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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

BOLIVIA

PROJECT PAPER

AGRIBUSINESS AND ARTISANRY
(Amendment #2)

AID/LAC/P-316 &
DLC/P-2253 &
DLC/P-2253/1

Loan Number: 511-T-060
Project Number: 511-0472

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AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT DATA SHEET	1. TRANSACTION CODE <input type="checkbox"/> A = Add <input checked="" type="checkbox"/> C = Change <input type="checkbox"/> D = Delete	Amendment Number 2	DOCUMENT CODE 3
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2. COUNTRY/ENTITY Bolivia	3. PROJECT NUMBER 511-0472
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4. BUREAU/OFFICE LAC	5. PROJECT TITLE (maximum 40 characters) <input type="checkbox"/> Agribusiness and Artisanry
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6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 01 09 88	7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4) A. Initial FY <input type="checkbox"/> 7 <input checked="" type="checkbox"/> 8 B. Quarter <input checked="" type="checkbox"/> 2 C. Final FY <input type="checkbox"/> 8 <input checked="" type="checkbox"/> 6
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8. COSTS (\$000 OR EQUIVALENT \$1 =)						
A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	335	6,050	6,385	5,250	6,100	11,350
(Grant)	(135)	(50)	(185)	(2,050)	(100)	(2,150)
(Loan)	(200)	(6,000)	(6,200)	(3,200)	(6,000)	(9,200)
Other U.S. 1.						
Other U.S. 2.						
Host Country		606	606		9,720	9,720
Other Donor(s)						
TOTALS	335	6,656	6,991			

9. SCHEDULE OF AID FUNDING (\$000)									
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
		(1) FN	270	111	111	1,200	9,200	950	
(2)									
(3)									
(4)									
TOTALS				1,200	9,200	950		2,150	9,200

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)	11. SECONDARY PURPOSE CODE
12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each) A. Code B. Amount	

13. PROJECT PURPOSE (maximum 480 characters)

The purpose of the project is to improve and expand the system for promoting and financing private agribusiness and artisanry enterprises through commercial banks and other financial institutions, thereby strengthening the private sector and helping provide the investment capital required for Bolivia's economic recovery.

14. SCHEDULED EVALUATIONS Interim MM YY 1 1 8 6 Final MM YY 1 1 8 7	15. SOURCE/ORIGIN OF GOODS AND SERVICES Grant Loan G/L <input checked="" type="checkbox"/> 000 <input checked="" type="checkbox"/> 941 <input checked="" type="checkbox"/> Local <input type="checkbox"/> Other (Specify)
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16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

This Amendment will extend the PACD for 16 months and provide additional funds to strengthen Bolivia's financial sector.

The USAID Controller has reviewed the financing procedures described herein and hereby indicates his concurrence.

17. APPROVED BY	Signature: David A. Cohen Title: Director USAID/Bolivia	18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION Date Signed: MM DD YY 07 28 86
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Project Authorization

(Amendment No. 4)

Name of Country: Bolivia
Name of Project: Agribusiness and Artisanry
Number of Project: 511-T-060 (Loan)
511-0472 (Grant)

1. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, the Agribusiness and Artisanry Project was authorized on September 27, 1977. That Authorization, as previously amended on December 16, 1977, September 22, 1983, and July 18, 1985, is hereby further amended as follows:

a. Delete the first paragraph of the first page of the Authorization and insert in lieu thereof the following:

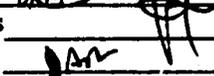
"Pursuant to Section 103 of the Foreign Assistance Act, as amended, I hereby authorize the Agribusiness and Artisanry Project for Bolivia involving planned obligations of not to exceed Nine Million Two Hundred Thousand United States Dollars (US\$9,200,000) in loan funds and Two Million, One Hundred Fifty Thousand United States Dollars (US\$2,150,000) in grant funds over a ten year period from date of authorization subject to the availability of funds in accordance with the AID/OYB allotment process, to help in financing foreign exchange and local currency costs for the project. The planned life of the project is ten years from the date of initial obligation. The project consists of improving and expanding the system for promoting and financing private agribusiness and artisanry enterprises through commercial banks and other financial institutions, thereby helping to provide the investment capital required to assist them in contributing to Bolivia's economic recovery.

b. Delete subparagraphs (v) and (vi) of Paragraph 7.

2. Except as expressly modified or amended hereby, the Authorization remains in full force and effect.


David A. Cohen
Mission Director, USAID/Bolivia
7-21-86
Date

Drafted by GC/LAC:MRiedy

PDI:ADiaz  Date 7/21/86
CONT:SLiapis  Date 7-21-86
PS:JFasullo  Date 7/21/86
 7/21/86

AGRIBUSINESS AND ARTISANRY PROJECT PAPER AMENDMENT No.2

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Acronyms

A&A Project	- Agribusiness and Artisanry Project
AITEC	- Acción Internacional Técnica
BCB	- Bolivian Central Bank
GOB	- Government of Bolivia
ICI	- Intermediate Credit Institution
LOP	- Life of Project
MNR	- Movimiento Nacionalista Revolucionario (Party of Pres. Paz Estenssoro)
MPC	- Ministry of Planning and Coordination
PAT	- Programa de Asistencia Técnica
PCU	- Project Coordination Unit of MPC

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I. SUMMARY

This PP Amendment recommends that the Project Assistance Completion Date (PACD) of the Agribusiness & Artisanry (A&A) Project be extended for sixteen months to January 1988 and that additional grant funds totalling \$950,000 be obligated for the Project.

The Agribusiness and Artisanry (A&A) Project's original objective was to establish a well-functioning system to promote and finance A&A investments through commercial banks and other financial institutions. The Project has provided the investment capital required to enhance the role of these private enterprises in the Bolivian economy, and thereby increase the income and standard of living of small and medium-scale farmers and other poor Bolivians. Grant funds were also provided under the Project to support technical assistance and training for Bolivian Central Bank (BCB) and Intermediate Credit Institution (ICI) personnel involved in the Project's refinancing line.

The Project was initiated in 1978 with the establishment of the A&A refinancing facility in the Bolivian Central Bank. For political reasons, the project was suspended between 1980 and early 1983. In 1983, the Project was reactivated and redesigned, primarily to 1) provide additional funds to the refinancing facility, 2) improve the BCB's management of the refinancing facility and 3) increase the technical assistance and training provided to participating ICIs. Due to turmoil within the Central Bank between 1983 and 1985 caused by the GOB's loss of control over the Bank to its leftist dominated, anti-private sector labor union, refinancing transactions came to a virtual halt, and almost no progress was made in improving the BCB's management of the A&A refinancing facility. For this reason, in 1985, it was decided to give the Ministry of Planning and Coordination concurrent authority to approve subprojects for financing under the A&A refinancing facility, after which some funds began to disburse. Despite the difficulties experienced within the BCB, the Project's technical assistance team was very successful in training several ICIs in lending for long-term development activities and in beginning to improve bank operations in general.

The Government of Víctor Paz Estenssoro, which took office in August 1985, virtually immediately enacted economic measures which have set the scene for Bolivia's economic recovery. These measures provided for greatly reduced government interference in the economy, a shrinking of public sector parastatal activities, and reliance on increased private sector productivity, especially in the agricultural sector, to reactivate the economy.

Bolivia's poorly functioning financial sector has been one of the main impediments to increased private sector activity and, hence, economic recovery. The country's banking institutions must begin to work more efficiently in order to be able to fulfill their role as financial intermediaries. To do this, they must take measures to improve their own operations while the GOB makes basic institutional and policy decisions to provide a proper legal and operational framework within which private financial institutions can operate.

