PD-AAX-003

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

BOLIVIA

PROJECT PAPER

MICRO AND SMALL ENTERPRISE DEVELOPMENT

AID/LAC/P-452

Project Number: 511-0596

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Amendment Number: ______

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: B O L I V I A

3. PROJECT NUMBER: 511-0596

4. BUREAU/OFFICE: L A C — 05

5. PROJECT TITLE *(maximum 40 characters)*: Micro and Small Enterprise Development

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 12, DD 31, YY 93

7. ESTIMATED DATE OF OBLIGATION *(Under 'B.' below, enter 1, 2, 3, or 4)*

A. Initial FY 88 — B. Quarter ☐ — C. Final FY 93

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY 88			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(2,040)	( )	(2,040)	(10,000)	( )	(10,000)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country					1,850	1,850
Other Donor(s)					2,270	2,270
TOTALS	2,040		2,040	10,000	4,120	14,120

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. PRIMARY TECH. CODE 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. OBLIGATIONS TO DATE 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. AMOUNT APPROVED THIS ACTION 2. Loan	F. LIFE OF PROJECT 1. Grant	F. LIFE OF PROJECT 2. Loan
(1) ARDN	840	840				3,000		3,000	
(2) SDA	840	840				7,000		7,000	
(3)									
(4)									
TOTALS						10,000		10,000	

10. SECONDARY TECHNICAL CODES *(maximum 6 codes of 3 positions each)*: 690 | 810 | 930

11. SECONDARY PURPOSE CODE: 810

12. SPECIAL CONCERNS CODES *(maximum 7 codes of 4 positions each)*

A. Code	BUW						
B. Amount							

13. PROJECT PURPOSE *(maximum 480 characters)*

To stimulate the long-term, stable growth and development of Bolivia's small-scale enterprise sector.

14. SCHEDULED EVALUATIONS

Interim: MM 12, YY 90 — MM , YY — Final: MM 12, YY 93

15. SOURCE/ORIGIN OF GOODS AND SERVICES

☒ 000 ☐ 941 ☒ Local ☐ Other *(Specify)*

16. AMENDMENTS/NATURE OF CHANGE PROPOSED *(This is page 1 of a ____ page PP Amendment.)*

The USAID Controller has reviewed the fin[illegible]al procedures described herein and hereby indicates his concurrence.

for John R. Davison
Controller

17. APPROVED BY

Signature: H. Robert Kramer for

Title: G. Reginald van Raalte, Mission Director

Date Signed: MM DD YY

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

AID 1330-4 (8-79)

PROJECT AUTHORIZATION

Name of Country: Bolivia

Name of Project: Micro & Small Enterprise Development

Number of Project: 511-0596

1. Pursuant to Part II, Chapter I, Sections 103 and 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Micro & Small Enterprise Development Project for Bolivia, involving planned obligations of not to exceed Three Million United States Dollars (US$3,000,000) in grant funds from the Section 103 account and Seven Million United States Dollars (US$7,000,000) in grant funds from the Section 106 account (the "Grant") over a five-year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D./OYB allotment process, to help in financing foreign exchange and local currency costs for the Project. The planned life of project is five years and five months from the date of initial obligation.

2. The Project will stimulate the long-term growth and development of Bolivia's small-scale enterprise sector by improving the support services, including technical assistance, training, and credit, provided to the sector by selected Bolivian national and private sector organizations such as PRODEM, FENACRE, and FEBOPI. In addition to strengthening these institutions and making funds available to them to provide credit to micro and small enterprises, the Project will promote research concerning small-scale enterprise sector issues, impediments to sector growth, and training needs.

3. The Project Agreement, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate:

a. Source and Origin of Goods and Services

Commodities financed by A.I.D. under the Grant shall have their source and origin in Bolivia or the United States, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have Bolivia or the United States as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Grant shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States. Motor vehicles financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, have their origin in the United States.

b

b. <u>Conditions Precedent</u>

Prior to the first disbursement under the Grant or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

(i) a legal opinion of the Attorney General of Bolivia, or other counsel acceptable to A.I.D., stating that this Agreement has been duly authorized, or ratified by, and executed on behalf of the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms; and

(ii) a statement of the name(s) of the person(s) holding or acting in the office of the Grantee specified in Section 8.2 of the Agreement and of any additional representatives, together with a specimen signature of each person specified in such statement.

Date: 8/19/88

H Robert Kramer for
G. Reginald van Raaltee
Director
USAID/Bolivia

PD&I:AMDíaz

CLEARANCES:
CONT:JDavison 8-18-88
DP:AAFunicello (in draft) 8/18/88
PD&I:ELKadunc (in subs.)
EXO:JJLiehner (in draft) 8/16/88
DD:HRKramer
RLA:ADNewton (in draft) 8/10
ECON:CJoel
PS:RMoyers 8/15/88

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C.

TABLE OF CONTENTS

d

ANNEXES

ACRONYMS AND DESCRIPTIONS OF ORGANIZATIONS

ADEPI — Asociación Departamental de Pequeñas Industrias. Department-level associations of owners of small businesses affiliated with FEBOPI.

ASPIPAC — Asociación de Pequeños Industriales y Pequeños Artesanos de Cochabamba. The department-level ADEPI in Cochabamba.

CACEN — Caja Central de Ahorro y Préstamo para la Vivienda. The central organization for savings and loan associations (mutuales) in Bolivia.

CEDLA — Centro de Desarrollo Laboral y Agropecuario. A Bolivian research organization which is working with the International Labor Organization on a program to provide technical assistance and credit to small enterprises in La Paz.

CEPB — Confederación de Empresarios Privados de Bolivia. The national confederation of private businessmen. Members of this organization sit on the boards of both IDEA and PRODEM.

CNI — Cámara Nacional de Industrias. National organization of industrial companies. Departmental Camaras are members.

CRS — Catholic Relief Services. The international relief and development organization of the United States Catholic Conference.

DDC — Departmental Development Corporations. The "Corporations" project of USAID/Bolivia that established development corporations and Unidades Crediticias Financieras (UCFs) in each department.

FEBOPI — Federación Boliviana de Pequeñas Industrias. A national level federation of small businessmen. Departmental ADEPIs are affiliated with this organization.

FENACRE — Fedración Nacional de Cooperativas de Ahorro y Crédito. The national system of private sector credit unions in Bolivia.

FIE — Fomento de Iniciativas Económicas. Bolivian private voluntary organization that provides credit and training to cooperatively owned and operated micro and small enterprises.

FUNDACION CARVAJAL — The Carvajal Foundation of CALI, Colombia, operates credit and training programs for micro and small enterprises. The Carvajal model requires enterprises to complete a training program before they can qualify to receive credit.

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IBEE	Instituto Boliviano de Estudios Empresarios. A business training center associated with the Catholic University of La Paz.
IDEA	Instituto para el Desarrollo de Empresarios y Administradores. A national training organization for business people and managers, supported by the CEPB and USAID.
INBOPIA	Instituto boliviano de Pequeñas Industrias y Artesanos. A dependency of the government Ministry of Industry, Commerce, and Tourism.
INASET	Instituto Nacional de Asistencia Social, Económica y Técnica. A training institution established by and affiliated with FEBOPI.
MICT	Ministerio de Industria, Comercio y Turismo. Government ministry responsible for industry, commerce, and tourism.
PRODEM	Fundación para la Promoción y Desarrollo de la Microempresa. A La Paz-based private voluntary organization that provides credit and limited training to micro-enterprises.
SFM	Strengthening Financial Markets. A separate project in USAID/Bolivia that will be providing assistance to ASOBAN and other private sector institutions.
UCF	Unidades Crediticias Financiera. A dependency of the departmental development corporations responsible for promoting development projects.
UCP	Unidad de Coordinación de Proyectos. Government agency reporting to the Ministry of Planning. It was established to manage USAID/Bolivia projects in agricultural organizations and market town capital formation.
UDAPE	Unidad de Anpalisis de Políticas Económicas. A government center for the analysis of economic policy that is currently conducting a USAID/Bolivia-funded study of small enterprise policies.
AMEP	Asociación de Mujeres Empresarias y Profesionales. A private association dedicated to increasing the participation of women in the business activities of Bolivia.

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I. SUMMARY

A. Background

The Micro and Small Enterprise Development Project Identification Document was reviewed by the DAEC and approved for final design on January 22, 1988. The Project Paper reflects the DAEC suggestions. A full discussion of the relevant DAEC guidance topics is contained in the Project Description, Implementation and Summary Analyses Sections - Parts IV, V, and VIII respectively of this Project Paper. The guidance and the Mission response are also summarized in Annex C.

B. Summary Strategy

Several related economic conditions in Bolivia underlie the Project:

-- Bolivia's current unemployment rate is at least 25% and another 25% is considered to be underemployed. A significant portion of this unemployment and underemployment is in urban areas.

-- The unemployment has been exacerbated by a drop in international mineral prices. This has led to the closing of a number of Bolivian mines and the migration of unemployed miners to urban areas.

-- Bolivia's formal financial institutions are in a state of transition. After several years of severe retrenchment during a period of hyperinflation, the majority of Bolivia's commercial banks have very limited lending activities and are attracting only limited savings from the general public. The banking system is currently undergoing consolidation and the government is instituting a new regulatory system where none previously existed. However, the formal system traditionally has failed to serve micro and small entrepreneurs and is not expected to change in a significant way during the life of this Project.

Studies in various developing countries indicate that micro and small enterprises generate a relatively large number of jobs with relatively little capital. While such enterprises could help alleviate some of Bolivia's unemployment, the growth of micro and small enterprises is hindered by: a lack of appropriate business training, limited access to formal sources of credit, an inability to establish ongoing relationships with formal financial institutions, and government regulations which discourage the establishment and growth of enterprises.

The Project will address these constraints so as to achieve two major purposes: (1) to stimulate the growth of micro and small enterprises in order to provide some relief from Bolivia's high unemployment rate; and (2) to lay the foundation for the longer-term development of a stable and prosperous small-scale enterprise sector by fostering relationships between the enterprises and formal financial institutions.

The Project will provide: (1) technical assistance to strengthen existing institutions that work with small-scale enterprises; (2) business management training for micro and small enterprises; (3) credit for small and micro enterprises; and (4) research and analysis concerning the impediments to the formation and growth of micro and small enterprises in Bolivia.

The Project will provide these services by means of a two-pronged approach designed to serve distinct segments of the small-scale enterprise sector: (1) micro enterprises, and (2) small enterprises.

C. The Project

1. The Goal. The Small-Scale Enterprise Development Project will contribute to three Government of Bolivia (GOB) and USAID/Bolivia objectives: (1) strengthened private sector institutions, (2) economic development, and (3) more equitable income distribution. The Goal of the Project is to promote rapid and sustained economic growth in Bolivia.

The Project addresses these goals by encouraging expanded productive activity, output and profitability in micro and small-scale enterprises. This will have the effect of creating and maintaining jobs for the poorer sectors of the society and of increasing the real income of owners and employees of small businesses participating in the Project.

The Project lays the foundation for long-run stability and prosperity in the small-scale enterprise sector by strengthening institutions that provide key support services to the sector and by fostering effective relationships between businesses and formal financial institutions. Because of the large number of women involved in this sector, as owner-operators and employees of small-scale enterprises, the Project also supports AID's commitment to women in development.

2. The Purpose. The Purpose of the Project is to stimulate the long-term, stable growth and development of Bolivia's small-scale enterprise sector. This will be attained by improving the support services -- specifically credit, training and technical assistance - provided to the sector by selected national and departmental level private sector organizations. Successful accomplishment of the Project Purpose, therefore, will be measured both in terms of the establishment of self-sustaining, improved services in relevant private sector organizations and in the improvements of small-scale enterprises benefiting from the Project.

The Project will have three components focussed initially on two implementing institutions: (1) PRODEM, a La Paz-based organization that provides credit and training to micro enterprises; and (2) FENACRE, the Bolivian national credit union system, which offers credit, training, and other services to cooperative businesses and other small enterprises. If deemed appropriate during implementation, the Project will involve other relevant private sector institutions over the Life of the Project, such as private banks. The three Project components are as follows:

1. Institutional Strengthening and Development. This will include technical assistance and training for the implementing institutions and their beneficiary enterprises. If carried out as envisioned, these activities will, in concert with the credit component, lead to the self-sufficiency and sustainability of project activities by the Project Assistance Completion Date (PACD) 1993. These strengthening actions are as follows:

* Micro enterprise segment: The Institutional Development component will include technical assistance from Acción Internacional/Técnica (AITEC) for the Fundación para la Promoción y Desarrollo de la Micro Empresa (PRODEM). PRODEM will expand the scope of its credit and training services to production-oriented micro enterprises in La Paz, and replicate its program in other areas, tentatively in El Alto y Santa Cruz. This will strengthen PRODEM's ability to offer services that will help micro enterprises to grow and stabilize.

* Small enterprise segment: FENACRE, the National Federation of Savings and Credit Cooperatives, will be given technical assistance to expand the capacity of participating member credit unions to channel credit to small enterprises. FENACRE will also assist the FEBOPI and ADEPIs, which are departmental-level associations of small businesses, to develop systems to identify beneficiary small enterprises, monitor loans, and collect loan payments. FENACRE, in concert with the Federation of small industry (FEBOPI) will be largely self-financing, and will also develop training programs for small enterprises. These activities will enhance FENACRE's and FEBOPI's ability to offer services to small enterprises so that the enterprises can establish long-term relationships with formal financial institutions and therefore grow and stabilize.

The FEBOPI will play a key role in the coordination/implementation of the research and analysis component of the Project. This will lead to recommendations to modify government regulations so as to make policies more supportive of the growth and development of small-scale enterprises. This activity will be closely coordinated with related activities to be funded under the Strengthening Financial Markets Project, which also has a policy research and analysis component.

2. Credit. USAID/Bolivia will make funds available to PRODEM and FENACRE to provide credit to micro and small enterprises. The supply of credit available from USAID is expected to be very small relative to demand. Although methods of leveraging the funds will be explored, the funds will contribute to the capacity of the small-scale enterprise sector to grow and prosper, and will provide the impetus for long-term relationships between the enterprises and formal financial institutions.

* Micro enterprise segment: Credit resources for PRODEM will provide loans primarily to production-oriented micro enterprises. Credit may also be directed to micro commercial enterprises that sell or otherwise commercialize products manufactured by local micro industries. These commercial credits will be minimal.

* Small enterprise segment: Credit resources for FENACRE will augment its current credit resources for small enterprises. Credit will be made available to small enterprise beneficiaries through FENACRE's affiliated credit unions. The departmental UCFs will support the program in areas where FENACRE's presence is not yet fully developed. One of FENACRE's goals will be to assist small enterprises to foster relationships with other formal financial institutions.

3. Policy Research and Analysis. This component will include research concerning small-scale enterprise sector issues, impediments to sector growth, and training needs. As this component will affect various organizations and other projects, the USAID Project Manager will assume primary responsibility for its implementation, which will be carried out in concert with the FEBOPI. This research will also be coordinated with the policy research and seminars scheduled to take place under the Strengthening Financial Markets Project.

