



FOGAPI

FUNDACION FONDO DE GARANTIA PARA PRESTAMOS A LA PEQUEÑA INDUSTRIA

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NEW MEMBERS OF THE MANAGEMENT BOARD OF FOGAPI

The third quarter of 2003 saw changes to the management board of our institution.

Our new chairman **Rodolfo Weiss Trelles**, an outstanding professional with wide experience in the Peruvian financial system as he has worked for many years in the country's most important financial institutions and is currently a director of Corporacion Financiera de Desarrollo – COFIDE.

Our chairman is accompanied by vice chairman **Victor Alvarez Cabrera** and the following board members:

Francisco Martinotti Sormani, Jorge J. Licetti Conicia and Alejandro Jimenez Morales.



Press conference with Francisco Martinotti, Rodolfo Weiss Trelles and Edgard Coquis

APPOINTMENTS

Mr Rodolfo Weiss Trelles was appointed as chairman of the management board of **FOGAPI** on the 1st of September.

Mr Jorge Licetti Conicia joined the board on the 24th of June and Mr Alejandro Jimenez on the 12th of September.



Chairman Mr Rodolfo Weiss Trelles

Accumulated figures up to the end of September are almost equal to the results obtained during the whole of the previous year, which leads us to expect that 2003 will be better than last year.

Some detailed figures and indicators of **FOGAPI's** lending activities during the July – September 2003 period are given below:

NUMBER OF CLIENTS AND OPERATIONS

3,113 clients were attended in the third quarter of 2003, which represents a 50% increase over the same period in 2002.

Guarantee operations in the third quarter of 2003 grew by rather more than 20% compared to the same period in the previous year.

AMOUNT GUARANTEED

More than 36% in the third quarter of 2003 compared with the third quarter of 2002.

LOANS GUARANTEED

As a result of our guarantee operations, guaranteed loans were also significantly higher than in 2002.

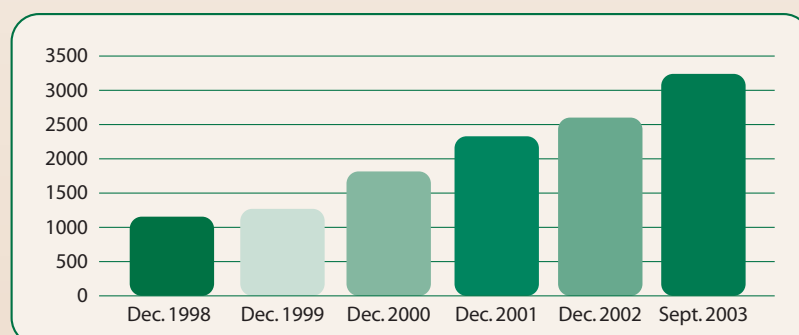
Effectively, during the third quarter of 2003 we have provided funds or guaranteed loans of US\$ 20.3 million, compared to US\$ 14.3 million in the same period of the previous year, an increase of 43%.

FOGAPI IN FIGURES

MANAGEMENT INDICATORS (in figures, percentages and US\$)

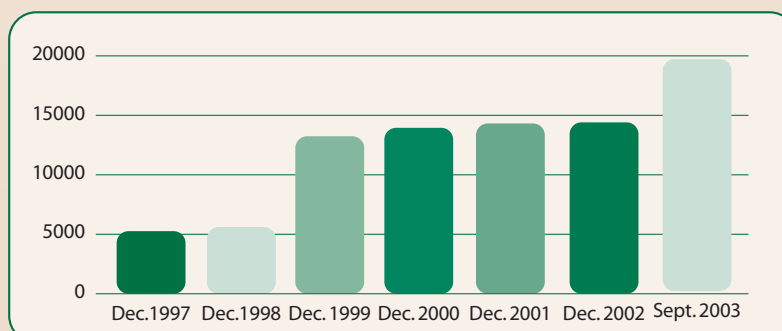
CONCEPTS	July – September		VARIATION	
	2003	2002	DIFFERENCE	%
Nº of clients	3 113	2 074	1 039	50
Nº of guarantees	6 280	5 255	1 025	20
Amount guaranteed	8 384 756.53	6 179 521.59	2 205 234.94	36
Loans guaranteed	20 380 278.91	14 301 544.98	6 078 733.93	43