USAID/Bolivia and the World Bank are currently undertaking preliminary studies which will lead to two new projects to strengthen the financial sector. These new projects are scheduled to begin in mid-1987. The Paz Government's economic measures are beginning to work, but more private sector investment is needed now to increase national production, create new jobs and expand exports. Therefore, measures to improve Bolivia's financial sector operations must begin to be taken immediately. Therefore, the A&A Project will be extended in order to continue technical assistance and training activities to improve the operations of Bolivia's banks and to provide the resources necessary to undertake priority financial sector studies and to implement financial sector decisions taken by the GOB. The extension of the Project will also allow additional time for the disbursement of the remainder of the \$3 million obligated in 1983 for the A&A refinancing facility, all of which will be earmarked for specific subloans by September 1986. The main activities to be undertaken during the project extension can be divided into four areas: continued technical assistance and training for ICIs, policy development and implementation, pilot savings mobilization efforts, and a pilot effort to increase lending to micro-enterprises.

The analyses prepared when the A&A Project was designed in 1978 and redesigned in 1983 remain valid, and therefore, no additional analyses are included in this PP amendment. The summary revised budget for the Project is as follows: (\$000):

	A.I.D.		Host Country	TOTAL
	Previous Totals	New Totals		
Refinancing Facility	9,000 (L)	9,000 (L)	9,300	18,300
TA to ICIS	1,000 *	1,197 *	120	1,317
BCB Technical Assistance Program	250	100	100	200
Policy Development and Implementation	-	348	-	348
Savings Mobilization Programs	-	193	60	253
Micro-enterprise Development	-	150	140	290
Project Coordinator	-	115	-	115
BCB Mechanization	150 (L)	150 (L)	-	150
Evaluations/Audits	-	55	-	55
Contingencies	-	42	-	42
TOTALS	\$10,400	\$11,350	\$9,720	\$21,070

* includes \$50,000 Loan

II. BACKGROUND AND PROJECT RATIONALE

A. Current Bolivian Economic Situation

Excessive and unproductive GOB borrowing overseas and unwise public sector expansion during the late 1970s by 1980, resulted in a growing fiscal deficit and the beginnings of hyperinflationary pressures. Early economic problems were aggravated in July 1980 by the military coup of Luis García Meza, following which Bolivia's economic and commercial ties with most donor countries were suspended. By 1982, the economy required immediate attention which the then military Government was not prepared to provide. In October 1982, the military Government turned over power to President Hernán Siles Zuazo, whose election was to have been ratified by the Bolivian Congress in 1980 were it not for the García Meza Coup.

Unfortunately, Siles' coalition Government was never able to rule the country effectively. Significant economic measures were never implemented, and general chaos within his Administration and social unrest by 1985 resulted in the world's highest inflation rate and a paralyzation of productive economic activity. Because of the threat posed by the prevalent economic and political chaos to the stability of his Government, President Siles called for elections a year earlier than scheduled. President Paz Estenssoro's MNR Government took office in August 1985. By the end of that month, the Paz Government had announced sweeping economic reform measures designed to reactivate productive activity and reorient the economy along private sector, free market lines.

The measures enacted by the Paz Government have begun to have a salutary effect on the economy. Inflation virtually has been brought to a halt. The Government has been getting its budget deficit under control, and the private sector has begun to respond to the new economic environment with new investment. In the short run, however, the Government's abrupt measures have caused a recession due to a) the need for adjustments within industrial sectors previously subsidized in one way or another by the Government, b) the declining purchasing power of public sector employees, and c) the time needed for people and enterprises to switch from the speculative type of activities in which they were engaged during times of extreme inflation to more productive endeavors. To recover from this recession during the next year or so will require both the vigorous application by the Government of its economic reform program and responsive new investment and productivity by the private sector.

In order for private sector businessmen, both urban and rural, to be able to obtain the funds they need for investment in new and existing enterprises and for working capital, Bolivia's financial institutions must begin as quickly as possible to perform their financial intermediation functions much more efficiently. If they do not, there is a real danger that the significant increase in private sector investment and productivity upon which the GOB's economic recovery program depends will not occur. This would endanger the prospects for the future success of the GOB's New Economic Program (NEP) and

lead to political instability. The continued success of the NEP is vital both to Bolivia's future economic growth and development and to the attainment of the United States' foreign policy objectives in Bolivia (maintenance of democracy, drug control, and free-market based economic development). Given these considerations, it is urgent that Bolivia's financial sector institutions, both public and private, begin improving their operations right away.

Bolivia's private banks survived the years of high inflation and artificially controlled interest rates imposed by the Siles regime by engaging in unorthodox banking practices - such as rolling loans over monthly and charging new commissions each time - and through foreign exchange speculation. The banking system is currently adjusting with some difficulty to the new, open market economic situation which exists as a result of the Paz Government's economic policies. Savings deposits are at an all-time low. This is explained both by a lack of confidence by the public in Bolivia's financial institutions due to the prior Government's decision to de-dollarize accounts and control interest rates, which resulted in significant losses to depositors, and by the lower disposable incomes of many urban residents due to the current recession. Since the Central Bank's investment refinancing lines have been severely decapitalized, virtually no funds are available to the banks for loans to finance long-term investments. Even if the GOB succeeds, as expected, in attracting new donor support for investment refinancing facilities, Bolivia's ICIs still need to mobilize significantly greater levels of deposits to finance higher levels of lending in order to be able to fulfill their role as financial intermediaries within the private sector. In addition, it should be noted that over-reliance on governmental refinancing by ICI's for their long-term lending can lead to governmental interference in the allocation of scarce long-term lending resources, even when interest rates are not subsidized.

Other problems with which Bolivia's private ICIs must deal on a priority basis include: a) expanding their outreach into the country's secondary urban centers and rural areas; b) increasing the competency of their loan officers in loan evaluation based upon assessment of business prospects rather than just collateral; c) marketing of bank services, both to mobilize more deposits and to develop new lending programs to meet various client needs; and d) improving internal management. Current unprofessional and passive banking practices - such as over-reliance on collateral, little analysis of proposed loan uses and covering bloated operating costs with high spreads - will not permit the survival of many of Bolivia's banks in the new, more competitive economic environment.

The GOB also needs to begin taking actions to improve financial sector operations in the areas of a) commercial bank regulation, b) streamlining BCB operations, and c) deciding what kind of institutional arrangements it wants to make to channel externally provided resources through ICIs to private sector investors.

Actions to begin to address the problems cited above must begin now. The Paz Government's economic measures have begun to stabilize the economy, but new private sector investment is needed urgently to increase production and exports and to create new jobs. This new investment cannot take place at the levels necessary unless the financial sector begins to improve its operations. Therefore, intensive efforts to improve the functioning of the financial sector will begin now under the extension of the A&A Project, and continue in 1987 under the World Bank's Financial Policy Project and AID's Strengthening Financial Markets Project.

B. A&A Project History

The A&A Project was initiated in January 1978. It established a \$9 million refinancing facility within the BCB, for which AID contributed \$6 million and the GOB \$3 million. This sum was to be used for the partial financing of credits by commercial banks and other financial institutions to private sector agribusiness and artisanry investors whose activities were of benefit to the poor majority. A Technical Assistance Program (PAT) was also created under the project to provide assistance to borrowers in subproject design and to promote use of the BCB's refinancing facilities.

The operations of the A&A refinancing facility improved steadily as time went on, and almost all of the original \$9 million was disbursed by 1983. Since then, reflows from these funds have been relent, and a total of 867 subloans have been made. Annex 5 includes a representative list of the subprojects which have been financed. These have ranged from small artisanal activities to relatively large projects for the processing of agricultural products.