D. Project Funding

USAID Life of Project grant funding of $10 million will finance Project activities for five years. The proposed Project budget for USAID's contribution is estimated as follows:

PRODEM	
Credit	$1,800,000
Technical Assistance	400,000
Training of PRODEM Staff	105,000
Commodities	141,000
Project Operating Support	270,000
Subtotal PRODEM	$2,716,000
FENACRE System	
Credit	$4,200,000
Technical Assistance	918,000
Training	186,000
Commodities	144,000
Subtotal FENACRE	$5,448,000

FEBOPI/ADEPIs	
Technical Assistance	$198,000
Training	88,000
Commodities	42,000
Operating Support	300,000
Subtotal FEBOPI/ADEPIs	$628,000
Research and Analysis	150,000
Other Costs	
PSC Project Coordinator	600,000
Audits and Evaluations	130,000
Contingencies	328,000
Subtotal	$1,058,000
T O T A L	$10,000,000

The Government of Bolivia will contribute $1,850,000 to the Project for credit, and the Bolivian private sector will contribute $2,270,000 in the form of owners' equity and institutional overhead of participating Bolivian organizations.

E. Project Approval Factors

The Project design team which prepared the Project Paper has concluded that the Project has sound financial, economic, institutional, technical and social bases to be successful. This conclusion is based on the various Project Analyses carried out by both outside consultants and USAID/Bolivia Officers who participated in the design. The design envisions that activities carried out through the main implementing institutions - PRODEM, FENACRE and FEBOPI - will be self-sustaining after termination of A.I.D. assistance.

The design team also determined that the Project will not have an adverse effect on the environment, and, therefore, a categorical exclusion has been recommended and approved by the LAC Bureau Environmental Officer based on the provisions of Section 262.2(C) of 22 CRF Part 216 on environmental procedures.

F. Project Design Team

1. The USAID/Bolivia Project Design Team was composed of:

Angel M. Díaz	USAID/PD&I
Jaime Vizcarra	USAID/PD&I
Clark Joel	USAID/ECON
Oscar Antezana	USAID/ECON
David Jessee	USAID/PS
Ernesto García	USAID/PS
Raúl Pinto	USAID/CONT

2. USAID/Bolivia contracted the services of Development Alternatives, Inc. (DAI) to assist in carrying out the various Project Analyses. The DAI team of consultants was composed of:

John H. Magill	Team Leader
Leni Berliner	Institutional Analysis
Ivo Kraljevic	Anthropologist
Miguel A. Rivarola	Financial Analysis

3. The Government of Bolivia counterpart was:

Fernando Cossio	Subsecretary of International Cooperation, Ministry of Planning

4. The local Bolivian private sector counterparts were:

Alberto Montero	General Manager, FENACRE
Francisco Otero	Director, PRODEM
Enrique Velasco	President, FEBOPI

5. The Project was reviewed by the following USAID/Bolivia officials:

G. Reginald van Raalte	Mission Director
H. Robert Kramer	Deputy Director
Edward L. Kadunc, Jr.	Project Development Officer
Anthony A. Funicello	Program Officer
John R. Davison	Controller
L. Reese Moyers	Private Sector Officer
John J. Liebner	Executive Officer

II. BACKGROUND

A. Economic Background

1. The New Economic Plan

From 1952 to 1982 Bolivia's economic policies favored state involvement in the operation of productive enterprises. Many Bolivians came to depend on the government for goods, services, and employment. The private sector was tolerated, but was not supported by the government or the poorer sectors of Bolivian society.

The economic policies of the 1982-1985 administration of President Hernán Siles Zuazo resulted in an economic crisis that further weakened the private sector. The crisis was characterized by severe inflation, decapitalization of the formal financial sector, seriously reduced productive activity, and high unemployment.

During this period of hyperinflation Bolivia's formal financial sector -- comprised of public and private commercial banks, savings and loan associations and credit unions -- recovered loan repayments at only a fraction of their original value. Investors took their money out of the country and/or placed it in deposits denominated in dollars or other more stable currency. The banking sector responded to the crisis by investing in real estate and other assets with non-erodible value, and by buying and selling foreign currencies to increase short-term earnings. Very few loans were made to businesses and individuals outside of the relatively small groups of owners of the major banks.

The Paz Estenssoro government, elected in 1985, embarked on an ambitious economic recovery program known as the New Economic Plan (NEP). The NEP includes austere economic measures and the stimulation of private sector enterprises. The main components of the NEP are a substantial devaluation of the currency and the unification of the exchange rate. The NEP has also eliminated most interest rate ceilings and removed restrictions on imports and exports. The program implemented tax and tariff reforms, a wage freeze for public employees, liberalization of labor laws, and reduction in credit expansion to the public and private sectors.

The results of these policies have been encouraging. The rate of increase in the consumer price index has been reduced from 22,256% in 1985 to its current average of 10% to 12% annually. The annual rate of bank credit expansion to the public sector declined from 17,000% in 1985 to 28% in 1986, with a parallel reduction in the rate of credit expansion to the private sector.

Two and a half years after assuming power the Paz Estenssoro government has thus achieved relative economic stability. Significant progress has also been made toward restoring private sector confidence in the government and its economic policies. However, full economic reactivation has not yet occurred.

2. Dislocations of Economic Recovery

While the NEP is crucial to the long-term rehabilitation of Bolivia's economy, it has a short-run negative impact on employment and income among the lower classes. Unemployment in Bolivia is currently estimated to be 25%, and another 25% of the work force is considered to be underemployed. Most of the unemployment is in urban areas.

A drop in international mineral prices has exacerbated the unemployment problem. This led to the closing of a number of Bolivian mines and the migration of unemployed miners to urban areas. Stimulating Bolivia's economic recovery by creating employment and income-generating opportunities for low-income sectors of the population is, therefore, a high priority of the Bolivian government and USAID/Bolivia.

The banking sector is in a state of transition as a result of the economic recovery program. Government policies are aimed at consolidating the sector so that weaker banks will close or be acquired. A new regulatory structure for the banking system will place an upper limit on the proportion of bank funds that can be lent to bank owners and managers. The banking sector should thus begin to open up within the next three to five years. Small-scale enterprise lending may become an attractive business to certain banks as they position themselves in the newly competitive financial market.

3. Role of the Small-Scale Enterprise Sector in the Economic Recovery

Studies in Bolivia and other Latin American countries substantiate the growing importance of the small-scale enterprise sector for low-income groups and national economies. These studies show that the sector is an efficient user of capital, and that small-scale enterprises create jobs more efficiently than do larger enterprises.

In addition, because such businesses require little initial capital and are relatively easy to establish, large numbers of disadvantaged persons, including women, work in the sector. Activities which improve the productivity and output of the small-scale enterprise sector are likely to increase the employment and income levels of the urban poor. A stable and prosperous small-scale enterprise sector will also support the economic recovery efforts of the Government of Bolivia and lay the foundation for overall growth in the private sector.

B. The Nature of the Small-Scale Enterprise Sector

1. Definitions

Small-scale enterprises are the most common form of business organization in Bolivia. Over 90% of all businesses in the country employ less than five workers.1/ Although often grouped together under the heading "small-scale enterprise," micro and small enterprises have different characteristics.

In Bolivia, the majority of micro enterprises are comprised of family-owned and operated businesses that employ only family members or unpaid apprentices. The vast majority of micro enterprises operate in the informal sector: they are not legally registered with the government, do not pay income taxes (although they may pay other taxes), and do not provide social security to their employees. These enterprises have very little experience with institutional credit, and need only small loans to expand their production. The training needs of such enterprises are also very fundamental and include basic skills such as simple mathematics and accounting.

Although small enterprises differ little from their micro-enterprise counterparts in terms of number of employees, there are substantial differences in organization, scale and operations. Small enterprises are more likely to operate in the formal sector than are micro enterprises: they are more often registered with the government, pay taxes, employ non-family labor and provide social security to their employees.

These enterprises have more experience with credit than do micro enterprises and their credit needs are larger. In addition, their training needs are more specialized and sophisticated, as such enterprises are at a stage where increased efficiency, expanded product lines and strategic planning can spur their growth.

Because of these differences between the two sectors, a two-pronged Project strategy has been designed to serve these distinct segments.

2. Description of the Sector

A 1985 AITEC study concluded that micro enterprises (a) are an important source of employment for urban populations, (b) provide necessary services to the economy, (c) provide economic opportunities for the poorest segments of the population, and (d) contribute a large aggregate value of output to the economy.

1/ Sistema de Información Industrial Privado, Cuadros por Ciudad, segun Rama de Actividad, La Paz, April 1988.**

These characteristics describe Bolivia's micro and small enterprises. The small-scale enterprise sector in Bolivia tends to be: (1) labor intensive; (2) involved primarily in providing basic goods and services; (3) operated by relatively disadvantaged persons, including women; and (4) characterized by the use of simple technologies.

A December 1986 worldwide conference of small-scale enterprise development organizations summarized the experiences of a number of programs in lesser developed countries as follows:

* Successful programs are based on: (a) small loans at full market interest rates for short time periods, (b) character-based rather than collateral guarantees, and (c) group guarantees and peer pressure rather than traditional collateral.

* Technical assistance and training programs have generally failed to become self-sufficient.

* Private voluntary organizations, non-government organizations, and other local groups have natural advantages in promoting small-scale enterprise development, identifying and screening applicants, and building local participation into the programs.

These findings have been incorporated into the design of this Project.

C. <u>Government of Bolivia and Other Donor Activities</u>

1. <u>Government of Bolivia</u>

An inter-institutional commission involving the Government Ministry of Industry, Commerce, and Tourism (MICT) and the Bolivian Federation of Small Industry (FEBOPI) have proposed measures to strengthen and promote Bolivia's small industrial businesses. Provisions of the proposed law include: development of a special Registry of Small Industrial Businesses; requiring the Central Bank to extend a specified amount of credit to small industrial businesses; creating a technical assistance fund for small industrial businesses; and building industrial parks for these businesses. The proposed law is now being debated and redrafted in the national congress. The proposal will be monitored as this Project is developed.

2. <u>USAID/Bolivia</u>

USAID/Bolivia is currently implementing or initiating a number of programs designed to address the constraints to growth in the private sector, particularly for micro- and small-scale enterprises. These include:

a. IDEA -- The Bolivian Confederation of Private Businessmen (CEPB) and USAID/Bolivia helped to establish the Institute for the Development of Business Leaders and Managers. IDEA has provided management training to a number of private businesses, including small-scale enterprises.

b. FEBOPI/ADEPI -- FEBOPI is a national federation of Bolivian small businesses. Its affiliated departmental associations of small business owners are called ADEPIs. USAID/Bolivia has arranged for the ADEPIs to receive funds generated under the PL-480 Program for a pilot effort to assist small-and medium-scale enterprises.

3. Bolivian Private Sector

In 1985 eight members of the CEPB each contributed $10,000 to create a Bolivian private voluntary organization called the Fundación para la Promoción y Desarrollo de la Microempresa (PRODEM) to channel credit to micro enterprises in La Paz. In 1986 the CEPB and USAID/Bolivia initiated a pilot project in which the seed funds provided by the CEPB were augmented by a loan to PRODEM under the PL-480 Title III program. Although a relatively new program, a September 1987 interim evaluation concluded that PRODEM has achieved its objectives and should be considered for future support. PRODEM and its experience are an integral part of this Project.

At the same time, the national credit union federation (FENACRE) loaned $250,000 of its own funds to newly-established credit unions associated with the departmental ADEPIs. The purpose of these funds was to provide initial capitalization for a small-enterprise lending program. In addition, an estimated 10% of the credit union members in Bolivia are micro-or small-scale entrepreneurs, and regularly borrow from the credit unions to finance their business activities.

4. Other Donors

Several other organizations operate small-scale enterprise programs in Bolivia:

a. FIE -- The Fundacion para Iniciativas Economicas (FIE) was started in 1985 to provide training and credit to cooperatively owned and operated small enterprises. It currently has nine projects in its portfolio. Beginning in calendar year 1988, FIE will receive $500,000 in credit funds from the Interamerican Development Bank (BID) to expand its credit activities.

b. Government of West Germany -- The West German government is holding discussions with FEBOPI concerning the creation of a special Bolivian bank for small industry. The amounts of credit and other services that might be available are not yet known.

c. Several private voluntary organizations -- such as MEDA (the Mennonite Economic Development Agency), OFASA (an organization associated with the Seventh Day Adventists) and others -- have independently initiated small programs to help micro-enterprises.

d. The IDB has indicated an interest in supporting a micro-enterprise development project through the Carvajal Institute of Colombia. Preliminary discussions have been held with IDEA, but a recent USAID financial analysis of the program iniciates that IDEA should not participate. The future of this project is uncertain.

e. The International Labour Organization, Inter-American Foundation and World Bank have also held exploratory conversations with local organizations about the possibilities of undertaking programs in the sector.

f. PRODEM has received verbal commitment from the Fondo Social for $1.0 million in funds. These funds would be necessary to expand the PRODEM activity to more than two locations. PRODEM has also submitted a funding request to the Small Projects Office of the IDB and has held discussions with the World Bank.

USAID/Bolivia and the institutions involved in implementing this Project will coordinate with these and other entities to assure that programs are complementary.

III. THE PROBLEM, RATIONALE, AND STRATEGY

A. Problems and Constraints

1. The Problem

As described earlier, Bolivia is experiencing high levels of unemployment. At the same time, the Government of Bolivia is engaged in an important and serious economic reactivation program whose short-run impact may exacerbate unemployment among the urban poor.

Studies in Bolivia and other Latin American countries show that the small-scale enterprise sector creates a relatively large number of jobs for the poor with relatively little capital. Such enterprises thus have the potential to alleviate unemployment in the short run and to comprise a prosperous and sustained sector of the economy in the longer run.

The growth of the small-scale enterprise sector, however, is inhibited by a number of factors, including limited access to training and credit and government policies which discourage the formation and growth of formal enterprises. The very limited relationships that these enterprises have with formal financial institutions also hinders their ability to develop, grow, and become more productive on a long-term basis.

The immediate problems of high unemployment and low income levels among Bolivia's urban poor may thus be remedied in part by addressing the constraints that inhibit the growth and development of micro and small enterprises. In doing so, a foundation will also be laid to allow these enterprises to grow and develop into a sustained sector of the Bolivian private economy.

2. Constraints to the Development of Bolivia's Small-Scale Enterprise Sector

To provide one remedy for urban unemployment and lay a foundation for the long-term stability of small-scale enterprises, the Project will address the following specific constraints to the growth of the sector:

a. Financial Constraints

The major impediment to the growth of micro and small enterprises is very limited access to formal credit markets and an absence of long-term relationships with formal financial institutions. Working capital is essential to business growth and development. With the retrenchment of formal financial institutions, however, the amount of formal credit available for small enterprises has been reduced significantly since 1982. As a result, small-scale enterprises have been forced to rely on their own resources or the high-cost informal credit sector. The use of capital in business has been severely reduced.