RISE IN INDICATORS (COMPARISON BETWEEN 3RD QUARTER 2003 / 3RD QUARTER 2002)



EVOLUTION OF OWN FUNDS (in US\$ x 1,000)

EVOLUTION OF BACK-UP FUND (in US\$ x 1,000)



There are many types of purpose-designed guarantee systems and organisations: the guarantee fund, guarantee programme and financial institutions specialising in guarantees. There is obviously a heterogeneity in each one of these types, manifest in the degree of differentiation or quality, efficiency and relevancy variables between the guarantee institutions in different financial markets.

Guarantee systems are used extensively in developed countries, which have decades of experience in their application, showing how important guarantee systems are in the financing of small, medium-sized and micro-businesses (MIPYME) and, therefore participation by such companies in the growth and development of the economy.

This has been the case principally in the countries of the European Union and Asia, to judge by their rates of growth and the presence of MIPYMEs, and makes them models to be followed in other parts of the world, with such modifications as may be required by the individual economic environments of developing countries.

It is thus appropriate to detail some of the characteristics of guarantee funds, guarantee programmes and financial institutions specialising in guarantees, although we should point out that guarantee funds here refer exclusively to those deriving from and regulated by government legislation and not those that make use of formal vehicles, duly registered as corporations, whose names include the words "guarantee fund".



This is the situation with the Argentine Guarantee Fund (FOGABA), the National Guarantee Fund of Colombia (FNG) and the Foundation for the provision of Collateral Guarantees to Small Businesses (FOGAPI) in Lima, Peru. In the Peruvian case, **FOGAPI** is a foundation and as such is a private institution dedicated to providing guarantees to facilitate access to credit and advice by MYPEs (small and micro-businesses), and is supervised by the competent authority (the Banking and Insurance Regulator in Peru).

FOGAPI

For the purposes of definition and differences between guarantee organisations, FOGAPI classifies broadly as an institution specialised in guarantees, even though we know we operate as a foundation.

In effect, guarantee funds as defined above, are providers of temporary and limited funds emanating from government legislation. Guarantee programmes manage, through a government or mixed development agency, a pre-established guarantee programme. Aimed at a specific sector of the economy, these are also temporary and limited.

In contrast, financial institutions specialising in guarantees, including FOGABA, Colombia's FNG and **FOGAPI** in Lima, Peru, as well as financial institutions specialising in reciprocal guarantees, are regulated institutions: some are regulated by banking legislation (**FOGAPI**, Lima, Peru) and others by specific legislation (financial institutions specialising in reciprocal guarantees). Finally, there are institutions regulated by general and special commercial legislation and in particular by statute law (FOGABA in Argentina and FNG in Colombia) among others.

The following table shows the differences.

Concept	Guarantee Fund	Guarantee Programme	Financial Institutions Specialising in Guarantee	
Definition	Provision of funds to back loans	Funds managed through a state and/or private agency to back loans or to grant loans to a given sector	1. Commercial companies and/or legal personalities that are regulated and supervised	2. Commercial companies and/or legal personalities that are regulated but not supervised
Legislation	YES			
Source of funds	The state or international aid		Private or public / mixed	
Scope	Local, Regional y Nacional			
Coverage	50(*)			
Credit management (depending on guarantee model)	(1) individual and intermediate guarantee: evaluation by guarantee institutions (2) Portfolio guarantee: evaluation by FCs who grant loans and monitor performance			
Type of guarantee	Large scale and/or individual			
Use of guarantee	Medium		High	
User	Non-direct		Direct	

(*) the percentage cover may be greater than 50%

Edgard Coquis Fernandez-Dávila
General Manager of FOGAPI

MYPES and the external market

The development of business activity among small and micro-businesses is highly dynamic and extremely adaptable to the conditions and circumstances in the markets in which they participate.