An informal evaluation of the Project in 1983 revealed that a number of implementation problems were affecting Project performance. The most serious of these were the lack of subproject promotion, inadequate pre-investment feasibility investigation and planning, and lengthy delays in the approval and disbursement of loans by the BCB. The Project was redesigned in 1983 in order to a) revise and make more specific the terms and conditions for refinancing; b) decentralize the process of BCB approval and disbursement of funds, and c) provide for a more comprehensive program of technical assistance and training to ICI and BCB personnel involved in the A&A refinancing program.

As noted above, due to political problems within the BCB and the chaotic economic situation which existed between 1983 and 1985, the measures contemplated under the A&A Project Amendment to facilitate the operations of its refinancing line and the training of BCB personnel were never implemented. In fact, the ECB had never managed the A&A refinancing facility well. PAT funds were not made readily available to interested investors to finance development of their projects; thus requests for PAT assistance ceased. BCB personnel never agreed on ways to promote use of the Bank's refinancing lines; accordingly, PAT-sponsored promotional programs were not instituted. Worst of all, investors and their banks usually had to wait

months for their refinancing requests to filter up through the BCB to the Bank's Development Department in La Paz for final approval. These problems were discussed fully with BCB personnel in 1983, and specific measures were agreed upon to enable the BCB, once and for all, to fulfill its responsibilities for the management of the A&A refinancing facility - especially through decentralization of subproject approvals within the Bank. These agreements, however, were never implemented, and in 1985, USAID/Bolivia obtained GOB agreement to name the Chief of the Project Coordination Unit (PCU) (developed to administer USAID's Departmental Development Corporations Project) in the Ministry of Planning and Coordination as an alternate GOB project representative for the purpose of approving A&A refinancing transactions. This helped keep the possibility of financing subprojects under the A&A refinancing facility alive during the period when the BCB was inoperative, but was never meant to be a permanent solution to the BCB's problems.

Although the actions contemplated in the 1983 A&A Project Amendment to improve BCB operations were never taken, the Paz Government has now regained political control over the BCB, and refinancing transactions are again being approved. In fact, most of the transactions to be approved for financing with the remainder of AID's contribution to the A&A refinancing facility (see Annex 5) are being channelled through the BCB. Nevertheless, serious doubts remain regarding whether the BCB can ever be depended upon to manage development banking activities well. The Paz Government has not yet made any decisions regarding where to put future responsibility for managing refinancing lines, but it may wish to limit BCB responsibilities to the monetary and foreign exchange spheres which are the traditional domain of central banks worldwide.

As explained below in more detail, the efforts of the project's T.A. contractor to train ICI personnel were very well received and successful. Once the training began, it became evident that the assistance provided by the contractor could not be limited to training loan officers on ways to develop loans for refinancing under BCB refinancing facilities. More comprehensive training and analysis to improve ICI operations was necessary. Moreover, given project funding constraints, the number of ICIs assisted had to be limited. Therefore, assistance was provided to only six banks in financial management, marketing, and staff development across the full range of banking activities.

C. Work Currently Being Done in the Financial Sector

USAID recently sponsored an assessment of the key problems within the financial sector. Among the most important problems identified by the assessment were:

- a. The urgent need for Bolivia's commercial banks to increase the volume of their lending and cut costs in order to operate profitably and survive the economic adjustment period.
- b. The thinness of technical and managerial talent within the banks and the consequent need for training.

c. The virtual absence of regulation of commercial banks by the GOB, and the related need for a revised banking law (the current law was written in 1925), and the strengthening of the office responsible for bank regulation, whether or not such responsibility remains in the BCB.

d. The need for a major reorganization of the Central Bank, including a decision with respect to the scope of its responsibilities and reassignment of personnel.

e. The need for decision by the GOB as to the financial institution which will be responsible in the future for administering the Government's credit refinancing lines for ICIs.

This assessment provided the initial analysis needed for the development of the planned FY 1987 Strengthening Financial Markets Project. Meanwhile, USAID/Bolivia has begun to cooperate with the World Bank and the Office of the Bolivian Controller General to begin improving GOB fiscal and financial sector operations. This work is designed to put the GOB's financial house in order and to lay the way for longer term assistance by the World Bank and AID for financial sector improvement. Broadly speaking, this initial work can be divided into two areas:

1. improvement of GOB financial administration, which includes accounting systems, budget control, management of external debt, tax and customs administration, project evaluation and GOB contracting, and

2. improvement of banking sector policies and administration, which includes definition of the future role and organization of the BCB, and examination of the future of several state-controlled banks working in specific sectors, regulation of commercial banks and other ICIs, and a decision regarding where to house the GOB's future development banking function.

Work in the second area identified above will be most relevant to future AID assistance in the financial sector.

Efforts to improve ICI performance and to enable the GOB to make and implement urgently needed decisions to improve financial sector operations will be financed under the extension of the A&A Project. This will provide a bridge to the World Bank and AID financial sector improvement projects to begin sometime in 1987. The World Bank's project is likely to include funds for investment refinancing, with disbursements tied to taking policy measures within the financial sector. AID's project will also include investment financing, and provide the technical assistance needed by the GOB to implement its financial sector policy decisions and by private financial institutions to improve their operations. USAID/Bolivia and the World Bank are working closely together to coordinate the development of the two projects.

III. PROJECT DESCRIPTION

A. Project Strategy

The Agribusiness and Artisanry Project's basic objective - establishing a well functioning system for the promotion and financing of agribusiness and artisanry investments which bring real benefits to the poor - remains unchanged. Aside from financial profitability, the key criterion for lending to an agribusiness or artisanry project is its linkage, either backward or forward, to poor farmers and rural laborers. The activities supported by A&A resources to date have assisted Bolivia's poor through the provision of market outlets, the supply of agricultural inputs, and the creation of new sources of employment.

This Amendment will continue to support the Project's basic objective and expand its focus to improving the functioning of Bolivia's financial sector in general by a) financing technical assistance to Bolivian ICIs involved in the financing of agribusiness and artisanry projects, and b) providing funds to improve GOB financial sector policy formation and implementation. In addition, important pilot efforts will be sponsored in savings mobilization - an area in which all Bolivian financial institutions must make significant progress in order to survive, and micro-enterprise lending - an important area in terms of employment creation and for potential new bank lending.

The extension of the A&A Project to provide assistance in these areas is consistent with GOB, AID and other donor objectives. The GOB is very aware of the impediments to the implementation of its economic recovery program presented by the poorly functioning financial sector, and has encouraged both AID's efforts with the Controller General and those to be undertaken under the A&A project extension. AID's principal short-term goal in Bolivia is to support the GOB's economic recovery program. One of the most significant ways in which this will be accomplished is by providing financing for agribusiness investment to stimulate increased agricultural production. Another area of major emphasis in the USAID program is influencing economic policy and institutional reform. The extension of the A&A Project will enable AID to continue efforts in these areas within the financial sector. The Project's extension will also support other donors' interest in a better functioning financial sector, both to support economic recovery and to enable the channelling of more assistance to Bolivia for private sector investment.

B. Goal and Purpose

The goal of the Project is to enhance the role of private agribusiness and artisanry enterprises in the Bolivian economy and thereby increase the income and standard of living of small to medium-scale farmers and other poor Bolivians.

The purpose of the Project is to improve and expand the system for promoting and financing private agribusiness and artisanry enterprises through commercial banks and other financial institutions, thereby strengthening the private sector and helping provide the investment capital required for Bolivia's economic recovery.

C. Project Components

The revised and extended A&A Project will have seven components, three of which are new.