Because small-scale enterprises lack affordable capital to finance expansion, they consistently have limited inventories and products and low income levels. The lack of access to credit and limited relationships with formal financial institutions also constrains the potential for these enterprises to grow into stable economic entities.

b. Technical Constraints

The owners and operators of enterprises in the micro-scale enterprise sector lack knowledge of basic business, management, and technical operations. This is especially apparent in the high concentration of enterprises in a limited number of sectors, with little product or market differentiation. High levels of competition in constrained markets limit income and expansion potential. Small-scale enterprises, on the other hand, often lack the ability to prepare and implement realistic business plans that can be presented to banks and other sources of investment capital. They usually lack the skills needed to develop new product lines and enter new markets. However, few appropriate and affordable training programs exist in Bolivia.

c. Policy Constraints

There are numerous legal impediments and disincentives to operating private-sector businesses in Bolivia. The lengthy process of formalizing businesses forces many enterprises into the "informal" sector in order to avoid costly and time-consuming business registration requirements. Most micro and many small enterprise owners limit employment to family members rather than pay wages to employees, as the tax and social security requirements of hiring employees can be financially onerous. Import and export policies raise the cost of manufacturing to the point where many industries cannot compete with imported finished products, much less in export markets. This Project will undertake efforts to assess and alter the regulations and policies that inhibit the establishment and growth of small-scale enterprises.

B. Project Rationale

1. Size of the Beneficiary Population and Economic Impact of the Program

Bolivia's small-scale enterprise sector is estimated to employ 52% of the country's non-agricultural economically-active population (excluding domestic workers). In La Paz, micro and small enterprises account for 74% of manufacturing jobs, 56% of construction jobs, 43% percent of jobs in transportation, and 86% percent of jobs in commerce.

Throughout Bolivia there are estimated to be at least 144,000 establishments in the informal sector, employing 202,000 persons, or 48% percent of the non-domestic-service workforce. At least 90% of these establishments employ less than five people.2/

The table below shows the expected impacts of micro, small and medium-scale enterprises on various aspects of economic development.

TABLE I

Economic Development Impacts
By Size of Enterprise

	SEGMENT		
Potential for:	Micro	Small	Medium
Number of people Reached	Very large	Large	Moderate
Job Creation	High	High	Moderate
Efficiency of Job Creation	High	High	Moderate
Income Enhancement	Low-Moderate	High	Unknown
Working with Dis-advantaged Groups	High	Moderate-High	Moderate mainly as laborers
Role of Women	High	Moderate	Low

(Source: Development Alternatives, Inc.)

Small-scale enterprises reach a large number of people, and have high job creation and high income-enhancement potential. Micro enterprises also reach a very large number of people, create jobs efficiently, and reach a large number of disadvantaged groups and women.

2. Characteristics of the Beneficiary Population

The Project's beneficiaries will be the owners, operators, and employees of Bolivia's micro and small enterprises.

2/ CEDLA, El Sector Informal de Bolivia, La Paz, Bolivia, 1986 pp. 151-160.

Research shows that informal sector enterprises are heavily representative of low-income people and women. A large percentage of these business owners and operators -- 88% in the case of market vendors -- are women. In addition, the evaluation of PRODEM found that in 70% of male-owned small-scale production enterprises, the wives were as involved in the production process as the men.

There is currently a shortage of up-to-date information concerning the social and economic composition of the formal sector, which includes many small enterprises. A survey of small-scale industries being conducted by the Sistema de Informacion Industrial Privado (SIIP), with joint support from the Camara Nacional de Industrias (CNI), FEBOPI and IDEA, will provide more current and specific information concerning formally registered small businesses in Bolivia.

Despite the shortage of specific income information, the individuals engaged in micro and small enterprises are suspected to be below the median income for the country. This conclusion is based on the experiences of groups like PRODEM, which has worked with micro entrepreneurs in La Paz, and AITEC, which has worked with micro and small enterprises throughout Latin America. These beneficiaries are overwhelmingly low-income people engaged in marginal production, service, and vendor activities. A program aimed at micro and small enterprises would thus reach one of USAID's target beneficiary groups.

3. Demand for Credit

Preliminary estimates of credit demand based on the experiences of PRODEM and FENACRE indicate that there is more than sufficient credit demand to justify the proposed scope of the USAID/Bolivia program. USAID's credit resources would, in fact, be very small relative to total demand.

The small amount of credit reaching the sector through credit unions and other formal systems does not appear to be sufficient to meet the credit needs of the sector, and informal sources of credit are very expensive. Micro- and small-scale enterprises do obtain credit from informal sector moneylenders, for example, but only at interest rates of 50% or more per year.

Section VIII E -- Financial Analysis -- contains additional information concerning the current supply of and demand for credit, including information from a credit supply study conducted by the Private Sector Division of the USAID/Bolivia Mission. The USAID/Bolivia economist's preliminary analysis of the apparent working capital deficit in Bolivia suggests that the demand for such credit resources is great. This analysis is contained in Annex 5.

* Micro enterprise segment: The best estimates of the demand for credit in the micro enterprise segment come from PRODEM. As of the end of November 1987 (PRODEM's tenth month of operation) PRODEM had extended loans totalling over $125,000 from its revolving fund. New credit extended in November alone totalled $106,000. The majority of loans to date have averaged $150 each and have been extended to micro-comerciantes such as street vendors. Of PRODEM's borrowers to date, 1,200 are micro-comerciantes, and approximately 500 are micro-producers.[3/] Extrapolating from this experience, PRODEM can expect 59% of its clients to be micro-comerciantes and 41% to be micro-producers annually.

Total loan demand among these two sectors is estimated to be in excess of $50.0 million per year. Thus, if all funds were allocated to the La Paz area, the Project would be capable of satisfying 6% of the existing demand.

* Small enterprise segment: As of December 1986, FENACRE's loan portfolio totalled approximately $5.0 million, with a value $500,000 on the small enterprise and artisan projects in the portfolio. FENACRE estimates additional demand of about $1.5 million per year in urban production projects through its membership promotion activities alone. FEBOPI projects an immediate demand among its 1,000 members for $5.0 million in credit and future demand of $2.5 million per year.

C. Project Strategy

The proposed Project is an integral component of USAID/Bolivia's overall private sector strategy. It is consistent with and supports the USAID/Bolivia and GOB goal of promoting economic reactivation by developing and strengthening private sector institutions. While USAID/Bolivia has initiated programs to support farmers and large agro-industries, small-scale enterprises are not being supported in a focussed way by USAID or other donor programs. Yet the growth of the small-scale enterprise sector is critical to the success of the Bolivian government's reactivation plan.

Growth in this sector is hampered by the absence of effective support services. The institutionalization of support services --especially credit, technical assistance and training -- is necessary to both reach immediate beneficiaries and to ensure that future beneficiaries receive adequate support. Accordingly, the primary objective of the Project is to strengthen institutional support to small-scale enterprises. By doing so, it will lay the foundation for on-going support services to the sector, a necessary condition for the long-run stability and prosperity of the small-scale enterprise sector of the Bolivian economy.

3/ PRODEM began offering credit to micro-producers in June 1987, while its micro-comerciante program began in February 1987.

The Project design reflects the following development criteria:

a. It should place the highest priority on institutional strengthening and other activities that will lay a foundation for the long-term stability of the small-scale enterprise sector.

b. It should reach the beneficiary population with a mix of training, technical assistance, and financial services.

c. It should strive to reach the largest number of productive enterprises possible.

d. It should work through existing institutions rather than create new ones.

e. The full costs of credit and support services should eventually be covered by charges to the beneficiaries.

f. Financial services offered should include both savings and loans.

g. Traditional collateral requirements for loans should be relaxed.

h. It should recognize the comparative advantages that local organizations have in working with micro and small enterprises.

i. Project credit resources should be leveraged to the greatest extent possible.

Assistance provided through the Project is designed to help a limited number of private sector institutions develop and improve their capability to provide needed support services to small-scale enterprises. These institutions are: PRODEM, a private foundation that supports micro-enterprises; the national credit union federation (FENACRE) and its participating credit unions, which support both micro- and small-scale enterprises; and the national association of small industries (FEBOPI) and its departmental affiliates (ADEPIs). The various components of the Project are designed to address the major constraints these institutions face in trying to provide effective support services:

* Lack of liquidity in financial institutions and the resultant inability to lend sufficient amounts to a sufficient number of borrowers;
* Need to expand coverage of PRODEM support services beyond the La Paz area;
* Need to improve PRODEM's accounting and statistical record keeping and to train new extension agents;

* Lack of experience in, and resources for, providing needed technical assistance to small business members on the part of the ADEPIs;
* Recent formation of the ADEPI credit unions, with the resultant need to develop trained personnel, establish effective operating procedures and policies
* Need for specialized skills and procedures for funds management, liquidity management, credit worthiness analysis, business plan analysis, delinquency control and financial planning in the credit union system;
* Need for specialized skills in analyzing policy and other constraints to small business development

The Project incorporates three major components to address these needs: financial services -- to address the liquidity issue; technical assistance and training to develop needed skills and operating systems; and operational support to fund program expansions, provide needed equipment and office facilities, and cover short-term operating losses. All assistance is grant funded.

The elements of the Project strategy are as follows:

1. <u>To support long-term institution building by means of technical assistance and training.</u> The Project's technical assistance resources will be used to strengthen the capacities of PRODEM, FENACRE, and FEBOPI/ADEPIs as these are potentially the key providers of services to micro- and small-scale enterprises in Bolivia. Such institution-building will further legitimize the institutions as developers of enterprises that can grow and develop into viable businesses. Such institutional reinforcement will also attract additional funding which will, in turn, more clearly delineate and reinforce the value of the small-scale enterprise sector as a viable economic sector in Bolivia.

   Targeted training for micro and small enterprises through PRODEM, FENACRE, and ADEPI will also accomplish similar institution-building goals. Training will help enterprise owners and operators to use more sophisticated management practices, increase efficiency, and prepare realistic plans for business growth. With such training, the enterprises will be better equipped to survive during downturns in the economy, and will be able to present themselves successfully to formal financial institutions for credit.

2. <u>To provide Project credit resources to two distinct segments of the small-scale enterprise sector.</u> The Project will use PRODEM to channel credit to the micro enterprise segment and will use FENACRE in a similar manner for the small enterprise segment. This element of the strategy recognizes

the fact that micro and small enterprises have different credit needs that can be served most effectively through distinct Bolivian institutions.

The amount of credit available under the program is expected to be very small relative to total demand. The Project will look for ways to leverage these funds. Credit resources will be used to illustrate that micro and small enterprises can grow and prosper with the proper mix of institutional support, training, and market-rate credit. This element of the strategy is expected to demonstrate that small-scale enterprises are good prospective clients and form the basis for ongoing relationships between small-scale enterprises and the formal financial sector.

3. <u>To address regulatory and other obstacles to the growth and development of small-scale enterprises in Bolivia.</u> The Project will devote resources to the analysis of Bolivian policies, regulations, and other obstacles affecting small-scale enterprises. This element of the strategy aims to recommend policy and other changes which will support the formation of new enterprises and the growth of existing enterprises.

In the process of strengthening the service capabilities of the participating intermediaries, the Project will have a direct impact on creating jobs for and increasing the incomes of the owners, operators, and employees of micro and small enterprises. These goals are an integral part of the GOB's and USAID's immediate goals in the current economic reactivation.

The strategy will be implemented by providing resources through two distinct institutions, PRODEM and FEBOPI, which respectively serve the micro and small enterprise segments of the small-scale enterprise sector. PRODEM, which is supported by the Bolivian Confederation of Private Entrepreneurs, already serves micro enterprises with training and credit.

FENACRE provides services to cooperative businesses and other small enterprises. By channeling resources for small enterprises through FENACRE, the strategy complements Government of Bolivia policies concerning the development of cooperative businesses. An example of the government's policy is the Cabinet's recent decision to assist mining cooperatives logistically and financially. The Social Reactivation Fund will provide $1,000,000 in loan funds to start new mining cooperatives. The recent creation of a subsecretariat for cooperatives within the Labor Ministry is also a strong indication of the Government's resolve to stimulate cooperatives as a complement to private sector activities.

IV. PROJECT DESCRIPTION

A. Relationship of Project to GOB and USAID Goals

The proposed Project contributes to three of the GOB's and USAID/Bolivia's development goals: (1) strengthened private sector institutions, (2) economic development, and (3) more equitable distribution of income.

The Project addresses these goals by encouraging expanded productive activity, output and profitability in micro and small-scale enterprises. This will have the effect of creating and maintaining jobs for the poorer sectors of the society and of increasing real income among the owners and employees of small businesses participating in the Project. The Project lays the foundation for long-run stability and prosperity in the small-scale enterprise sector by strengthening institutions that provide key support services to the sector. Because of the large number of women involved in this sector, as owner-operators and employees of small-scale enterprises, the Project also supports AID's commitment to women in development.

B. Goal and Purpose

1. The Goals: The Goals of the Project are to promote rapid and sustained economic growth in Bolivia (specifically among small-scale enterprises in Bolivia) and to bring about a more equitable distribution of income. The Project's contribution to these goals will be measured in terms of the following:

Economic Development

* Expanded sales of participating businesses. Since most of the credit will be used for working capital, especially raw materials, it is estimated that there will be at least a 1:1 increase in sales compared to the amount of loans disbursed annually;

* Increased net income of beneficiary firms. Assuming a net income averaging 10% of sales, net income will increase by about 10% of the annualized amount of loans disbursed;

* Increased demand for locally produced raw materials and supplies by participating small businesses. This is expected to result in secondary employment and income benefits. An estimated 50% of working capital credits will be used to purchase raw materials, of which at least 70% should be locally produced;

Employment and Income

* Increased number of jobs (both full- and part-time) in participating businesses. It is estimated that the Project will have the direct benefit of establishing some 6,700 full-time job equivalents in the micro and the small-scale enterprise sector. 4/

* Increase the income earned by small entrepreneurs and their employees working in enterprises assisted by the Project. Assuming that 50% of the loans extended through the Project cover labor costs and residual income to the entrepreneurs, the Project will have the effect of adding about $3.5 million to the annual wages and other income of the beneficiary enterprises.

The Project is expected to have additional impacts on these goals that cannot easily be measured. These include: increased contribution of small-scale enterprises to gross domestic product (GDP), an increase in the amount of taxes paid by participating businesses, and greater job stability and income continuity for the employees of beneficiary businesses.

2. The Purpose. The Purpose of the Project is to stimulate the long-term, stable growth and development of Bolivia's small-scale enterprise sector. This will be attained by improving the support services -- specifically credit, training and technical assistance -- provided to the sector by selected national and departmental level private sector organizations. Successful accomplishment of the Project Purpose, therefore, is measured both in terms of the establishment of self-sustaining, improved services in the secondary associations and in the improvements of small-scale enterprises benefiting from the Project.

The accomplishment of this purpose, in terms of the overall performance of the small-scale enterprise sector and changes within the assisted enterprises, will be measured by the following End-of-Project indicators (EOPs):

a. Strengthened Private-Sector, Small-Scale Enterprises

* Increased number of small-scale enterprises with effective borrower relationships with formal financial institutions. An estimated 2,000 additional micro- and small-scale entrepreneurs will have developed regular (non-subsidized or concessionary) savings and borrowing relationships with the national credit union system;

4/ Including fuller utilization of labor of owner and family members.