To obtain a share of a "niche" in the external market is the result of great effort worthy of facilitating action on the part of the state, such as information and contacts, among others. These actions should be aimed at eliminating or reducing inequalities that, in general, reduce competitiveness compared to competitors abroad.

Exporting in a globalised economic environment such as now exists, require orientation and opportunity to facilitate an increased number of export operations. Joint action by both the public and private sectors is therefore fundamental to create growth and create profitable and sustainable activities.

Efficient guarantee mechanisms

In the financial sector in general, the risk factor is one of the elements to be analysed in taking credit decisions. Nevertheless, exporters have the advantage of a sure purchaser who has placed a specific order.

Mechanisms of proven efficiency, such as the global guarantee or loan portfolio developed by **FOGAPI**, are important financial means of providing access to credit for small companies which have an export market.

The development of the guarantee mechanism known as the "MYPE loan portfolio guarantee" is characterised by its increasing popularity among finance companies – FCs – specialising in small companies because, among other reasons, **FOGAPI** participates in the credit risk together with the FC, as it is a part of the financial system it assumes what is known as the counterpart risk, that is, a portion of the risk of coverage is assumed by **FOGAPI**, thus partially freeing the FC.

The main characteristic of this mechanism, therefore, is that it reduces the credit risk arising out of a flexible contractual relationship brought into line with the characteristics of the portfolios of FCs serving the MYPE sector. In other words,

the terms of the contract consider different operating method such as: operations in the form of individual credit lines, loans repayable in weekly, fortnightly or monthly instalments and others, in both domestic currency and foreign currency. In addition, they support operations paid on a single date, as is the case with certain types of financing for the agricultural or export sector.

Main characteristics of guarantees for exporting MYPEs

A description of the portfolio guarantee for exporting companies is given below, pointing out the principal aspects considered in the negotiation with each eligible FC.

I.- TYPE OF GUARANTEE

- 1.1** TYPE OF CONTRACT:
PORTFOLIO GUARANTEE
- 1.2** CONTRACTING PARTIES:
ELIGIBLE FCS* AND FOGAPI
- 1.3** GLOBAL VALUE OF THE GUARANTEE:
UP TO US\$ 24 MILLION
- 1.4** GUARANTEE COMMISSION:
ACCORDING TO CLASSIFICATION UP TO 1.85% ANNUALLY AND PROPORTIONAL TO THE VALUE AND REPAYMENT PERIOD OF THE LOAN

II.- PURPOSE OF THE GUARANTEE

- 2.1** TYPE OF CREDIT:
WORKING CAPITAL AT DISCRETION OF THE FC
- 2.2** MAX. VALUE OF LOAN:
US\$ 40 000.00 SUBJECT TO NEGOTIATION
- 2.3** MAX. AMOUNT PER PERSON GARANTEED:
US\$ 50 000.00 SUBJECT TO NEGOTIATION
- 2.4** TERM OF THE LOAN:
UP TO 180 DAYS (SUBJECT TO NEGOTIATION)
- 2.5** NOMINAL COVERAGE:
UP TO 62.5% OF CAPITAL BALANCE
- 2.6** EFFECTIVE COVERAGE:
50% OF CAPITAL BALANCE

- 2.7** HONOURING:
WHEN THE PERSON GUARANTEED BECOMES INSOLVENT
- 2.8** PERIOD OF INSOLVENCY:
60 DAYS (REFERENTIAL)
- 2.9** PERIOD FOR HONOURING:
15 DAYS AFTER BEING REQUIRED TO DO SO
- 2.10** PRIOR PAYMENT BY THE MYPE:
20% OF LOAN CAPITAL (EXCEPT LOANS REPAYABLE IN A SINGLE INSTALMENT)

* Classified as being eligible by COFIDE

Prospects for financing MYPEs

The development of the financial market within a stable economy, with new short and medium term instruments, better information and export services, together with information technology support lead us to envisage greater dynamism in financing of the MYPE sector through the financial system, strengthening the development of methodologies that are suitable for serving the small and micro-business sectors.