1. Improvement of the ICI operations. Under this component, work began in 1983 to improve the efficiency of both the BCB's and the ICIs' use of BCB refinancing facilities. Under the extension, work will continue to improve ICI operations. Improvement of ICI operations is essential if the ICIs are ever to fulfill their role as mobilizers of resources and lenders to private sector investors. The need for assistance during Bolivia's economic recovery period is vital because many commercial banks must improve their operations now or they will fail. This would cause very serious short-term problems for the GOB and significantly affect the chances for the success of the its recovery program.

Initial efforts to improve ICI operations undertaken by Project contractor (Chemonics) focused on six banks.* Two consultants spent one month in each bank analyzing its operations and making specific recommendations to improve efficiency. The areas examined were portfolio management, the organization and training of staff in development lending departments, marketing, accounting and management information systems, and overall bank management. Specific recommendations were made for each bank, and after work was completed, a manual was prepared for use by all cooperating ICIs covering loan evaluation, bank administration, operating systems and cost control. These manuals are currently in use in four of the six ICIs which received assistance. Short seminars were also held for groups of bankers in marketing, accounting, and bank management.

Work under the Project extension will concentrate on six additional banks. ** The same operational method applied to the original six banks will be used to provide assistance to these banks. In addition, follow-up work will be done with the original six banks, especially those two not yet using the banking manual, to help ensure that they are following the recommendations originally provided. Seminars are also planned for groups of bankers in loan processing procedures and computerization. It is estimated that this work will require about twelve months, during which time the T.A. contractor's team leader will be almost fully occupied in these efforts and be assisted by short-term advisors for approximately twelve person months.

* Banco de Cochabamba, Banco Hipotecario, Banco Boliviano Americano, Banco Nacional, Banco de Santa Cruz, Banco de la Unión.

** Banco de La Paz, Banco del Progreso, Banco de Potosí, BAFINSA, BIPSA y Banco Mercantil.

2. Policy Development and Implementation. This is one of the Project's new components. Short-term technical assistance will be provided to the GOB to help it to make decisions in important financial sector policy areas and to begin to implement those decisions. This component will also finance training and seminars for private sector ICI leaders focussing on the changes they need to make in order to operate effectively in Bolivia's new economic environment. The purpose of the activities aimed toward private financial sector leaders will be to expose them to the opinions of outsiders regarding Bolivia's current financial problems and to enable them to begin devising strategies for overcoming them in the management of the financial institutions for which they are responsible.

Up to eighteen person-months of short-term technical assistance will be made available to the GOB (both from the Project's principal T.A. firm and under PSC arrangements), in specific areas to be agreed upon with the GOB. Depending on the results of the work being done under the aegis of the Bolivian Controller General, assistance will be provided in such areas as bank regulation, revision of Bolivia's banking laws, organization of a new development banking facility and BCB reorganization. Decisions regarding which areas deserve highest priority will be made when the first phase of the Controller General's work is complete (September 1986). Help in BCB reorganization will only be available once the GOB decides on the future role and responsibilities of the BCB and other state banks. The technical assistance to be provided to the GOB in policy formulation and implementation will also help provide the detailed analysis needed to develop the Strengthening Financial Markets Project.

With regard to assistance for the private sector, a three-week trip will be organized, probably to the Dominican Republic, for five influential ICI leaders to expose them to the savings mobilization and rural lending activities of financial institutions there. These are two of the most important areas for improvement of ICI operations in Bolivia. This core group of five will form a working committee after they return through which some of what they have seen will be presented to other financial sector leaders. Three seminars will be organized by this committee to cover issues of interest to the banking community, for which internationally recognized experts will be brought to Bolivia. In addition to savings mobilization, some of the topics which should be covered are: reducing transaction costs, operating in an uncertain economic environment, and measures for increasing the public's confidence in financial institutions.

3. Pilot Savings Mobilization Programs. This is another new project component. Work must start in this area now, when the task of increasing savings deposits in financial institutions is critical to provide the investment capital for economic reactivation. As economic conditions improve, ICIs can then build on their initial efforts to mobilize more and more savings. The mobilization of significant levels of domestic savings will take several years. Thus, a major savings mobilization component will be developed for the Strengthening Financial Markets Project based on initial

experience under the A&A Project extension. Three ICIs will be selected for pilot programs, most likely two of the banks also participating in the ICI improvement program (Component 1) and one credit union or other "non-bank" operating in rural areas. It is likely that officials from these institutions will be among those sent overseas for the familiarization trip described above. The savings mobilization programs for these three institutions will begin with the carrying out of specific market studies for each institution. On the basis of these, promotional campaigns will be designed and implemented with 10 person-months of short-term technical assistance. Efforts under this Project component will be coordinated closely with those of the team which will work to increase savings mobilized by the Bolivian Savings and Loan System.

4. Micro-enterprise Lending. A study was completed in June 1985 concerning the role of private micro-enterprises in the Bolivian economy. This study revealed that, a) these enterprises are an important source of employment for urban populations; b) they provide necessary services for the economy; c) the aggregate value of their work is significant; d) they provide economic opportunity for the poorest segments of the urban population, and e) well-established businesses have developed from them. As a result of the study, USAID is planning to develop a micro-enterprise support project in 1987. The project will directly support the GOB's emphasis on job creation during Bolivia's economic recovery period, and it will introduce private financial institutions to a new and important area for lending in Bolivia's cities.

At this time, small-entrepreneurs are facing problems establishing or expanding their businesses because of trouble borrowing for working capital or investment purposes. While there is considerable demand for their goods and services, they cannot expand given the limited amount of financial resources to which they have access.

AITEC (Acción Internacional Técnica) and the Bolivian Confederation of Private Businessmen have developed a pilot project for La Paz that will facilitate access to credit for micro-enterprises. Under the program, seed money will be put up by the Confederation and the PL 480 Secretariat to establish a small, AITEC-managed lending activity in La Paz. The purpose of the program will be to demonstrate to bankers that a potential market for small loans to relatively poor micro-entrepreneurs can be developed. AITEC has designed methods for such lending programs which have been very successful in other Latin American countries, and it is expected that the pilot effort in La Paz will lead to ICI participation in such lending programs under the aegis of the new AID project to be developed in FY 1987. In order to help begin the pilot effort in La Paz, A&A Project funds will be used to pay for eighteen months of long-term technical assistance under a grant to AITEC. This pilot effort is urgently required to help provide productive employment in Bolivia's capital. Besides serving as a good example of the private sector's concern with the short-term negative effects on the poorer population of the GOB's economic recovery program, the pilot program will introduce private financial institutions to a new, and potentially profitable, area of lending.

5. BCB Technical Assistance Program (PAT). The A&A Project set up the BCB's Technical Assistance Program (PAT) in 1978 to finance promotion of BCB refinancing facilities and assistance to investors in preparing projects for refinancing. The AID contribution to the PAT fund was originally budgeted at \$200,000 to be matched dollar-for-dollar by the Central Bank. Later, in 1983, an additional \$50,000 was budgeted. Of this total, \$150,000 has not been disbursed due to the difficulties in the BCB described previously. Despite repeated prodding from USAID, the BCB has been unable to adopt procedures under which PAT funds could be usefully and expeditiously put to use. Because of this, investors have learned not to try to obtain funds for feasibility studies under the PAT. The \$150,000 not yet disbursed to the PAT is being reprogrammed for other project activities. The reflows from the \$100,000 already disbursed to the PAT, however, plus the BCB's matching contribution, will continue to be available as necessary.