* Increased investments in inventory, handtools, etc., in participating enterprises. Financial records from the beneficiary enterprises are expected to indicate a 25% increase in permanent business investments during the life of the Project;

* Improved business skills and practices (especially in the areas of production technologies, product mix, inventory management, production scheduling and marketing) among the small-scale entrepreneurs assisted by the program. Noticeable changes (measurable in an evaluation) are expected to occur in at least 75% of assisted businesses; and

* Increased ability to develop feasible business plans among the small-scale entrepreneurs assisted by the program. At least 50% of the small-scale enterprises and 20% of the micro-enterprises assisted by the program should be operating with some type of business and investment plans.

b. Strengthened Private-Sector Support Services

Institutional Strengthening

* Increased, self-sustaining institutional support for small-scale enterprises in the areas of business planning, business plan analysis, credit and risk management, technical support, training and technical assistance, particularly through PRODEM and the departmental ADEPIs. These institutions should have financially self-sufficient sections with full-time, paid staff providing on-going technical assistance and training to beneficiary enterprises and should be capable of coordinating and/or sponsoring a wide range of specialized training and technical assistance services;

* At least 5,000 micro-entrepreneurs will have received basic business management training through programs sponsored or coordinated by PRODEM. PRODEM will be providing training to an average of 2,000 clients annually; and

* At least 2,000 small-scale entrepreneurs will have received training in basic business and management coordinated by the ADEPIs. Each ADEPI will be sponsoring a minimum of 20 training courses per year. Each course will train an average of 40 participants.

Credit

* Stronger system for providing credit to micro- and small-scale enterprises established and effectively channeling credits to the sector. The system will consist of a self-sustaining permanent development loan program for small enterprises in FENACRE and up to five self-sustaining ADEPI-level credit unions providing savings and loan facilities to ADEPI members;

* A permanent capital base of at least $7.85 million ($5.4 million in the credit union system and $2.45 million in the PRODEM program) for small-scale enterprise lending. This capital base is expected to continue to expand in real terms through internal capital generations;

* At least 5,000 micro-enterprises will be receiving credit through PRODEM; and

* At least 1,000 small-scale enterprises will be receiving credit through the credit union system.

Policy Analysis

* A clear sector position on and recommendations for improving government policies and other constraints to effective small-business development in Bolivia.

* An institutionalized ability to diagnose policy and non-policy problems confronting the micro and small business sector.

C. Outputs

To attain the Project purpose, the following outputs will be achieved:

Institutional Development

* PRODEM's La Paz program will have been expanded to the point that it is capable of effectively servicing 600 client groups (at least 3,000 clients). It will have a full complement of trained staff, an effective accounting system, a functioning monitoring and control system, a functioning statistical information system, and effective loan development and servicing procedures.

* In addition, PRODEM will be operating a new center in either Santa Cruz or El Alto, providing services to an estimated 2,000 clients.

* FENACRE's services will have been expanded in scope and quality. This entails a specially managed small-enterprise loan fund; trained personnel; well established operating procedures; effective technical assistance to member credit unions in the areas of accounting, loan servicing, business plan analysis, financial analysis, collections and delinquency control; good accounting, delinquency control and statistical reporting systems; and a functioning computer system to manage the funds and statistical reporting system.

* Five ADEPI-associated credit unions will be staffed with trained, paid personnel, have functioning accounting, delinquency control, collections, statistical reporting and other operational systems.

* At least five ADEPI's will have functioning technical assistance sections with trained staff capable of (a) identifying, screening and selecting small enterprise beneficiary businesses for possible credits through the system, (b) conducting analyses of small business and recommending improvements, (c) assisting small enterprises develop marketable business plans, and (d) providing on-going technical assistance and supervision to member businesses.

<u>Research and Analysis</u>

* A research and analysis capability will have been developed in FEBOPI.

* A specific series of policy research studies will have been conducted in coordination with the Strengthening Financial Markets (SFM) Project, identifying legal and other impediments to micro and small-scale enterprise sector business operations and development, and recommending improvements to the GOB through the mechanisms established by the SFM Project. Another series of studies will have been conducted to determine strategies in confronting non-policy constraints on the micro and small enterprise sector.

<u>Other</u>

* Monitoring and evaluation data will be maintained, analyzed, and used to improve the effectiveness of the program.

D. <u>Project Inputs</u>

1. <u>USAID/Bolivia</u>

USAID/Bolivia will provide $10 million in grant funds for this Project. These funds will be allocated to the elements of the Project strategy, as detailed in Part VI, Life of Project Cost and Financial Plan of the Paper. The elements to be financed include:

* <u>Training and technical assistance for the intermediary institutions;</u>

* <u>Operating cost support for the intermediary institutions:</u> This support will phase out during the life of the Project as loan volumes increase to the point that operating costs will be covered by financial margins and commissions.

* Training and technical assistance for small-scale enterprises: Training costs of the PRODEM program are covered under the operational support grant. Of the $88,000 earmarked under the Project to support beneficiary training, approximately 50% would benefit PRODEM clients, either in the form of special seminars on marketing cr products or in the form of partial scholarships for courses sponsored by IDEA, INASET or others. The balance will be allocated to partially offset the cost of training and provide scholarships for training courses for small-scale entrepreneurs through the FEBOPI/ADEPI system. It is expected that these subsidies would be given to individual training participants, and that they would gradually be removed as training costs were either paid for directly by the participants or included in the cost of credit.

* Credit for small-scale enterprises: Approximately $1,800,000 of the total will be allocated to credit resources for micro enterprises through PRODEM, and $4,200,000 to credit resources for micro- and small-scale enterprises through FENACRE. The actual allocation of credit resources will be revised periodically to determine whether the performance of each institution justifies allocations at these levels.

* Policy research: The Project-wide policy research and analysis function within FEBOPI will receive $150,000. Most of these funds will be used to fund special studies of competition, markets and products related to specific sector problems.

* Project Management Costs: The Project budget will support implementation costs, including the cost of the Project Coordinator, Project audits and evaluations, and price/quantity contingencies.

2. Bolivian Private Sector

Owners' equity from the beneficiary businesses and the combined overhead and administration of participating Bolivian organizations will contribute 16.1% of total Project costs, and make up a part of the private sector and GOB 29.2% contribution to the Project. The private sector's contribution will equal an estimated $2,270,000 (in terms of owner's equity) over the life of the Project. The two initial participating institutions, PRODEM and FENACRE, will each provide the staff and computer resources necessary to maintain data and statistics on the Project that can be used to conduct Project evaluations. FENACRE will provide regular training, technical assistance and auditing services to participating member credit unions. Other institutions which might enter the program will be expected to make substantial contributions.

3. Government of Bolivia

The Government of Bolivia will contribute $1,850,000 to the Project, which equals 13.1% of total Project costs. These funds, which will derive from local currency generations under the ESF and/or PL-480 programs, will be used exclusively for credit to micro- and small-scale entrepreneurs through the program. The GOB contribution, along with the private sector contributions indicated above, will make up the 29.2% contribution to total Project costs.

E. Project Components

The Project is designed to install three self-sustaining, on-going services to small-scale enterprises in Bolivia:

(1) technical assistance and training for small-scale entrepreneurs;

(2) a permanently capitalized loan fund for working capital and investments in equipment; and

(3) a research and analysis capability within the small-scale enterprise sector.

Strategies and techniques for developing these on-going capacities (which include technical assistance, commodities and capital funds), are described in the implementation section (Section V) of this paper.

As mentioned previously, the design of this Project reflects a number of criteria, as listed in the Strategy Section of this Paper, that have been deemed important to success in the Bolivian context. Accordingly, the Project will have three components that focus on the micro and small enterprise segments of the small scale enterprise sector. These components are as follows:

1. Institutional Strengthening and Development

The Project will be carried out primarily through three distinct institutions: (a) the Fundacion para la Promocion y Desarrollo de la Microempresa (PRODEM), (b) the Federacion Nacional de Cooperativas de Ahorro y Credito (FENACRE) and participating credit unions, and (c) the Federación Boliviana de la Pequeña Industria (FEBOPI) and its departmental affiliates, the Asociaciones Departamentales de Pequeños Industriales (ADEPIs). These institutions will be strengthened both directly and indirectly through the process of implementing the other Project components, as discussed below and in the Strategy Section of this Project Paper. Training and technical assistance will be provided to micro and small-scale entrepreneurs through the two technical implementing institutions -- PRODEM and the ADEPIs. The purpose of this training and technical assistance is to ensure the development and upgrading of the entrepreneurial skills and practices needed for the effective growth and stability of the assisted businesses.

a. Micro Enterprise Segment (PRODEM)

Assistance to micro-empresas (family-based small producers or vendors) will be supported primarily through PRODEM, a La Paz-based organization implementing USAID/Bolivia's micro-enterprise pilot project. This element of the approach recognizes PRODEM's expertise in working with informal sector micro-enterprises based on its success to date in implementing the pilot project in La Paz.

PRODEM focuses exclusively on the smallest enterprises, many of which have only one or two employees when they first approach the program for credit. PRODEM's methods of outreach, screening, training, and providing credit are based on the experience of similar organizations in other Latin American countries. These methods have proved highly successful in the Bolivian context, as evidenced by the high demand for services and low delinquency rates.

Under the Project, PRODEM will expand its promotion, credit, training and technical assistance services to micro enterprises in the La Paz area. In addition, PRODEM will establish offices in other areas to service similar clients. This expansion will occur gradually, with the first office to be established in El Alto and Santa Cruz.5/ The actual establishment of offices outside of the La Paz area will be determined following an evaluation of PRODEM's success and effectiveness in replicating the La Paz experience in at least one area.

The Project includes operational support to PRODEM to provide elementary business training courses to entrant-level micro-enterprise beneficiaries. Every new participant in the PRODEM program is required to take a basic orientation course, which explains the nature of the program, the responsibilities of each participant and the solidarity groups, and the mechanisms for repaying the loans. Under the proposed expansion program at least 5,000 new clients would receive this basic orientation training.

Most PRODEM "training" is provided through the extension program, in which outreach agents have direct contact with the clients at their place of business. With one agent for 80 clients (the current ratio) this assistance is relatively limited. Under the expanded program this ratio would improve, with the result that the extension workers would be able to provide more personal attention to their clients.

5/ PRODEM has recently signed an agreement with business leaders in Santa Cruz to establish an office there. It has also approached the World Bank for funding for the El Alto expansion.

Training courses for beneficiaries who have received more than two loans would be specialized and voluntary, with costs covered by a training fee. These courses would be offered if they are in sufficient demand to recover a good portion of the cost of training through the assessment of a fee. The courses would focus on business management and administration, accounting, marketing, inventory management, and other similar topics of interest to micro-scale enterprises.

The goal of the training would be to develop a capacity among PRODEM clients to manage a modern business enterprise and set the foundation for future dealings with formal financial institutions. The training could be paid for from a credit surcharge. However, the best way to finance it will be determined during the course of Project implementation.

This project will support two other forms of training for PRODEM participants: (a) special seminars or lectures designed to disseminate information gained from the Project's research activities, and (b) longer term business training for micro-entrepreneurs, such as the 6-week course offered by IDEA. In the first case, research studies funded by the Project should generate valuable information on markets, products and production that would benefit micro-producers in certain fields. The Project would fund the cost of disseminating this information to the appropriate beneficiaries, through seminars or special courses. At least five such topics would be developed over the course of the Project, with some 200 beneficiaries participating in each set of seminars.

In the second case, the Project would subsidize (through a scholarship or partial reimbursement mechanism) beneficiary participation in the courses. Participants will be carefully selected on the basis of their leadership roles in the solidarity groups and their willingness to share their knowledge with other members of the group.

Technical assistance in PRODEM consists of both loan supervision and business analysis services. These costs will gradually be covered by income from the loan portfolio.

b. <u>Small Enterprise Segment (FENACRE and the Credit Union System)</u>

(1) <u>The FENACRE System.</u>

The Bolivian credit union system will participate in the program as a financial intermediary, channeling credit primarily to small-scale (as opposed to micro-scale) enterprises.

Bolivian credit unions have traditionally provided production credit to their members for working capital and equipment purchases for use in their small-scale business activities. In spite of the severe retrenchment that has characterized formal financial institutions during the period of the hyperinflation, the credit union system has continued to attract savings from and make loans to low income sectors of the population, including their small business clients. This is in sharp contrast to the commercial banking sector, which has totally curtailed lending to the sector and, to date, has indicated no interest in promoting either small-scale savings or small-scale lending.

Presently there are 100 functioning credit unions in the country, with a plan to reactivate another 50 during the next year. Of the 100 active credit unions, 23 are located in urban areas and have an estimated 3,800 small-scale business owners as members. In addition, the departmental small industry associations (ADEPIs) have independently chosen to establish credit unions as a means of generating access to loan capital for their members. The credit union system is thus well-positioned to be a "window" into the formal financial sector for new and existing small enterprises.

(2) The FEBOPI and the ADEPIs.

The Federacion Boliviana de la Pequeña Industria (FEBOPI) was organized as an interest group association for small-scale entrepreneurs, who felt their interests were not being adequately represented by the Cámara Nacional de Industrias (CNI). Departmental ADEPIs (Asociaciones Departamentales de Pequeños Industriales) affiliated to FEBOPI will have direct contact with the beneficiary enterprises. The ADEPIs will be responsible for (a) identifying, selecting and supporting local beneficiaries, (b) providing technical assistance for operational and financial analysis for their members, and for preparing business plans in support of loan applications, and (c) coordinating other training, technical assistance and technical loan servicing support.

The training and technical assistance requirements of the small-scale enterprises that belong to the ADEPIs are substantially different from those of the micro-entrepreneurs. Generally, small-scale enterprises have formal accounting systems, understand the financial implications of inventory management, and understand the issues of competition, pricing and market segmentation. Their needs for training and technical assistance tend to be more specific and refined than those of the PRODEM-sponsored micro-entrepreneurs.

Accordingly, the ADEPIs would be responsible for identifying training needs of their members and coordinating (if not actually offering) training courses to meet those needs. In some cases the ADEPIs would themselves sponsor the courses. In others, training for small-scale entrepreneurs would be provided by the National Institute for Social, Economic, and Technical Assistance (INASET), the ADEPI's, IDEA and others. Attendance would be voluntary. Funds from the Project will probably subsidize specific training courses, if deemed appropriate, during the first year of the Project, but eventually the training courses would be self-sustaining from fees charged. Each ADEPI is expected to sponsor or coordinate a minimum of five courses per year, with at least 40 participants per course.

As appropriate, the ADEPIs will coordinate and subcontract with existing local training organizations such as IDEA and INASET to provide training to beneficiary businesses. The training courses will include basic accounting, finance, inventory management, working capital management, production improvements, marketing, administration, personnel management and investment project development.

Training can also consist of special fellowships to IDEA courses, or to bring specialized services from abroad to participate in courses of interest to particular sectors -- such as export market expertise.