FOGAPI will increase its share of guarantees by improved development of individual guarantees, portfolio guarantees with a new guarantee product for exporters as well as through the implementation of the intermediary guarantee model which facilitates the channelling of funds to FCs specialising in microfinance.

Lizardo Cruchaga Sampén
FOGAPI Business Manager



QUESTIONS RAISED BY MYPES

What requirements have I to meet to get a loan?

Undoubtedly, this question is the most frequently asked when businessmen ask for a loan from any Peruvian finance company (FC). It can be answered in different ways depending on the point of view.

The following is an analysis from the point of view of the sectors concerned, the FCs and the MYPES.

The FCs

Depending on the quality of the documentation obtained, an exhaustive evaluation can be carried out. It is worth mentioning that some documents are obvious, such as the RUC and national I.D. document of the applicant and/or legal representatives, utility receipts for the workshop or commercial premises which not only help to identify the loan applicant but also enable the authenticity of the information provided by him to be verified and allow him to be located quickly.

Accounting documents such as balance sheets and cash flow, among others, are necessary to evaluate the current condition of the potential client's business and its financial and commercial ability to assume the new loan commitment. Remember that loans are granted in virtue of the ability to repay and not on the basis of the equity or economic solvency of the applicant.

Finally, we need the documentation to support the loan if this is required when the loan is approved. We should take into account that FCs have to involve the applicant or potential client in the obligation assumed by him and in many cases this takes the form of a guarantee to cover the operation in question.

The flexibility of the FCs in this respect will depend on the loan experience of the applicant or potential client. Facilitating access to credit for new

MYPES will allow the FCs to diversify their portfolio of clients and reduce the risk whilst stimulating an entire productive chain which in the longer term will encourage the country's economic growth.

The MYPE

This sector will certainly understand the arguments put forward by the FCs, but it is undeniable that in many cases the documentation required increases the time required to obtain a loan. What is more, depending on how urgent the need for credit is, the businessman may incur ever higher costs to obtain the information required.

Nevertheless, it should be pointed out that the times when loans were granted on paternalistic grounds with a high degree of subsidy have passed. Today loans come from private institutions and/or the savings of thousands of Peruvians, among other sources of financing and FCs must be cautious in their evaluations.

We consider that all the elements making up the evaluation of loan applications is beneficial for both parties, increasing the level of successful loan operations, improving matters both for those requiring loans and the providers of financial alternatives.

Increased flexibility of the requirements established by the FCs could attract many good MYPE clients. Documentation that is systematised and in good order, with a balance sheet and cash flow account drawn up and reflecting the reality of the business, powers of attorney duly registered at the Public Records Office and well constituted equity registered according to the law, could open many more opportunities for MYPES. Let's join forces – it's worth it.



Rodolfo Vargas Chávez

Research and Development - FOGAPI

Business Productivity
Prize Winner



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FOGAPI

Calle Augusto Tamayo 160 3er piso – San Isidro, Tel. 421-3139 Fax: 440-1589

e-mail: gg-fogapi@millicom.com.pe Web page: www.fogapi.com.pe

Information: Centro Cofide 1er piso Edificio Cofide, Tel: 442-2550 ext. 2113

CD PYME Lima Chamber of Commerce Av. Antunez de Mayolo 875 Los Olivos, tel: 523-2646, Fax: 522-0355

Personal attention: Tel: 442-2550 ext. 2018 e-mail: at-fogapi@millicom.com.pe