6. A&A Refinancing Facility. The 1983 amendment to A&A project called for an additional ten million dollar contribution (loan) to the A&A refinancing facility for projects identified in the PP Amendment. Only \$3 million of this sum was obligated. Initially, these additional funds were not lent out for new subprojects by the BCB due to its internal problems. About \$2 million still remains to be approved (see Annex 5). By September 1986, all remaining AID contributions to the A&A refinancing facility will have been earmarked for new subprojects. The \$7 million remainder of the additional \$10 million authorized in 1983 will not be obligated. Instead, funds available from future OYBs will be programmed for the Market Town Capital Formation and Strengthening Financial Markets Projects.

7. BCB Mechanization. Under the original Project Agreement, \$150,000 in loan funds was reserved for the purchase of a computer system to help the BCB track refinancing transactions handled by both its central office and its regional offices. The BCB took several years to decide which type of computer system would be most appropriate, by which time the internal difficulties in the Bank made it impossible for USAID to approve the purchase of the computer system. Now, the GOB may decide to take responsibility for the management of its refinancing lines away from the BCB. Therefore, the funds budgeted for a computer purchase will be held in suspension until the Government decides whether the BCB or some other new or existing entity will be responsible for development banking. If a decision is not made by October 1987, the funds will be reprogrammed for the A&A refinancing facility.

8. Project Coordinator. Funds will be reserved under the A&A Project extension to finance a contract for a Project Coordinator. The PSC Long Term Advisor originally hired to assist the BCB has filled this function during the past two years. The position will be extended competitively for 18 months to:

- a) coordinate implementation of the components to be undertaken during project extension;
- b) continue working directly with borrowers to develop subprojects; and
- c) help prepare the Strengthening Financial Markets Project.

D. Project Outputs and Targets

1. Revised Outputs

	<u>Existing</u>	<u>Revised</u>
Improved A&A financing facility	1	1
Functioning PAT	1	1
Strengthened ICIs	6	12
Subprojects Financed (first round)	200 (addit.)	15 (additional larger projects.)
ICI Officers Trained	80	150
Micro-enterprise Lending Program Established	-	1

2. AID Inputs for Remainder of Project

Technical Assistance

Long-Term Advisor (Team Leader) 15 person months

Short-Term Technical Assistance (40 person months)

12 person-months ICI T.A.

18 person-months policy development and implementation

10 person-months pilot savings mobilization projects

Training

3 seminars and one overseas trip for 5 participants (3 weeks)

Savings Mobilization Support Costs

3 market studies

3 promotion campaigns

Micro-enterprise Lending Program (AITEC Grant) - \$150,000 for 18 person months

Project Coordinator (18 person months)

Evaluation and Audits

IV. REVISED COST ESTIMATE AND FINANCIAL PLAN

Four tables are presented below which show a) the Project's revised LOP cost estimate, b) the revised AID grant budget (since it is the grant portion of the AID contribution which is being augmented and revised), c) a disbursement schedule for the remainder of the Project, and d) AID financing methods.

AID's total contribution to the Project is \$11,350,000 (\$9.2 million loan and \$2.15 million grant). To date, AID has disbursed approximately \$6,922,000 as follows: a) \$6 million (loan) for the A&A refinancing facility; b) \$50,000 (loan) for initial Project technical assistance; c) \$772,000 (grant) for a long-term advisor to the BCB, technical assistance to ICIs, and short-term TA for the BCB, and d) \$100,000 (grant) for the PAT. During the remainder of the Project, \$3,150,000 in loan funds and \$1,278,000 in grant funds will be disbursed as follows: a) \$3 million (loan) for the A&A refinancing facility; b) \$150,000 (loan) for computerization of the BCB refinancing lines (tentative); c) \$375,000 (grant) for continued technical assistance (27 p.m.) for ICIs; d) \$348,000 (grant) for 18 p.m. TA to the GOB for policy development and analysis, travel for a group of five bankers to the Dominican Republic, and three seminars for private sector financial sector leaders; e) \$193,000 (grant) for pilot saving mobilization efforts by three ICIs; f) \$150,000 for an OPG to AITEC for the pilot micro-enterprise lending program; and g) \$212,000 (grant) for a Project Coordinator, Project Evaluation, Project audits and contingencies.

The revised host country contribution to the Project totals \$9,720,000, of which only \$1,560,000 remains to be disbursed. Private sector and GOB contributions to subproject financing total \$9,300,000, of which \$6,300,000 is investor equity and \$3 million is the GOB contribution to the A&A refinancing facility. Only \$1.3 million in investor equity remains to be disbursed. The remainder of the host country contribution (\$420,000) includes commercial bank expenditures in connection with TA provided to them (\$120,000 - of which \$60,000 remains to be disbursed), the BCB's \$100,000 contribution to the PAT, \$60,000 to be disbursed by the three ICIs to participate in the pilot Savings Mobilization Program, and \$140,000 for the pilot Micro-Enterprise Development Program (\$100,000 from the GOB PL 480, Title III Program for credit financing and \$40,000 contributed by the Bolivian Confederation of Private Businessmen).

A. LOP COST ESTIMATE
(\$000)

	<u>AID GRANT</u>		<u>AID LOAN</u>		<u>HOST COUNTRY</u>		<u>T O T A L</u>	
	<u>(FX)</u>	<u>(LC)</u>	<u>(FX)</u>	<u>(LC)</u>	<u>GOB</u>	<u>PRIV. SECTOR</u>	<u>(FX)</u>	<u>(LC)</u>
Refinancing Facility I *	-	-	-	6,000	3,000	5,000	-	14,000
Refinancing Facility II	-	-	3,000	-	-	1,300	3,000	1,300
Technical Assistance to ICIs	1,147	-	50	-	-	120	1,197	120
P A T	-	100	-	-	100	-	-	200
Policy Development and Implementation	348	-	-	-	-	-	348	-
Savings Mobilization	193	-	-	-	-	60	193	60
Micro-enterprise Program	150	-	-	-	100	40	150	140
Project Coordinator	115	-	-	-	-	-	115	-
BCB Mechanization	-	-	150	-	-	-	150	-
Evaluations/Audits	55	-	-	-	-	-	55	-
Contingencies	42	-	-	-	-	-	42	-
T O T A L S	2,050	100	3,200	6,000	3,200	6,520	5,250	15,820

* First round (I) disbursed by AID and BCB to refinancing line. Private sector contribution assumes average equity financing of 30% of investment and ICI financing of 20% of each subloan. Second round (II) disbursed by AID under direct L/COMs, with no GOB matching funds or ICI participation in subloan financing required. Average 30% equity financing also assumed.

B. REVISED A & A PROJECT GRANT BUDGET
(\$000s)

<u>COMPONENT</u>	<u>Current</u> <u>Budget</u> (1)	<u>Approx.</u> <u>Accrued</u> <u>Expenditures</u> (2) June 30, 1986	<u>Additional</u> <u>Expenditures</u> <u>to Jan. 1988</u> (3)	<u>New</u> <u>Total</u> (4) (2+3)
A. <u>TA for ICIs</u>	<u>950</u>	<u>772</u>	<u>375</u>	<u>1,147</u>
LT (+15 pm)	430	252	215	467
ST (+12 pm)	520	520	160	680
B. <u>PAT</u>	<u>250</u>	<u>100</u>	<u>--</u>	<u>100</u>
C. <u>Policy Development & Implemen.</u>	<u>--</u>	<u>--</u>	<u>348</u>	<u>348</u>
Seminars (3)	--	--	98	98
1 Training Trip for 5	--	--	10	10
ST TA/Studies (18 pm)	--	--	240	240
D. <u>Savings Mobilization Pilot</u>				
<u>Program (3)</u>	<u>--</u>	<u>--</u>	<u>193</u>	<u>193</u>
Market Studies	--	--	45	45
Promotion Campaign	--	--	15	15
ST TA (10 pm)	--	--	133	133
E. <u>Micro-Enterprise Lending</u>	<u>--</u>	<u>--</u>	<u>150</u>	<u>150</u>
<u>Program</u>				
(18 pm TA AITEC)				
F. <u>Project Coordinator</u>	<u>--</u>	<u>--</u>	<u>115</u>	<u>115</u>
(18 months)				
G. <u>Evaluation and Audits</u>	<u>--</u>	<u>--</u>	<u>55</u>	<u>55</u>
H. <u>Contingencies</u>	<u>--</u>	<u>--</u>	<u>42</u>	<u>42</u>
T O T A L S	<u>1,200</u>	<u>872</u>	<u>1,278</u>	<u>2,150</u>