Technical assistance for small-scale entrepreneurs will cover: business analysis, assistance in preparation of business plans and loan applications, technical supervision (monitoring) of production and marketing under the loans to assure that the business plans are being executed properly, and particular technical assistance as requested by the individual entrepreneurs. Each of the ADEPIs will be encouraged to establish a technical services capability to perform these functions. Costs will initially be partially subsidized by the Project if deemed appropriate during Project implementation and on a case by case basis following analysis of each situation. As the program grows, a commission or fee charged on the credit will be used to reimburse the ADEPI's for these services. An estimated 720 beneficiaries (240 in each of the major ADEPIs) will receive assistance each year.

The Project will provide technical assistance and related support to the FEBOPI/ADEPIs to strengthen their capability to carry out the above support activities to small-scale enterprises. This assistance is discussed in the implemention arrangements section of this Project Paper.

2. The Credit Component

This component of the Project is intended to develop a permanent capital base for lending to small-scale enterprises. With the $6.0 million in credit funds provided through this Project, the $1.85 million in GOB counterpart funds and projected capitalization and savings mobilized in the credit union sector and PRODEM, this fund should exceed $10.0 million by the end of the Project.

a. The Approach for Channelling Credit

Participating Intermediaries. Credit to participating enterprises will be channeled through two institutions -- PRODEM and FENACRE. PRODEM will work exclusively with micro enterprises and FENACRE will serve small-scale enterprises through its existing credit union network. FENACRE's involvement in the micro-enterprise sector will be carefully coordinated to avoid duplication with related PRODEM activities.

PRODEM has been selected as one of the institutions to manage the credit portfolio because of its success in developing and administering a credit portfolio under a USAID/Bolivia pilot project. In less than one year it was able to extend loans totaling US$260,000 to approximately 2,500 recipients, with a delinquency rate of less than 0.1 percent. FENACRE has been selected as the second financial intermediary because FENACRE:

* has been operating for 25 years and has established national credibility with cooperatives and other small-scale enterprises;

* has nationwide coverage through its 100 affiliated credit unions;

* provides credit, marketing, training, technical assistance, insurance, audits, and savings mobilization services to its member cooperatives, and thus offers the necessary breadth of experience needed to manage a major credit operation;

* has had extensive experience managing donor agency --including AID and IDB -- loan funds;

* has been recognized by the Bolivian Central Bank as an ICI since 1972; and

* has the auditing and internal control systems necessary to act as an accountable project holder.

In addition, the departmental associations of small industries (ADEPIs) have selected the credit union system as a financial partner, and are in the process of establishing credit unions that are affiliated with FENACRE;

Although private commercial bank participation in the Project is a desirable goal, especially from the standpoint of leveraging funds, no bank in the country has indicated an interest in attracting small-balance savings accounts or placing its own funds at risk in loans to micro- and small-scale enterprises. The Project will, however, continue to explore mechanisms for involving the private banking system, and the mid-term evaluation will include an examination of the feasibility of doing so.

b. General Credit Considerations

Credit Uses. The greatest credit demand among small-scale entrepreneurs in Bolivia is for working capital. Working capital loans are of two types. In some cases working capital loans are extended for short periods of time to cover operating expenses such as salaries, rent, and purchases of production inventory. Such loans provide a financial "bridge" between the time that goods are produced and sold, and the time that payment is received for these goods. In other cases (especially among larger enterprises) the need is for a constant level of credit that is rolled over at regular intervals to sustain levels of production and employment. Credit for fixed asset purchases are larger, and require a longer repayment period.

Most of the credit extended by this program, in the short term at least, will be for working capital. Most of the businesses appear to be operating with excess capacity. Although much equipment is obsolete, it is doubtful that businesses will invest in renovations or equipment upgrades until their sales and income levels are stabilized.

Repayment Period. In keeping with the experience of other micro- and small-scale enterprise credit programs working capital, loans will be extended for relatively short time periods ranging from one month to six months; such loans may be renewed for a maximum period of four years. However, the number of such renewals is expected to average two to three years and will be subject to a case-by-case analysis by the participating agencies on the financial situation of each client. The lending period must be long enough to reflect the cash cycles of the borrowers, while being short enough to allow PRODEM and FENACRE to receive repayments and relend the credit funds. PRODEM will follow its traditional program of gradually extending the period of credits for established members. The average term of PRODEM loans is expected to be four to six months when the program reaches maturity. Working capital loans under the FENACRE program will have a repayment term ranging from one to six months, while fixed asset loans under the program will have a maximum amortization period of about three years.

Interest Rates and Terms. Consistent with good lending practices and local conditions, interest rates and associated fees will be high enough to maintain the value of the fund, cover all of the costs of making and servicing the loans, (including origination, supervision and collection costs), provide for a bad debt reserve, contribute to the on-going capitalization or the fund and provide some revenue to the implementing institutions.

At a minimum, interest rates will be pegged to the market interest rates charged by the Bolivian banking and savings and loan systems. For example, the credit union system currently charges 39% annual interest on most loans, which is consistent with local bank rates. PRODEM now charges 24% annual interest on its loans, but also charges a servicing fee of 2.5% per loan. Including renewals, this raises the effective annual interest rate to around 30% per year, and provides PRODEM with an operating spread of about 15% in real terms. The rates charged will, however, remain well below the interest rates currently charged to micro and small enterprises by informal sector moneylenders, and will thus have the effect of lowering capital costs to Project beneficiaries. It is envisioned that interest rates to micro and small entrepreneurs will be in the range of 16 to 24% with a maintenance of value clause. The exact rate will be the subject of an implementation letter, based in the actual situation prevailing at the time of implementation.

Loans made through the ADEPI-affiliated credit unions will carry an additional servicing fee to cover the costs of technical assistance provided by the ADEPIs. The projected fee is currently estimated at 2.5% of loans disbursed, but will have to be reviewed and adjusted as experience is gained with the funds.

<u>Disbursement Terms.</u> Credit funds disbursed to the two participating financial intermediaries (PRODEM and FENACRE) will be in the form of grants. Since the monies will be disbursed gradually over the five-year term of the Project, it will be possible to make adjustments in the amount of funds disbursed to each institution and to incorporate new institutions into the program, if deemed appropriate based on experience. After the first disbursement, funds would be granted to the institutions on the basis of performance. The mid-term evaluation would determine the continued appropriateness of the two selected financial intermediaries and indicate the appropriateness of including alternative intermediaries in the program.

In undertaking the Project with the intermediaries, however, USAID/Bolivia and the GOB are undertaking a commitment to provide a minimum level of funding that assures the accomplishment of self-sufficiency objectives of the program as discussed under the financial analysis section of this paper (See Section VIII E). This is a critical assumption because once a participating institution has made a commitment to employ staff on the basis of a financial plan that includes a specific volume of credit activities, the Project must provide (except in the case of inadequate performance of the participating institution) the planned level of resources to achieve the specified targets.

c. Credit to the Micro Enterprise (PRODEM) Sector

Approximately $2.45 million ($1.8 million from USAID/Bolivia and $650,000 from the GOB) in credit resources will be provided to PRODEM to expand its capacity to offer credit to production-oriented micro enterprises. PRODEM will manage these funds following a model similar to the one it has used under the current pilot program in La Paz.

PRODEM will identify, screen, and orient candidate enterprises. Production-oriented micro enterprises will be the majority of the beneficiaries of PRODEM's credit resources. Commercial enterprises that are vertically integrated to local productive enterprises will also be considered for credit. In general, however, loans to productive enterprises will receive priority over loans to commercial establishments. Loan recipients will initially provide guarantees through solidarity groups of four to seven borrowers who agree to guarantee individual loans as a group. As the system matures, individuals with a positive repayment record may be granted loans directly on their own guarantees.

An intermediate credit institution (PRODEM currently uses the Banco Boliviano Americano) will be PRODEM's credit administrator. Funds will be released by USAID/Bolivia to the PRODEM account in this bank on the basis of an approved loan disbursement schedule and PRODEM's historical disbursement rate. This scheduling will be reviewed periodically to ensure that excess funds do not accumulate in the bank account. The bank will hold the credit funds on deposit; PRODEM disburses the loan funds by check to its borrowers. Loan recipients will go to the bank to make their payments. Payments will be documented by the bank, which will forward copies of all documentation to PRODEM.

Although all of PRODEM's loans to date have been for working capital, the organization expects to start extending short-term, fixed asset investment credit to production-oriented micro enterprises by early 1989.

Loan sizes will range from $200 to $2,000, with an expected average loan size of $300 in the first year, and 1,000 by the third year, with an average maturity of six months. The program will thus extend approximately 15,000 individual loans during the life of the Project.

PRODEM's credit program will include a savings mobilization component for its clients. Due to the unlikeliness that commercial banks will be prepared to lend to micro-enterprises after the clients graduate from PRODEM's loan program, it is essential that these businesses capitalize themselves in order to continue their expansion after graduation from PRODEM assistance.

Expansion to areas outside of La Paz will depend on the availability of additional resources, the preparation of adequate feasibility studies and budget projections and demonstrated demand for the service.

d. Credit to the Small Enterprise (FENACRE) Sector

Approximately $5.4 million in credit ($4.2 million of AID funds and $1.2 million of GOB funds) will be channeled to the small-scale enterprise sector through FENACRE and its affiliated credit unions. FENACRE will act as an intermediate credit institution (ICI) between the program and participating credit unions, as further explained below.

Some of the loan funds that are to be channeled through FENACRE will be earmarked for disbursement through FENACRE affiliated cooperatives and credit unions affiliated with the departmental ADEPIs. Initially, though, FENACRE will disburse all loan funds directly to the end-users. Once the ADEPIs credit unions are strengthened and certified by FENACRE and USAID as being capable of administering the credit component, they will receive credit funds from FENACRE for disbursal to the clients. At the present time there are five such credit unions in the seven ADEPIs, although only two are legally incorporated -- have "persona juridica". The others are in the process of incorporation. Access to credit through these credit unions, which are only for ADEPI members, should prove to be a powerful incentive for affiliation to the ADEPIs. Loans to ADEPI members will be closely supervised, from both a financial and technical standpoint.

For the most part, credit recipients in the ADEPI credit unions will be larger economic units than the micro-entrepreneurs assisted through the PRODEM portion of the Project, with larger requirements for working capital and fixed asset investment credit. All ADEPI members are legally registered businesses; most have been in business for several years; and while the number of employees per unit may not appear significantly different from the PRODEM client base they are nonetheless more substantial economic units. Many, if not most, of these enterprises had established borrowing relationships with the formal banking system prior to the 1985 crisis.

Other (non-ADEPI) credit unions will be eligible to access funds under the program for lending to existing members for small-scale business activities. These will be non-supervised loans to established (or new) members under established credit union lending policies which will have to comply with the projects eligibility criteria. It is expected that recipients of these loans will more closely approximate the micro-enterprises supported under the PRODEM sector of the project.

Because of liquidity constraints in the credit union system, funds will be disbursed to FENACRE on the basis of a projected schedule of disbursements to participating credit unions. This schedule will be determined on the basis of demand forecasting in the credit unions from loan applications they have received.

Funds for the ADEPI credit unions will be disbursed to FENACRE by USAID/Bolivia on the basis of an approved schedule of disbursements to the ADEPI credit unions, based on projections submitted by the ADEPI's to FENACRE. The ADEPI credit union projections will be based on valid loan applications and internal loan approval cycles.

Qualified non-ADEPI credit unions will also have access to FENACRE credit lines, if they are certified by FENACRE as having the required financial systems, controls and personnel to participate effectively in the program, through a simple rediscount mechanism. Valid loans can be pooled and presented to FENACRE, with appropriate documentation, at periodic intervals for reimbursement at FENACRE's established loan terms. Because of the liquidity crisis in the credit unions it might be necessary to provide credit advances based on valid loan applications and the credit union's internal credit approval and disbursement procedures.

Loans to small enterprises are expected to range in size from $2,000 to $10,000. Actual loan amounts will be determined by good credit union financial practices, which include:

* amount of loan limited to a multiple of the individual's savings in the credit union;

* amount of loan limited to a certain percentage of the credit union's net worth; and

* the trade-off between providing large loans to a few members and providing smaller loans to a larger percentage of the membership.

Because the issue of guarantees is such an impediment to formal sector lending to micro- and small-scale enterprises, innovative methods of dealing with the guarantee problem are required. These will be explored during project implementation. However, FENACRE has experimented already with a system of cross-guarantees that is similar to the solidarity group guarantees of PRODEM, only on a larger scale. Other suggestions include mandatory insurance on the borrower's life and assets in at least the amount of the loan, with the credit union as the beneficiary. A third option is to create a guarantee fund within FENACRE; if a borrower cannot provide the necessary guarantee from his/her own resources, FENACRE would provide the guarantee -- charging an additional fee on the amount of the loan. This option will be carefully studied during Project implementation to assess the capital requirements and risk factors involved in offering the service.

FENACRE will manage the program as a separate fund, with reflows used exclusively for additional small enterprise credits. FENACRE will be responsible for providing financial technical assistance, training, supervision and auditing support to the credit unions implementing the program. In addition, FENACRE will maintain the Project monitoring and statistical data base for the credit union portion of the Project.

Credit approval and disbursement procedures need to be as streamlined as possible. Individual credit unions will be examined and pre-qualified for participation in the program. Specific guidelines on eligibility, loan application requirements, operating procedures, delinquency control and record keeping will be established. Once pre-qualified, the individual credit unions will have sole responsibility for approval of loans to their members. FENACRE's role will be limited to that of periodically auditing the process to assure that eligibility requirements, loan application procedures and other guidelines are being followed. FENACRE will not review and approve individual loan applications, and will not require additional staff for that function.

To manage the program FENACRE will need to add a funds manager, one credit supervisor specialized in small-enterprise lending, one credit officer and a secretary/office assistant (who should also have basic accounting skills). Regular supervision, auditing and technical support of the participating credit unions would be handled by FENACRE's existing field staff. FENACRE also needs to install a computerized funds-based accounting and management information system.

3. Policy Research and Analysis Component

Research activities required by the Project fall into two types: (a) policy research and analysis, and (b) market-related practical business studies.

a. Policy Research and Analysis

A primary focus for policy research related to the problems and constraints of micro- and small-scale enterprise development will be on the factors contributing to the high cost of operating a business in Bolivia. A series of factors -- policy, structural and technical -- have created a situation in which local manufacturers cannot compete with imported products (whether imported legally or as contraband) and must price their finished goods too high to compete in export markets. The policy research component will focus on determining a rational course of action to address this situation.

Although the Policy Research Component of the Strengthening Financial Markets (SFM) Project focuses on the formal financial sector and does not duplicate the equivalent component of the Micro and Small Enterprises (M&SED) Project, special care will be taken during Project implementation to assure complementarity. Policy analysis seminars would be directed by personnel of the SFM Project, while policy research related to identified (M&SED) policy topics will be carried out by technical assistance provided to FEBOPI in collaboration with INASET and PRODEM for small-scale enterprises and FENACRE for credit unions. Policy research contracts could also be awarded to Bolivian research centers, such as CEDLA or SIIP or other qualified organization.

