com.pe Web Site: www.fogapi.com.pe

Information: COFIDE Center first stage COFIDE Building Phone: 442-2550 Annexed: 2113

CD PYME Av. Antunez de Mayolo 875 Los Olivos Phone: 5232646 Fax: 5220355

Customized Attention: Phone: 442-2550 Annexed: 2018 E-mail: at-fogapi@millicom.com.pe