C. DISBURSEMENT SCHEDULE
(For remainder of project)
(\$000s)

	<u>Remainder</u> <u>1986</u>	<u>1st</u> <u>Half</u> <u>1987</u>	<u>Last</u> <u>Half</u> <u>1987</u>	<u>TOTAL</u>
<u>AID Loan</u>				
- Refinancing facility	500	1,500	1,000	3,000
- Mechanization	--	150	--	150
	<u>500</u>	<u>1,650</u>	<u>1,000</u>	<u>3,150</u>
<u>AID Grant</u>				
- TA to ICIs	--	190	185	375
- Policy Development & Implementation	150	150	48	348
- Savings Mobilization	--	150	43	193
- Micro-enterprise Development	50	50	50	150
- Project Coordination	25	45	45	115
- Evaluation/Audits	10	--	45	55
- Contingencies	12	15	15	42
	<u>247</u>	<u>600</u>	<u>431</u>	<u>1,278</u>
<u>GOB</u>				
- Micro-enterprise Development	--	50	50	100
<u>Private Sector</u>				
- Investments	700	600	--	1,300
- T.A. to ICIs	--	30	30	60
- Savings Mobilization	--	30	30	60
- Micro-enterprise Developm	20	20	--	40
	<u>720</u>	<u>680</u>	<u>60</u>	<u>1,460</u>
<u>GRAND TOTALS</u>	<u>1,467</u>	<u>2,930</u>	<u>1,491</u>	<u>5,888</u>
	=====	=====	=====	=====

D. Financing Methods
(Remainder of Project)
(\$000s)

<u>COMPONENT</u>	<u>METHOD OF IMPLEMENTATION</u>	<u>METHOD OF FINANCING</u>	<u>APPROX. AMOUNT (AID) (\$000)</u>
Refinancing Facility	Direct L/COMs	Direct Payment	3,000
BCB Mechanization	Host Country Contract	Direct Payment	150
TA tor ICIs	Direct AID Institutional* Contract	Direct Payment	375
Policy Development and Implementation	Direct AID Contracts Institutional * and PSCs)	Direct Payment	348
Savings Mobilization Pilot Programs	Direct AID Institutional * Contract	Direct Payment	193
Micro-Enterprise Lending Program	AID OPG	Fed. Reserve L/C or Direct Payment	150
Project Coordinator	Direct AID Contract (PSC)	Direct Payment	115
Evaluations/Audits	Direct AID Contracts	Direct Payment	55
Contingencies			42

TOTAL			4,428
			=====

* One contract.

V. REVISED IMPLEMENTATION AND EVALUATION PLAN

A. Responsibilities

The BCB will be responsible for approving subprojects for financing with the remaining AID contribution to the A&A refinancing facility, and it will continue approving financing for subprojects presented to it for peso financing from reflows to the A&A refinancing facility. The BCB will also continue to be responsible for the Technical Assistance Program (PAT) Fund.

The Ministry of Finance (MOF) will be responsible for coordinating, with USAID/Bolivia, a) the work of the main technical assistance contractor and b) GOB policy development and implementation activities.

The main project contractor will be responsible for the implementation of activities under the following components: improvement of ICI operations, policy development and implementation (except for work by other contractors hired directly by AID at the request of the GOB), and pilot savings mobilization. AITEC will be responsible for the micro-enterprise lending component.

AID will be actively involved in the supervision of the Project's prime institutional contractor, will monitor AITEC activities closely, AID will coordinate the selection of areas to be investigated and specialists for the policy development and implementation component with the MOF. AID will also issue Letters of Commitment to overseas supplies to effect payment under the dollar portion of refinanced projects.

B. USAID Monitoring

The Project Coordinator will be responsible for day-to-day implementation coordination with the T.A. contractor's long-term chief of party, the MOF representative, and the BCB. The Coordinator will report directly to a USAID/Bolivia direct-hire project manager. As with other USAID/B projects, a project committee composed of personnel from the Mission's staff offices will assist the Project Manager and Project Coordinator.

C. Evaluation Plan

The next evaluation of the project will take place during the preparation of the Strengthening Financial Sector Project at the end of 1986. That evaluation will focus on the use of the A&A refinancing facility, both to examine the type and impact of the subprojects financed and how efficiently the refinancing facility has worked.

The final evaluation of the A&A Project will take place in November 1987 and examine the socio-economic impact of a cross-section of subprojects financed since the program began.

D. SCHEDULE OF ACTIVITIES

Event	1986				1987				1988									
	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
Amendment Approved by AID/B	•																	
Signature of Amendment	•																	
Preparation of PIO/T and RFP	•																	
Advertise for TA in CBD	•																	
LT TA for Micro-enterprise Component	•	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Project Coordinator	•	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Last Project Loans Approved for Refinancing		•																
Receive and Review TA Contract Proposals		•																
Selection of TA Contractor		•																
LT TA Coordinator		•																
Second Project Evaluation			•	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
TA to Assist in Policy Dev. & Impl. (18 p.m.)		•																
ST TA Improvement of financial Institutions Operations (12 p.m.)					•	—	—	—	—	—	—	—	—	—	—	—	—	—
Savings mobilization Pilot Programs							•	—	—	—	—	—	—	—	—	—	—	—
Policy Dev. & Implementation Training Trip							•	—	—	—	—	—	—	—	—	—	—	—
Policy Dev. & Implementation Seminars								•			•			•				
Final Evaluation													•	—	—	—	—	—
Audit																	•	

AID 1020-78 (7-71)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

(INSTRUCTION: THIS IS AN OPTIONAL FORM WHICH CAN BE USED AS AN AID TO ORGANIZING DATA FOR THE PAR REPORT. IT NEED NOT BE RETAINED OR SUBMITTED.)

Life of Project: From FY 77 to FY 83
Total U.S. Funding 11,350,000
Date Prepared: 7/86

Project Title & Number: Agribusiness and Artisanry Amendment - Project Number 511-0472

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program or Sector Goal: The broader objective to which this project contributes:</p> <p>To enhance the role of private agribusiness and artisanry enterprises in the Bolivian economy, and thereby increase the income and standard of living of small to medium-scale farmers and other poor Bolivians.</p>	<p>Measures of Goal Achievement:</p> <ol style="list-style-type: none"> 1. Increased farm family income among subborrowers and farmers benefitted by agribusinesses. 2. Increased economic activity in rural areas. 3. Increased number of jobs for rural poor. 4. Increased economic activity by urban artisans. 	<p>Project evaluations and GOB statistics.</p>	<p>Assumptions for achieving goal targets:</p> <ol style="list-style-type: none"> 1. Current favorable trends of overall Bolivian economic development, particularly in the agricultural sector, continue. 2. No severe or prolonged adverse weather or other environmental conditions occur which affect small farmer crops/livestock. 3. Cooperation of the public and private institutions of the financial sector to implement project components.