Policy seminars conducted under the direction of the SFM Project will identify and prioritize the major legal and other policy impediments to the growth of the private sector. This will establish the private sector's policy agenda, and provide a framework to guide policy research efforts affecting the various subsectors of the private sector -- banks (ASOBAN), savings and loan associations (CACEN), credit unions (FENACRE), large-scale enterprises (CEPB), and small-scale enterprises (FEBOPI-INASET).

Policy research and analysis through FEBOPI will take the form of determining the impact of the various elements of the policy agenda on the specific institutions (credit unions or small-scale enterprises in this case), identify actions that would mitigate the negative impact and develop policy recommendations reflecting the interests of the subsector. Assistance will be given by the Project for training staffs within the two institutions for carrying out the specific analyses required by the policy agenda. The Project will also provide funds to contract specific studies through other local research institutions. The results of these studies will be used by FEBOPI, PRODEM, FENACRE and other relevant institutions to dialogue with the GOB on policies which should be implemented or modified to promote the sustained development of the micro and small enterprise sector.

Among the policy-related topics that have been identified as requiring special attention are:

* the amount of time and cost required to register new businesses in Bolivia;
* the number and purposes of regulations pertaining to small-scale enterprises;
* import and export policies, including duties on raw materials;
* application of the IVA (value added tax) on imported raw materials;
* labor laws and their impact on the cost of business;

* price control policies at the municipal level;
* taxation; and
* control of contraband.

Others are expected to be developed and prioritized in close coordination with the SFM Project before any individual research effort gets under way.

The research topics and efforts will be coordinated by the SFM Project to develop cohesive private sector policy recommendations for presentation to the Bolivian government to modify policies to make them more supportive of the private sector, including small-scale enterprises and credit unions.

b. Other Research Activities

Of equal importance to the improvement of small-scale enterprises in Bolivia is business-oriented research aimed at either particular types of enterprises or problems. Market analyses and competition analysis, for example, will probably have a greater beneficial impact on the sector than policy analysis per se.

There is sufficient capacity in Bolivia -- through SIIP, INASET, or others to carry out this activity without having to develop a capacity in a new or existing institution. Specific studies would be contracted as necessary from existing institutions. Among the studies that have been identified as having particular relevance for the sector are the following:

* Market Problems in the Leather and Shoemaking Sector. This study should explore the nature of competition and market saturation in the shoemaking sector and make recommendations for market segmentation, product differentiation or market expansion for the sector.

* Market Problems in the Furniture Sector. This study would explore the nature of competition and market saturation in the small-scale furniture making sector and make recommendations for market segmentation, product differentiation or market expansion for the sector.

* Market analysis of the micro/small entrepreneur client base to further determine credit demand and the potential for increasing the participation women-owned enterprises in the project.

F. Project Benefits

The proposed Project is expected to contribute significantly to the development, expansion, and stability of micro and small enterprises in Bolivia. These contributions will be realized on both the micro-economic level and on the macro-economic level:

1. Macro-economic Benefits

- Contribution to GDP growth and the economic reactivation process.
- Increase in micro and small enterprise employment.
- Contribution to the growth of the private sector.
- Increase in private sector investment.
- Increase in the number of micro and small private sector enterprises.
- Decrease in the number of poor, unemployed urban Bolivians.
- Increased stability of the small-scale enterprise sector.

2. Micro-economic Benefits

- Existing micro and small enterprises will become more efficient, profitable, and competitive.
- New micro and small enterprises will be started.
- Wealth of employees of micro and small enterprises will increase and/or become more stable.
- Increased number of small-scale enterprises will form relationships with formal financial institutions.

V. PROJECT IMPLEMENTATION, MONITORING AND EVALUATION ARRANGEMENTS

A. USAID/Bolivia Arrangements with Participating Institutions

An umbrella agreement will be signed with the GOB Ministry of Planning and Coordination which will provide the basis for detailed grant, cooperative agreements or other mechanism for implementation of the Project through the participating private sector institutions: PRODEM, FENACRE and FEBOPI. These documents will contain specific details about the commitments of each participating institution as well as related implementation matters.

Assistance to PRODEM will be through an institutional contract with AITEC, a US PVO. Because of AITEC's expertise in the field and successful experience with the Micro Enterprise segme._ of this Project, AITEC will be selected on a non-competitive basis to provide technical assistance to PRODEM (See Ju..ification, Page 71).

Assistance to FENACRE and FEBOPI/ADEPIs will include a Personal Services Contract (PSC) and an institutional contract. The PSC will provide the overall Project coordination for all the participating institutions, will be housed primarily in FEBOPI and will co-manage with FEBOPI the Project's Research Component. The institutional contract will include a long-term (3-years) financial/credit management advisor to FENACRE and approximately 36 person-months of short-term technical assistance.

USAID coordination of the Project will be provided through a FSN direct hire and the Chief of the Private Sector Office.

FENACRE and FEBOPI/ADEPIs will sign an agreement by which the credit union system will collect a technical assistance fee (currently estimated at 2.5%) on each loan. These funds will be transferred to the ADEPIs to cover the technical assistance costs of business plan preparation, financial analysis of the businesses and other technical assistance provided to loan participants. The percentage to be charged will be subjected to periodic review. The USAID will explore the participation of commercial banks, depending on the performance of the FENACRE system to attain the purpose of the Projec .

B. Implementation of Project Components

1. Institutional Strengthening and Development Component

a. Technical Assistance

The Project will provide technical assistance, training and operational support to participating intermediaries supporting small-scale enterprises in Bolivia. Its purpose is to strengthen the abilities of these implementing organizations to offer effective support and services to micro- and small-scale enterprises, as discussed below.

PRODEM. Technical assistance to PRODEM will be provided to strengthen PRODEM's work with micro producers, expand its program in La Paz, and establish/replicate the La Paz pilot program in at least one location, initially in El Alto and/or Santa Cruz. Assistance to PRODEM will include expansion planning, marketing, determining staffing and overhead requirements, and strategies for attaining self-sufficiency. This aspect of the institutional development component will allow PRODEM to offer needed services to micro enterprises, and also increase PRODEM's ability to obtain support from other donors.

The technical assistance will consist of an extension of the current institutional technical assistance contract with AITEC, providing one long-term advisor and short-term technical assistance. The primary objectives of the continued technical assistance activity are to:

* Recruit and train a permanent executive director (gerente administrativo) for PRODEM;

* Improve PRODEM's internal operating procedures (especially the accounting system, control of guarantee documents, budgeting and financial management and analysis);

* Design and install an automated information system consistent with the general monitoring and evaluation system planned for the program, including the improvement of PRODEM's client data base and statistical reporting system;

* Plan and implement the expansion of PRODEM activities to El Alto, Santa Cruz and other cities; and

* Recruit and train staff for the new centers.

Specific short-term technical assistance required for PRODEM will include:

* Accounting systems and automated accounting programs -- two person-months;

* Information system planning and design (this assistance is expected to be provided by the technician overseeing the general statistical information system design for the program) -- two person-months;

* Financial management and planning (including budgeting, financial analysis, financial projections and financial management) -- three person months; and

* Other (to be determined during the course of the Project).

The length, scope and type of short-term technical assistance may change based on implementation experience. Such changes will be determined and agreed upon between USAID/Bolivia and PRODEM.

FENACRE and the Credit Union System. FENACRE and participating credit unions will receive technical assistance to enrich the capacity of the credit union network to offer credit to small enterprises. The purpose of the technical assistance will be to ensure the ability of the credit union system to manage the funds efficiently and effectively, to assure the development and use of effective internal procedures and policies and to develop the operating systems and skills necessary to deal with small-enterprise credit. A successful technical assistance program will enhance the image of the credit union system's legitimacy as an intermediate credit institution specializing in small-scale enterprise training and lending.

Planned technical assistance to the credit union system corresponds with the identified weaknesses and problems of the system. At the FENACRE level assistance would be provided primarily to develop, install and administer the funds-management system related to the program. Specifically, long-term technical assistance will be provided (one long-term credit management/financial advisor) to assist in:

* Developing funds management procedures;

* Supervising the planning, selection and installation of the computerized accounting system for the fund;

* Training key federation and credit union personnel in funds management concepts and procedures;

* Developing and installing appropriate credit procedures in FENACRE;

* Developing and installing appropriate credit procedures in the participating credit unions, particularly those associated with the ADEPIs. This includes procedures for analysis of credit applications, credit supervision, delinquency control, savings mobilization and financial management;

* Auditing and qualifying participating credit unions; and

* Savings mobilization.

This long-term advisor would be assisted by approximately 18 person-months of U.S. or TCN short-term technical assistance. This short-term technical assistance would cover new service identification and planning, promotion and marketing (of the credit union system), savings mobilization, strategic planning, market positioning, administration (including personnel management, job descriptions and salary administration), member analysis and financial management (development of budgets, financial projections, cash flows and liquidity management). Information system support for the design of the statistical reporting system will be provided as a project-wide consultancy.

Training and technical assistance will be provided by FENACRE to the managers and staffs of the credit unions participating in the Project. Special attention will focus on developing an adequate staff and operating procedures in the three to six new ADEPI credit unions that will channel credit funds. This entails intensive initial training for the new credit union managers and staffs of the ADEPI credit unions and training in the computer-based accounting programs. Managers and loan officers from all credit unions participating in the program would receive training in business loan appraisal and management. FENACRE will also be responsible for providing regular supervision of the credit program to be sure that proper procedures for loan approval, accounting, loan supervision, collections and delinquency control are exercised by the credit unions. This would facilitate FENACRE's commitment of certifying the capability and readiness of each credit union which would participate in the credit program of the Project.

To carry out this training and technical assistance FENACRE will rely primarily on its existing education and field staffs. Internally, FENACRE will need to increase its technical supervision staff by two persons to provide backstopping and assistance in small-enterprise credit to the participating credit unions. Computer training will be provided by the supplier of the data processing system.

All managers and loan officers of the participating credit unions would be given a specialized course in small-enterprise lending provided through IDEA or other contracted financial institution specialist. With an estimated 25 participants per course, four such courses would be required.

FEBOPI and the ADEPIs. The Project's overall technical advisor is expected to be detailed to work mainly assisting FEBOPI and its affiliated ADEPIs - at least 80 percent of the time through the FEBOPI office in La Paz. In addition, short-term technical assistance to

FEBOPI and the ADEPIs will be provided on specific subjects. The idea is to develop a technical capability to provide needed business analysis and other support services to member businesses within a specialized technical assistance department in each ADEPI. Specifically, the objectives of the technical assistance would be to develop the following capabilities and services within the ADEPIs:

* Operational and financial analysis of businesses;

* Business plan development assistance;

* Technical assistance skills and capabilities in financial management, inventory management, marketing, product planning, market analysis, etc.;

In addition, limited technical assistance would be provided to the ADEPIs to assist in improving their internal accounting, financial planning and operating systems.

Finally, technical assistance resources will also be used to help FEBOPI and the ADEPIs conduct policy research and analysis in coordination with policy analysis activities of the SFM Project. This would include formulating a research plan consistent with the strategy of the SFM policy analysis activities and identifying appropriate experts (either inside or external to the credit union movement) to conduct the studies.

Total short-term technical assistance to FEBOPI and the ADEPIs is estimated at 18 person-months.

b. Training

The training activity is designed to complement technical assistance so as to increase the skill levels of intermediary employees. The following formal training programs are envisioned for the various intermediaries:

PRODEM

* Program management course for the general manager of PRODEM and the manager of each center, possibly in IDEA;

* Supervisors course for all extension agents employed by PRODEM -- a Carvajal-type training course conducted by IDEA;

FENACRE and the Credit Unions

* A course in managing small enterprise loan portfolios, for the managers and chief loan officers of FENACRE and all participating credit unions.

FEBOPI/ADEPIs

* Financial and operational analysis of businesses, for technical department staffs;

* Business plan development techniques, for technical department staffs.

In addition to formal training for staff members of the institutions involved, the Project provides for invitational travel to permit learning from similar experiences in other countries. This experience is particularly important for the ADEPI staff members, as there is no cadre of experienced individuals in the organizations. Besides offering an opportunity to learn from established programs, the participant training for ADEPI personnel will offer the opportunity to explore export market possibilities and requirements. Four trips per year are scheduled for each year of the Project.

Invitational travel for PRODEM would permit the new general administrator and other center managers to examine similar programs in Peru, Colombia and other Central and South American countries. Two round trips are scheduled each year.

Invitational travel for FENACRE would have two purposes: examine small-enterprise lending operations (whether credit union or bank oriented) in other countries and to learn from savings mobilization, central credit union operations, guarantee programs and other strategic credit union service efforts. Two round trips per year are programmed, with at least two of the 10 scheduled trips to the United States to examine the operations of U.S. Central credit union, evaluate potential new credit union services and study the possibility of such programs as the share insurance program and stabilization fund.

c. Operational Support

Operational support funds will help the participating intermediaries establish service capabilities, offset operating losses during Project start-up (until income from loan activities is sufficient to cover operating expenses), and to fund special activities necessary for the success of the Project. Specifically, operating support will cover:

PRODEM

* Continued operating support for the LA Paz office; and other offices until PRODEM becomes self-sustaining, expectedly by the Project Assistance Completion Date.

* Setup and operating costs for expansion centers in El Alto and Santa Cruz until revenues from credit operations cover these costs.

FENACRE and the Credit Unions

* Some operating expenses of the central office in FENACRE;

* Operating expenses of the five ADEPI credit unions until they are self-sufficient;

* A computer for the central management of the fund;

* Computers and software for the ADEPI credit unions;

* Office equipment and supplies for the fund management unit; and

* Office equipment and supplies for the ADEPI credit unions.

FEBOPI and the ADEPIs

* Operating expenses until revenues for the loan programs cover the costs of the technical units;

* Office equipment and supplies for FEBOPI and ADEPI technical units, estimated at $4,500 per ADEPI;

* Subsidizing, at least initially, training costs for ADEPI members.

Other Costs

The Project will fund specific studies related to policy and other constraints to small enterprise development.

The Project will also fund special workshops or other forms of disseminating the results of market studies and others to small entrepreneurs.

2. Credit Component

The credit fund will be channeled through two separate institutional mechanisms -- PRODEM for micro-enterprise clients and the credit union system for a combination of micro- and small-scale enterprise clients. While the exact ratio of funds to be channeled through the two mechanisms will depend on disbursement schedules, absorptive capacity and rate of demand, at the present time $2.45 million is scheduled to be channeled through PRODEM and $5.4 million through the credit union system. Project evaluations will determine the need to adjust these ratios.

Micro-Enterprise Sector (PRODEM)

Credits to micro-enterprises through PRODEM will continue to operate as in the earlier pilot program. Based on availability of funds, scheduled disbursements and a demand schedule prepared by PRODEM, USAID/Bolivia will disburse funds at periodic intervals to PRODEM's local bank account for on-lending to PRODEM clients. Further disbursements will depend on PRODEM's continued good record of placing and recuperating funds on a timely basis. Conditions precedent for providing credit funds to PRODEM are listed in Part VII of this Paper.