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PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

ANNEX 1
Life of Project: Page 2 of 4
From FY 77 to FY 83
Total U.S. Funding 11,350,000
Date Prepared: 7/86

Project Title & Number: Agribusiness and Artisanry Amendment - Project Number 511-0472

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Project Purpose:</p> <p>1. Improve and expand the system for promoting and financing private agribusiness and artisanry enterprises through commercial banks and other financial institutions, thereby strengthening the private sector and helping provide the investment capital required for Bolivia's economic recovery.</p>	<p>Conditions that will indicate purpose has been achieved: End of project status.</p> <ol style="list-style-type: none"> 1. A viable refinancing fund for agribusiness and artisanry activities in operation. 2. Bolivian financial institutions expand their lending activities to include agribusiness which benefit small farmers and artisanry subprojects. 3. Increased savings mobilization. 4. Increased role of micro-enterprises in the urban economy. 	<p>Project records and evaluations.</p>	<p>Assumptions for achieving purpose:</p> <ol style="list-style-type: none"> 1. Investment incentives and assistance are sufficient to stimulate entrepreneurial actions in agribusiness and artisanry subprojects. 2. Current and projected growth of the Bolivian economy, particularly in rural areas, continues without major interruptions. 3. Cooperation of the GOB, BCB and ICIs in implementing the new programs and in following the recommendations of the technical assistance.

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project: From FY 77 to FY 83
Total U.S. Funding 11,350,000
Date Prepared: 7/86

Project Title & Number: Agribusiness and Artisanry Amendment - Project Number 511-0472

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Outputs:	Magnitude of Outputs:		Assumptions for achieving outputs:
1. Subprojects refinanced.	1. 15 (additional) by PACD.	. Project records and reports.	. ICIs respond to project incentives to increase rural lending.
2. A & A Refinancing facility established.	2. 1	. Evaluation of BCB and ICIs technical capacity.	. Effective demand for loans for subprojects remains high.
3. Increased technical capacity in financial institutions.	3. 12		. Continued growth of micro-enterprises' role in the Bolivian economy.
4. ICI officers trained.	4. 150		. Growth of public confidence in Bolivia's financial sector.
5. Functioning PAT.	5. 1		
6. Micro-enterprise lending program established.	6. 1		
7. Increased savings mobilization by 3 ICIs.	7. -		

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 77 to FY 83
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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Inputs:	Implementation Target (Type and Quantity)		Assumptions for providing inputs:
1. <u>A.I.D.</u>	(\$000)		
a) Loan funds		GOB. and USAID project records and reports.	AID and Bolivian inputs will be forthcoming on a timely basis.
i) Refinancing	9,000		
ii) BCB mechanization	150		
iii) Short-term technical assistance	50		
b) Grant funds			
i) Technical assistance	1,147		
ii) PAT	100		
iii) Policy	348		
iv) Savings mobilization	193		
v) Micro-enterprises	150		
iv) Coord., E/A, cont.	212		
2. Host Country	9,720		

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ANNEX C
STATUTORY CHECKLISTS

I. PROJECT CHECKLIST

A. General Criteria for Project

1. FY 1986 Continuing Resolution, Sec. 524 FAA Sec. 634A; Sec.653(b).
(a) Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project?
Committees notified using congressional notification procedures.
2. FAA Sec.611(a)(1). Prior to obligation in excess of \$100,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?
Yes.
3. FAA Sec. 611(a) (2). If further legislative action is required within recipient country, what is basis for reasonable expectations that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?
No.
4. FAA Sec. 611(b); FY 1986 Continuing Resolution, Sec. 501. If for water or water-related land resource construction, has project met the principles standards and procedures established pursuant to the Resources Planning Act (42 U.S.C. 1962, et. seq)? (See AID Handbook 3 for new guidelines).
N/A
5. FAA Sec. 611(e). If project is capital assistance (e.g. construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistance Administrator taken into consideration the country's capability effectively to maintain and utilize the project?
N/A

6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.
- No. Initiated project in response to GOB request for U.S. assistance only.
- No.
7. FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.
- The provision of credit to agribusiness and artisanry enterprises, and the strengthening of the financial system for providing credit, will have positive effect on a-e.
8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).
- Project will have limited effect in this area except for use of U.S. service contractor.
9. FAA Sec. 612(b), 636(h); FY 1982 Appropriation Act, Sec.507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.
- Counterpart contribution total 46% of total project cost.
10. FAA Sec.612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?
- No.

11. FAA Sec.601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Yes
12. FY 1986 Continuing Resolution, Sec.522. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? N/A
13. FAA 118(c) and (d). Does the project comply with the environmental procedures set forth in AID Regulation 16 Does the project or program take into consideration the problem of the destruction of tropical forests? Yes. I.E.E. has been approved by AID/W. N/A.
14. FAA 121 (d). If a Sahel project, has determination been made that the host government has an adequate system for accounting for and controlling receipts and expenditures of project funds (dollars or local currency generated therefrom)? N/A
15. FY 1986 Continuing Resolution Sec.533. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution? No.
16. ISDCA of 1985 Sec. 310. For development assistance projects, how much of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, and private and None

voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

B. Funding Criteria for Project

1. Development Assistance Project Criteria

a. FAA Sec.102(b), 11, 113, 281(a).

Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

(a) Subproject must have beneficial linkages to the poor to be eligible for refinancing.

(b) Cooperatives could be assisted financially, using the criteria noted above.

(c) Project support for private banks and private enterprises will improve self-help position.

(d) Not specifically, but opportunities to do so will be taken advantage of.

(e) N/A

b. FAA Sec.103, 103A, 104, 105, 106.

Does the project fit the criteria for the type of funds (functional account) being used?

Yes

- c. FAA Sec.107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? Technology appropriate to enhance profitability will be employed.
- d. FAA Sec.110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)? Yes.
- e. FAA Sec.122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth? Yes
- f. FAA Sec. 126(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority? Yes
- g. FAA Sec.281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development, and supports civil education and training in skills required for effective participation in governmental processes essential to self-government. Strengthening of the financial sector and promotion of private investment opportunities will utilize and enhance local human resources.

2. Development Assistance Project Criteria
(Loans Only)
- a. FAA Sec.122 (b). Information and conclusions on capacity of the country to repay the loan, at a reasonable rate of interest. AID's softest terms. ICI project.
 - b. FAA Sec.620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan? N/A
3. Economic Support Fund Project Criteria
- a. FAA Sec.531(a). Will this assistance promote economic or political stability? To the extent possible, does it reflect the policy directions of FAA Section 102? N/A
 - b. FAA Sec.531(c). Will assistance under this Chapter be used for military, or paramilitary activities? N/A
 - c. ISLCA of 1985 Sec. 207. Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such country is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons in Latin America (the "Treaty of Tlatelolco"), cooperates fully with the IAEA, and pursues nonproliferation policies consistent with those of the United States? N/A

- d. FAA Sec.609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made N/A

III. Standard Item Checklist

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small businesses to participate equitably in the furnishing of commodities and services financed? Yes.
2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him? Yes. U.S., Bolivia and AID Geographic Code 941
3. FAA Sec. 604 (d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? Bolivia does not so discriminate.
4. FAA Sec. 604 (e); ISDCA of 1980 Sec. 705 (a). If offshore procurement of agricultural commodity or product is to be financed, is there a provision against such procurement, when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) N/A.
5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of countries which receive direct economic assistance under the FAA and which are otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one of these areas? Do these countries permit United States firms to compete for construction or engineering services financed from assistance programs of these countries? No.