Small-Scale Enterprises (FENACRE and FEBOPI/ADEPIs): In complement to PRODEM's activities, the Project will provide approximately $5.4 million for lending to micro-and small-scale entrepreneurs through FENACRE and the credit union system. Part of these funds will be earmarked for lending to small-scale entrepreneurs through certified, qualified new ADEPI credit unions. The other part would be channeled to a combination of micro-and small-scale entrepreneurs through existing credit unions. At the present time 23 urban credit unions, with an eligible membership of 3,800 small-scale entrepreneurs, have tentatively been identified as possible intermediaries for this portion of the credit program. The levels of credit resources through the credit union system will be determined during the early stages of Project implementation and will be based on a certification by FENACRE about the institutional and financial capability of each participating credit union.

The credit funds would be made available to the credit union system on a grant basis -- subject to no interest or principal payments. As a condition for this grant the credit union system would have to present an investment plan that would guarantee the maintenance of value of the fund, including an interest rate and fee structure that would cover all costs and risks of administering the credit. The investment plan would also provide a mechanism for increasing the fund's capitalization from internal sources. FENACRE will certify the capability of each credit union to effectively participate in the program.

The small-scale enterprise credit fund will be managed as a separate fund within the credit union system; credit unions participating in the program must have the ability to segregate funds. The fund will be maintained in FENACRE as a permanent capital base for small enterprise lending. Individual credit unions will benefit from internal capitalizations resulting from use of the funds.

FENACRE can on-lend the funds to its member credit unions in two ways: as direct credits (either in advance or as discounts of eligible loans), or in the form of guarantees. As discussed earlier, credit advances may be necessary due to the lack of liquidity in the member credit unions. The rate structure would be established in such a way as to encourage the use of guarantees by credit unions with sufficient liquidity to meet the credit demands from internal capital.

During the first year of the Project, FENACRE would lend directly to individual entrepreneurs or small enterprises, until the ADEPIs are strong enough to do it themselves. In the latter part of the Project, it is anticipated that all funds would be channeled through FENACRE's member credit unions to the end borrowers.

Disbursements to the credit union system would depend on: (a) the existence in FENACRE and the participating credit unions of a system to segregate these funds from other funds, (b) a set of approved credit regulations, including loan eligibility criteria and loan appraisal procedures, (c) certification of FENACRE and the credit union accounting systems, and (d) presentation and approval of an investment plan to maintain the value of the funds, cover all costs and risks associated with managing the funds and stimulating savings mobilization in the credit union system.

3. Policy Research Component

Implementation of this component will be managed and coordinated by the USAID Project Manager and the overall advisor who will be located mostly in the FEBOPI Office. He will also be assisted by the long-term advisor who will be assigned to FENACRE. As discussed in the Project Description and subsequent sections of this Paper, this component will be coordinated closely with similar activities under the SFM Project.

C. Project Management and Coordination

Management and coordination of the technical assistance activities under the Project is complicated because technical assistance is being provided to three different types of institutions, two of which (FENACRE and PRODEM) have historical ties to providers of appropriate, specialized technical assistance. Also, two separate projects have responsibility for policy research and analysis for the private sector. These factors have been considered in the design of the management and coordination plan, discussed below.

All technical assistance for the Project would be under the responsibility of the Overall Project Advisor/Coordinator, who would have responsibility for coordinating technical, financial and operational support assistance to all institutions participating in the Project. Two other long-term positions are required: (a) the credit management long-term advisor for FENACRE to assist in the development and operations of the small-business credit line, and (b) a long-term advisor for PRODEM to assist in developing and implementing expansion plans, training a general manager and implementing PRODEM's development program. Briefly, personnel requirements are as follows:

Overall Project Advisor/Coordinator	He/she will spend most of the time coordinating project activities through the FEBOPI Office. He/she will be the main link with the USAID direct-hire Project Manager. Briefly, this

	person will be responsible for overall project administration, coordination of financial and technical activities of the project, planning and management of short-term technical assistance.
Credit Management	Specialist responsible for assuring the proper implementation and management of credit under FENACRE's various special credit lines. Assesses the operating procedures and recommends training and technical assistance, at both the FENACRE and credit union level.
Micro-Enterprise Advisor	Long-term advisor to assist PRODEM in implementing the expanded program, training a general manager, recruiting and training staff, conducting feasibility studies on future expansion sites and implementing recommended improvements in PRODEM's operational and managerial systems.

Short-term technical assistance would be required in the following areas:

<u>PRODEM</u>

Accounting and financial management
Data processing for accounting systems
Information systems design

<u>FENACRE/Credit Unions</u>

Central credit union operations
Business plan analysis
Savings mobilization
Liquidity management and planning
Information systems design

<u>FEBOPI/ADEPIs</u>

Operational analysis of small businesses
Business plan preparation
Technical assistance
Policy analysis
Information systems design

As can be seen above, the information system design activity is project-wide and would be handled as a single consultancy for the Project. Other short-term technical assistance needs would be identified and scheduled during the start-up phases of the Project.

The technical assistance will be provided through two separate institutional contracts in addition to the Overall Project Advisor/Coordinator who will be contracted as a PSC: one with AITEC to cover the PRODEM expansion and the other to cover all other activities under the Project.

The Overall Project Advisor/Coordinator will have direct responsibility for the technical assistance provided to PRODEM, FENACRE and FEBOPI/ADEPIs. He/she should be an expert in small-business credit programs, preferably with a strong banking background. This advisor will coordinate all short-term technical assistance activities and will serve as liaison to the policy analysis activities of the SFM Project. He/she will be responsible for implementing the project monitoring system and providing regular reports to the USAID.

This advisor would be located in La Paz, possibly in the FEBOPI office, and will require a secretary/assistant, an office and a micro-computer for word-processing and statistical data analysis management and analysis.

D. Implementation Plan

The steps listed below cover the first six months of activity under the program. This is essentially a planning and prequalification period leading to the disbursement of funds. Although the steps are listed sequentially, most will be occurring simultaneously. Exact dates and scheduling will be developed during the first month the consultant teams are active. Implementation after the first six months will depend on action plans developed during this phase.

Step	Responsibility	Action
Step 1.	USAID, GOB	Sign Project Agreement
Step 2.	USAID, PRODEM, FENACRE, and FEBOPI	Negotiate and sign Grants, Cooperative Agreements and other document specifying the commitments and responsibilities of each Party.
Step 3.	USAID	Bid and sign technical assistance contracts.
Step 4.	Contractors	Initiate technical assistance activities.
Step 5.	Contractors, USAID, PRODEM FENACRE, FEBOPI/ADEPIs	Develop work plans and schedules for the first phase of activities.
Step 6.	ADEPI, ADEPI CUs, FENACRE, PRODEM	Hire staff, develop regulations and procedures, equip facilities.

Step	Responsibility	Action
Step 7.	ADEPIs	Hire staff, equip facilities.
Step 8.	Contractors, Intermediaries USAID	Plan and procure commodities for the program.
Step 9.	PRODEM, TA	Develop qualified accounting system, graduation plan, financial projections for the expansion program, and investment plan for the savings program. Arrange additional space. Plan personnel needs.
Step 10.	PRODEM FENACRE Consultants USAID	Develop eligibility criteria, monitoring system design, disbursement procedures, interest rate, capitalization and fee structures.
Step 11.	PRODEM	Arrange in-depth training for extension agents in Carvajal-type training program.
Step 12.	USAID	Approve PRODEM's accounting system, internal procedures, graduation plan and expansion plan.
Step 13.	Contractors USAID	Develop and approve work plan and short-term technical assistance plan.
Step 14.	USAID, PRODEM FENACRE	Initiate lending activities.
Step 15.	FENACRE	Train ADEPI credit union staff; arrange training of other credit union managers and credit officers in IDEA or other suitable management training institute.
Step 16.	USAID	Certify eligibility of ADEPI credit unions and other participating organizations.
Step 17.	PRODEM, FENACRE, Consultants	Develop and submit to USAID a realistic, feasible graduation plan of the Project's credit beneficiaries. This plan will be prepared within one year from the date of signing of the cooperative agreements with PRODEM and FENACRE and will be based on a study of the Project's credit beneficiaries. (See Section on evaluation and audits).

Subsequent activities are dependent upon the work plans and schedules developed in Step 13, with the exception of scheduled evaluations and audits.

E. Evaluations and Audits

There will be at least two independent evaluations of the Project. The first evaluation will focus on preliminary impact and performance indicators, and will be used to validate the basic strategy and approach of the program and to recommend modifications in the strategies during the latter part of the Project. It will take place at mid-term. An evaluation specialist will be hired early in the Project to assist in developing a project evaluation methodology. Other evaluations of the whole Project or of specific Project components will be carried out as needed based on implementation experience.

Data required for the evaluations will be planned during the first semester of the Project. Standard record keeping forms will be designed, and relevant evaluation data will be collected and maintained by PRODEM, FENACRE and FEBOPI/ADEPIs concerning their respective elements of the program. The Project monitoring plan, discussed in Section F below, has been designed to facilitate the collection of data and the implementation of meaningful evaluations.

Important data and monitoring information to be collected include:

* Changes in employment; investments in assets, working capital and inventory; net profitability; sales; salaries and wages paid; cost of production.

* Employment of women and support of women-owned, managed or operated enterprises.

* Distribution of loans by size of loan, size of firm, income of loan recipient, etc.

* Financial performance of the intermediaries in terms of spreads, delinquencies, capitalization, etc.

* Accomplishment of Project objectives of self-sustaining capital fund, self-sufficiency of the intermediary institutions, and adequacy of institutional support for the activity.

* Accomplishment of output targets in terms of training, technical assistance and credits granted.

Specific concerns to be addressed by the mid-term evaluation include:

* Performance of the institutions implementing the Project;

* Progress toward accomplishment of outputs and purpose;

* Possibility of leveraging the funds with major banks;

* Terms and conditions of subloans, and adequacy of interest rates and fees;

* Degree of self-sufficiency of the participating intermediaries;

* Feasibility and desirability of incorporating other financial institutions into the program; and

* Feasibility and desirability of incorporating other non-financial intermediaries into the Project.

The second evaluation will be an end-of-project evaluation focussing on lessons learned, Project impact, and the sustainability of Project results. It will take place four months prior to the scheduled completion date of the Project.

In addition, a special study will be conducted within the 12-month period after the signing of the Cooperative Agreements with PRODEM and FENACRE. This study will focus on the impact of the credit component of the Project as a basis for developing a feasible graduation plan for micro and small entrepreneurs participating in the Project. Among other things, the study will assess the trade-off between reaching a large number of beneficiaries during relatively short periods of time (of say, two years of participation in the program) versus longer graduation periods and improved prospects for higher capitalization, self sufficiency, or access to the formal banking system by participating entrepreneurs. The study will provide the basis for a plan that will present alternative graduation schemes which include detailed criteria for the termination of assistance to PRODEM's and FENACRE's beneficiaries once they reach a certain level of self-development and/or qualify for alternative financing mechanisms.

There will also be two external audits during the life of the Project. These will be contracted to local auditing firms. The first audit should take place during the second half of the second year of the Project. The second audit would be performed during the fourth year.

F. <u>Detailed Project Monitoring Plan</u>

The Project Monitoring Plan discussed in this section has been designed to: (a) assure USAID/Bolivia of the timely progress and accomplishments of the Project, and (b) collect the data that is necessary for effective evaluation of Project success and impact. It will serve as an effective early warning system, alerting Project management and the USAID of any problems that need to be addressed.

1. Management of the Monitoring Function

The Project monitoring function will be coordinated by a FSN direct-hire Project Coordinator who will work in the USAID/Bolivia Office.

Direct responsibility for developing, installing and administering the Project Monitoring System will be with the Overall Project Advisor/Coordinator (PSC) for the major technical assistance Project. This individual will, in coordination with the USAID/Bolivia Project Coordinator, design the monitoring instruments, ensure the development of computer-based data base management programs to collect and manage the monitoring information, train appropriate staff in the participating organizations in the correct application of the monitoring process, supervise the implementation of the monitoring system in all entities, and prepare regular reports on the status and accomplishments of the Project.

Implementing the Project Monitoring System will be the responsibility of the individual institutions engaged in the Project -- PRODEM, FENACRE, the local credit unions and FEBOPI/ADEPIs. These institutions will have responsibility for the accurate and complete collection and processing of the information.

2. Design and Development

The project monitoring system should be designed as an integrated information system. Implementation of the system would be decentralized among the participating institutions, while overall management, analysis and use of the system would be centralized in the office of the Overall Project Advisor of the technical assistance Project and the USAID/Bolivia Project Coordinator.

The system would provide information of immediate benefit to the institution that collects and processes it. Information used by consolidating institutions -- FENACRE for the credit unions, FEBOPI for the ADEPIs, and USAID/Bolivia -- would derive from information that is useful to the institutions that have primary responsibilities for interacting with the clients.

Computers will be necessary for managing the volume of data collected effectively and efficiently, but the success of the activity lies in the design of the indicators and processes for analyzing and utilizing them. The computer program necessary to process this information is a standard data base program (such as dBase-III, R-Base, Oracle, or any of a number of similar products); extensive or unique programming is neither required nor desirable.

Short-term technical assistance in information system design for monitoring systems will be necessary to help design and develop the specifications for the system, plan the contents and format of the data collection forms that will be used and assist in monitoring the installation of the systems in the various entities. The short-term technical assistance will also assist in planning the integration of the data collection forms with data from the financial data systems of the intermediaries, and to develop the external design of the computer programs necessary to support the monitoring activity at each level. Actual programming of the data bases, including the report programs, would be contracted to a well-established local software firm with past successful experience in developing such programs. Programmers would not be hired internally by the institutions to develop the initial programs, although operation and maintenance of the systems may require in-house programming staff.

3. Data Requirements

The monitoring system requires the regular and systematic collection of data on a series of key indicators for the Project. These include:

Participating Businesses

* Identification data (including name, address, RUC or carnet no., type of business, etc.)

* Assets (including total assets, investment in fixed assets and equipment, investment in inventory, working capital);

* Income and Expenses (including salaries and wages paid, gross sales, taxes paid and net income)

* Number of employees (full-time and "eventuales")

* Personal data (sex of owner, role of spouse in business, role of other family members in business)

Financial Operations of the Intermediaries

* Number and amount of loans granted

* Number and amount of loans outstanding

* Delinquency

* Income (financial and non-financial)

* Expenses (financial and non-financial)

* Net Margin

* Current value of the small-enterprise fund

* Financial Statements - Balance Sheet, Income Statement, Cash Flow.

Non-Financial Operations

* Project statistics (such as number of people trained, number of new applications received, etc.)

4. Reports

Each month the monitoring syster should produce a standard set of reports summarizing the progress of and problems encountered by the Project.

An output file will be produced each month by each participating intermediary and sent to the Overall Project Coordinator of the technical assistance team for consolidation and analysis.

G. Inter-Institutional Relationships and Communications Requirements

Because of the number of institutions involved in implementing the Project it is important to understand the relationship among them and the responsibilities that each has vis-a-vis the others: PRODEM, FENACRE/ADEPIs, FEBOPI, Project Management.