6. FAA Sec. 603. Is the shipping excluded from compliance with requirement in Section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates. No.
7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other Federal Agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? Yes.
N/A
8. International Air Transport. Fair Competitive Practices. Act. 1974. If air transportation of persons or property is financed on grant basis will U.S. carriers be used to the extent such service is available? Yes
9. FY 1986 Continuing Resolution Sec.504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? Yes.

B. Construction

1. FAA Sec. 601(d). If capital (e.g. construction) project, will U.S. engineering and professional services be used? N/A.
2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? N/A.
3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the CP)? N/A.

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? Yes.
2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A.
3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of Communist-bloc countries? Yes.

4. Will arrangements preclude use of financing?
- a. FAA Sec. 104(f); FY 1986 Continuing Resolution Sec.526; (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions, (2) to pay for involuntary sterilization as method of family planning, or coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or in part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning, (4) to lobby for abortion? Yes.
 - b. FAA Sec.488. To reimburse persons, in the form of cash payments, whose illicit drug crops are eradicated? Yes.
 - c. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? Yes.
 - d. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes.
 - e. FAA Sec. 662. For CIA activities? Yes.
 - f. FAA Sec. 636(i). For purchases, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes.
 - g. FY 1986 Continuing Resolution, Sec.503. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel? Yes.

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- h. FY 1986 Continuing Resolution, Sec.505
To pay U.S. assessments, arrearages
or dues? Yes.
- i. FY 1986 Continuing Resolution, Sec. 506
To carry out provisions of FAA Sec-
tion 209(d) (Transfer of FAA funds
to multilateral organizations for
lending? Yes.
- j. FY 1986 Continuing Resolution, Sec.510.
To finance the export of nuclear
equipment, fuel, or technology? Yes
- k. FY 1986 Continuing Resolution, Sec.511.
For the purpose of aiding the efforts
of the government of such country to
repress the legitimate rights of the
population of such country contrary
to the United States Declaration of
Human Rights? Yes.
- l. FY 1986 Continuing Resolution, Sec. 516.
To be used for publicity or propa-
ganda purposes within U.S. not
authorized by Congress? Yes.

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MINISTERIO DE FINANZAS
BOLIVIA



La Paz, 15 de Julio de 1986

Señor
David A. Cohen
Director USAID/BOLIVIA
Presente

PD+I	
DIR	
DIR	✓
ED	
EXO	
OP	✓
PLN	✓
CONF	✓
PRD	✓
HMR	
Reply due	7/25
Action fkn	

De nuestra consideración:

El Gobierno de Bolivia, dentro de sus planes económicos, está abocado a lograr la reactivación del sector productivo. Como un componente importante para alcanzar este objetivo, considera prioritaria la intermediación eficiente de los canales financieros para distribuir los recursos externos a los sectores productivos.

Con el propósito de obtener una mejora en la utilización de los fondos y en las operaciones de las entidades financieras, creemos que es imprescindible una asistencia técnica inmediata en los siguientes cámpos:

- a) Mejoramiento de las operaciones de las Instituciones Crediticias Intermediarias, (ICISs) en los campos de administración de cartera, la organización y entrenamiento del personal de los departamentos de desarrollo, mercados, sistemas de contabilidad é información y, en general, administración bancaria.
- b) Revisión de las políticas de desarrollo e implementación abarcando los reglamentos bancarios, Ley General de Bancos, la organización de nuevas facilidades bancarias de desarrollo y la reorganización del Banco Central.
- c) Programa piloto de movilización de ahorros que podría incluir a las (ICISs) representativas en las actividades de bancos, cooperativas de ahorro y crédito u otra entidad no bancaria que opere en el área rural.
- d) Sistemas de préstamo a microempresas, las cuales representan una fuente importante de generación de mano de obra. Este canal financiero proveerá una oportunidad a los sectores más pobres de la población urbana para establecer mejores negocios.



MINISTERIO DE FINANZAS
BOLIVIA

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Las actividades descritas conformarán una asistencia adicional a la establecida en la Donación AID Nº 511-0472. Por consiguiente, solicitamos la ampliación del componente Donación del Programa Agroempresas y Artesanía en US\$ - 950.000.- para poder llevar a cabo la asistencia técnica adicional que nos ocupa, lo cual implicaría también una extensión de la Fecha de Terminación de Asistencia del Proyecto por 16 meses.

En espera de una buena acogida a la presente solicitud, me es grato saludar a usted atentamente.

Juan L. Cariaga
MINISTRO DE FINANZAS

GRAY AMENDMENT CONSIDERATIONS

The technical assistance contract funded under the project extension will be openly competed. In order to identify minority-owned firms with the capability to compete for the contract, a copy of the PIO/T prepared for the Contracts Officer will be sent to the Office of Small and Disadvantaged Business Utilization to enable that office to undertake a search of minority-owned firms which might be interested in submitting a response to the RFTP.

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AGRIBUSINESS AND ARTISANRY SUBPROJECTS

A. Representative Subprojects Already Approved

	<u>BORROWER</u>	<u>INDUSTRY</u>	<u>USE</u>	<u>DEPARTAMENTAL</u>		<u>AMOUNT</u>	<u>IMPACT</u>
				<u>LOCATION</u>	<u>DATE</u>		
1.	Carlos Smmerchien	Rubber	Civil Works & equipment	Pando	7-81	\$ 16,000	Created 25 jobs. All Production exported.
2.	Cooperativa Pacajes	Coffee	Cofee Grinder	La Paz	6-83	\$ 1,177	Provides market for coffee producers in one of Bolivia's poorest regions.
3.	Ferreteria de Alambres CINDEN	Metalworks	Machinery	La Paz	1-81	\$ 24,000	Producers barbed wire, an input that would otherwise have to be imported by cattlemen.
4.	Ferrari Ghezzy	Balanced Feed	Working Capital for Corn purchases	Oruro	10-80	\$160,000	Created 14 jobs. Provided assured market region's corn producers and manufactured balanced feed for local cattle.
5.	Cervecería Boliviana Nacional (CBN)	Brewery	Working Cap. for barley purchases	La Paz	7-84	\$ 44,000	Created 45 jobs. Provided market for local barley growers. Due to greatly increased demand, CBN also provided TA and in-kind loans to farmers to increase their barley production.
6.	Compañía Oleaginosa	Edible oils	Civil works & working Cap. for soybean purchases	Cochabamba	8-79	\$ 20,000	Created 18 jobs. Provides guaranteed market for some soybean producers. Also manufactures a by-product (soy cake) for cattle feed.
7.	KHOYA Artesanías	Knitwear	Knitwear machines	La Paz	2-83	\$ 1,385	Created 16 jobs. All knitwear exported.

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B. Subprojects Yet to be Approved for AID Financing*

1.	SAFIRE	\$12,309	Knitwear/Knitting Machines
2.	Chirinos	30,000	Artisanry/Sleeping bags, jackets
3.	Pacajes Cooperative	69,654	Coffee/Machinery
4.	CELCCAR	289,975	Coffee/Machinery
5.	Carlos Huanca	4,084	Metal/Works/Machinery
6.	Oscar Quiroga	200,000	Altiplano meat/Working capital for marketing
7.	Cervecería Boliviana Nacional	834,361	Brewery/Malting factory
8.	Alto Beni Cooperative	107,000	Rice mill
9.	Dillman	175,000	Food Canning/Spare Parts
10.	Del Vaile	200,000	Food Canning/Spare Parts
11.	Vargas e Hijos	60,000	Cacao/Machines
		<u>\$1,982,383 **</u>	

* Projects 1 - 7 in process of BCB approval. Projects 8 - 11 to be approved by ICIs and submitted to BCB for approval by 9/86

** The difference between this amount and the approximately \$3 million left to disburse is accounted for by AID direct L/Coms under which payments have not yet been made.