PRODEM

The PRODEM system consists of PRODEM, its clients and the bank that services the account. PRODEM has the responsibility of gathering sufficient information on beneficiaries to meet loan appraisal and project monitoring objectives. It has the responsibility of disbursing loans to the beneficiaries and collecting those loans. The beneficiaries have the responsibility of repaying loans promptly and of guaranteeing the loans of members of their group. The bank has the responsibility of processing loans and repayments promptly, maintaining accounts, remitting funds to PRODEM and notifying PRODEM immediately of any delinquencies.

The information flows needed to support this sub-system have been reasonably well developed. PRODEM needs to improve its statistical records on clients, both to improve project monitoring and plan training and support services. PRODEM also will provide training to the borrowers.

FENACRE/FEBOPI

The relationships and information flows in the FENACRE/FEBOPI subsystem (in fact, the ADEPIs will interact with FENACRE in lieu of FEBOPI) are more complex and difficult to describe. These entities will provide training to the participating members.

FENACRE - Credit Unions

FENACRE is responsible for disbursing monies, collecting loans due, supervising and auditing the credit unions. To fulfill this role it needs to have information on planned disbursements from the credit unions, detailed loan and financial information on the credit unions, and statistical information on borrowers under the program. FENACRE is also responsible for maintaining and reporting program statistics; for this it will need to receive copies of all loan applications and statistical data from the credit unions.

Credit Unions - ADEPIs

The ADEPIs have the responsibility of identifying eligible borrowers, providing assistance to these borrowers in the preparation of business plans and loan applications and providing technical supervision of credit recipients. To do this they must provide the credit union with lists of qualified members. They must also supply the credit union with business analyses and loan applications/business plans for beneficiaries requesting loan assistance. They must also notify the credit unions of technical problems with businesses that have borrowed funds.

The credit unions have the responsibility of maintaining access to sufficient funds to meet member loan demands, evaluating loan applications, extending loans to qualified borrowers, collecting payments, controlling delinquencies and reimbursing FENACRE on schedule. The credit union must know the availability of funds and the scheduling of FENACRE disbursements for micro- and small-scale enterprise lending. This requires sufficient advance notification of funds needs on the part of the credit union and a notification from FENACRE of its ability (or inability) to meet that demand. The credit union must be able to provide the ADEPI with lists of delinquent borrowers. It must also reimburse the ADEPI for technical assistance services according to a pre-established schedule.

Credit Union - Borrower

To receive a loan the borrower must present adequate documentation -- a valid loan application, statistical information, business plan and guarantees -- to the credit union. The credit union must present the borrower with an accurate repayment schedule.

VI. LIFE OF PROJECT COST ESTIMATES AND FINANCIAL PLAN

The Life-of-Project (LOP) for the Project will be $14.12 million. Of this amount, USAID/Bolivia will contribute $10.0 million, the Government of Bolivia $1.85 million and the Bolivian private sector $2.27 million in the form of institutional overhead and owners' equity. USAID/Bolivia's funding will cover technical assistance, training, operational support and credit funds. The GOB contribution, which will come from local currency generated under ESF and/or PL-480 Programs will be used exclusively for credit purposes. A total of $400,000 have been already earmarked under the 1987 ESF Program (511-0593) as part of the GOB counterpart contribution.

A. USAID Funding

Funding provided by USAID Bolivia will cover technical assistance to the intermediary institutions charged with implementing the Project and providing services to micro- and small-scale enterprises, training for intermediary institution staff, funding for a specific number of policy-oriented studies and operational support for the intermediary institutions. USAID/Bolivia funding will also provide $6.0 million in credit funds for the program.

The tables and notes on the following pages detail these expenditures.

1. Technical Assistance

Technical assistance will be contracted through two separate contracts -- one with AITEC on a sole-source procurement basis, the other by open competition. The AITEC contract will cover a local technical advisor for 60 person-months and 18 person-months of TCN short-term advisors, for a total amount of $400,000. Under the other contract there will be 36 person-months of a long-term credit management advisor for FENACRE, and 36 person-months of US and TCN short-term specialist advisors for FENACRE and the ADEPI Credit Unions as further detailed below (a four year PSC for the Overall Project Coordinator is included under other Implementing Costs):

TECHNICAL ASSISTANCE (TA) (in $000's)	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
AITEC (*)						
- LT Local Technical Advisor (60 pms)	64	64	64	64	64	320
- TCN ST Advisors (10 pms)	32	32	16	-	-	80
INSTITUTIONAL CONTRACT(**)						
- LT FENACRE Advisor (36 pms)	240	240	240	-	-	720
- ST FENACRE Advisors(18 pms)	66	66	66	-	-	198
- ST ADEPI/FEBOPI Advisors (18 pms)	66	66	66	-	-	198
Sub-total TA cost:	468	468	452	64	64	1,516

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* The average cost per person month includes salary, benefits, travel, per diem, other direct costs and overhead.

** The average cost per person month includes all direct and indirect costs assuming a US LT Advisor and an average of TCN and US ST specialists.

2. Commodities

Commodities consist primarily of computer equipment to process the accounting and statistical records associated with the program, office furniture and equipment (including desks, chairs, filing cabinets, desk calculators, typewriters, and photocopying machine, etc.) for technicians and personnel hired by the various institutions to implement the Project, one vehicle for PRODEM (Santa Cruz) and 8 motorcycles (3 in La Paz and 5 in Santa Cruz).

COMMODITIES (In $000's)	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
PRODEM						
- Central office Expansion (Includes El Alto)						
- Computer System (4 units)	32	-	-	-	-	32
- Office furniture & Equip.	20	-	-	-	-	20
- 3 Motorcycles	10	-	-	-	-	10
- Replication Office (Santa Cruz)						
- Computer System (3 units)	24	-	-	-	-	24
- Office equipment	20	-	-	-	-	20
- 1 Vehicle	20	-	-	-	-	20
- 5 Motorcycles	15	-	-	-	-	15
FENACRE						
- Computer System (CPU with 8 terminals)	50	-	-	-	-	50
- Office furniture and equipment (4 additional positions)	24	-	-	-	-	24
ADEPI Credit Unions						
- Computer System (5 units)	20	20	-	-	-	40
- Office furniture and equipment (5 additional positions)	15	15	-	-	-	30
ADEPIs and FEBOPI						
- Office furniture & Equip. (7 additional positions)	22	20	-	-	-	42
Sub-Total Commodities Cost:	272	55	0	0	0	327

3. Training

The Project finances two different forms of training -- one for the personnel of the intermediary institutions to prepare them to implement the Project, the other directly for the end beneficiaries. The PRODEM cost estimate includes funds for all of its internal training activities, so these are not presented in this table.

TRAINING (In $000's)	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
PRODEM						
IDEA/Carvajal-type extension agent training courses, ($10,000/course x 4)	10	20	10	-	-	40
Invitational travel, (2 RTs/yr x 5)	8	8	8	8	8	40
In-country on the job training (15 RTs/yr x 5)	10	5	5	5	-	25
FENACRE						
In-country training for Credit unions manager & loan officers with 25 attendees each (3 courses/year x 2)	30	30	-	-	-	60
Invitational travel, (2 RTs/yr x 5)	8	8	8	8	8	40
ADEPIs						
In-country training seminars (1 year x 2)	4	4	-	-	-	8
Invitational travel, (4/year x 5)	16	16	16	16	16	80
DIRECT PROJECT BENEFICIARIES						
Special seminars, (5/yr x 5)	10	10	10	10	10	50
Special TCN instructors (2/year x 3)	12	12	12	-	-	36
Sub-Total Training Cost:	108	113	69	47	42	379

4. Operational Support

All activities under the Project are designed to be self-financing by the end of the LOP. For the institutions implementing the services under the Project, however, there is a need to employ additional staff and incur other operational expenses in advance of the ability to generate sufficient revenues through the loan portfolio. These advance operating costs will be met under the Project by operating grants based on the cash flows shown in the Financial Analysis Section.

5. Policy Research Studies

USAID/Bolivia will provide funding for a specific number of policy-oriented studies to be carried out by the ADEPI/FEBOPIs using local and TCN specialized contractors during the first three years of the life of the project as follows:

POLICY RESEARCH STUDIES (in $000's)	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
2 studies/yr x 3	50	50	50	-	-	150

6. Other Implementation Costs

Under this category, USAID/Bolivia will finance the A.I.D. U.S. Project Coordinator to be recruited locally for four years, and the project ex-post evaluations and audits as detailed below:

OTHER IMPLEMENTATION COSTS (in $000's)	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
AID Overall Project Coordinator Local U.S. PSC, (48 pms)	150	150	150	150	-	600
Outside Expert Evaluations (3 pms/evaluation x 2)	-	45	-	45	-	90
Audits (2/LOP)	-	20	-	20	-	40
Sub-Total Other Impl. Costs	150	215	150	215	-	730

7. Credit Funds

Based on the projected loan portfolios for PRODEM and FENACRE, USAID/Bolivia funds are expected to be disbursed as follows:

CREDIT FUNDS (in $000's)	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
PRODEM	1,000	500	300	-	-	1,800
FENACRE	1,656	944	800	512	288	4,200
Sub-Total Credit Disbursements	2,656	1,444	1,100	512	288	6,000

These cost estimates will be reviewed, as necessary, based on Project Implementation experience.

B. GOB Funding

The GOB funding will be used only for credit. PRODEM will receive $650,000 and FENACRE $1,200,000 as follows:

1. Credit Funds

Based on the projected loan portfolios for PRODEM and FENACRE, GOB funds are planned to be disbursed as follows:

CREDIT FUNDS (in $000's)	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
PRODEM	-	350	300	-	-	650
FENACRE	200	400	600	-	-	1,200
Total Credit GOB Credit Funds:	200	750	900	-	-	1,850

C. Private Sector Funding

The implementing agencies (PRODEM, FENACRE and ADEPI/FEBOPIs) will contribute a total estimated amount of $2,270,000. This contribution includes mainly institutional overhead, owner's equity, building maintenance/depreciation, furniture and equipment, utilities, and porcentage of salaries of personnel assigned to the project.

The following tables summarizes the financial plan and cost estimates for the Life of the Project by inputs and implementing agencies and by funding source.

TABLE I(A): LIFE OF PROJECT SUMMARY COST ESTIMATES AND FINANCIAL PLAN(IN US$ 000)

		FINANCING SOURCES						
INPUTS		AID GRANT FX	AID GRANT L/C		GOB L/C	PRIVATE SECTOR L/C	TOTAL FX	TOTAL L/C
I. TECHNICAL ASSISTANCE(TA)		1,516	0	1,516	0	0		
a) AITEC(PRODEM)		400	0		0	0	400	0
1) Local Technical Advisor (60 pms)	320							
2) TCN ST Advisors(10 pms)	80							
b) INSTITUTIONAL CONTRACT		1,116	0		0	0	1,116	0
1) US LT FENACRE Credit Advisor(36 pms)	720							
2) US/TCN ST FENACRE Advisors(18 pms)	198							
3) US/TCN ST ADEPI Credit Unions Advsrs(18 pms)	198							
II. COMMODITIES		146	181	327	0	0		
a) PRODEM(includes La Paz expansion & Santa Cruz)		56	85		0	0	56	85
1) Computer System(7 units including software)	56							
2) Office Furniture and Equipment	40							
3) Vehicle(1 unit)	20							
4) Motorcycles(8 units)	25							
b) FENACRE		50	24		0	0	50	24
1) Computer System(CPU w/ 8 terminals)	50							
2) Office Furniture & Equipment(4 new posts)	24							
c) ADEPI Credit Unions		40	30		0	0	40	30
1) Computer System(5 units)	40							
2) Office Furniture & Equipment(5 new posts)	30							
d) ADEPIs		0	42		0	0	0	42
1) Office Furniture & Equipment(7 new posts)	42							
III. TRAINING		196	183	379	0	0		
a) PRODEM		40	65		0	0	40	65
1) In-country Training(4 ST courses/LOP)	40							
2) Invitational Travel(2 RTs/yr x 5)	40							
3) In-Country on-the-job Training(15 RTs/yrx5)	25							
b) FENACRE		40	60		0	0	40	60
1) In-country Training(3 ST courses/yr x 2)	60							
2) Invitational Travel(2 RTs/yr x 5)	40							
c) ADEPIs		80	8		0	0	80	8
1) In-country Training Seminars(2/yr x 2)	8							
2) Invitational Travel(4 RTs/yr x 5)	80							
d) DIRECT PROJECT BENEFICIARIES		36	50		0	0	36	50
1) Special Seminars(5/yr x 5)	50							
2) Special TCN Instructors(2/tr x 3)	36							
IV) OPERATIONAL SUPPORT		0	570	570	0	700 (**)		
a) PRODEM		0	270 (*)		0	150	0	420
b) FENACRE & 5 ADEPI Credit Unions		0	0 (*)		0	350	0	350
c) FEBOPIs & ADEPIs System		0	300		0	200	0	500
V) POLICY RESEARCH STUDIES		75	75	150	0	0	75	75
VI) OTHER IMPLEMENTATION COSTS		690	40	730	0	0	690	40
a) AID Project Coordinator(48 pms)	600							
b) Outside Ex-post Evaluations(3 pms/eva. x 2)	90							
c) Audits(2/LOP)	40							
VII) CREDIT FUNDS		0	6,000	6,000	1,850	0		
a) PRODEM		0	1,800		650	0	0	2,450
b) FENACRE		0	4,200		1,200	0	0	5,400
VIII) OWNER'S EQUITY		0	0	0	0	1,570		
a) PRODEM		0	0		0	490	0	490
b) FENACRE		0	0		0	1,080	0	1,080
IX) PRICE/QUANTITY CONTINGENCIES(***)		80	248	328	0	0	80	248
T O T A L S:		2,703	7,297		1,850	2,270	2,703	11,417
				10,000	4,120		14,120	
PERCENTAGE OF TOTAL PROJECT COSTS:		(70.8%)			(13.1%)	(16.1%)	(100.0%)	
					(29.2%)			

(*) These calculations are based on the operational support budget analysis for PRODEM & FENACRE.
(**) Mostly in kind contributions.
(***) Approx. 3% reserve to finance unforseen variations in prices/ quantities is included for the AID grant.
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TABLE 1(E) LIFE OF PROJECT SUMMARY COST ESTIMATES AND FINANCIAL PLAN(IN US$ 000)

IMPLEMENTING AGENCIES		FINANCING SOURCES: AID GRANT FX	AID GRANT L/C	AID GRANT TOTAL	GOB L/C	PRIVATE SECTOR L/C	TOTAL FX	TOTAL L/C
I. PRODEM		496	2,220	2,716	650	640		
a) TECHNICAL ASSISTANCE(AITEC)		400	0		0	0	400	0
1) Local Technical Advisor (60 pms)	320							
2) TCN ST Advisors(10 pms)	80							
b) COMMODITIES(Includes La Paz Extension and Santa Cruz)		56	85		0	0	56	85
1) Computer System(7 units including software)	56							
2) Office Furniture and Equipment	40							
3) Vehicle(1 unit)	20							
4) Motorcycles(8 units)	25							
c) TRAINING		40	65		0	0	40	65
1) In-country Training(4 ST courses/LOP)	40							
2) Invitational Travel(2 RTs/yr x 5)	40							
3) In-Country on-the-job Training(15 RTs/yrx5)	25							
d) OPERATIONAL SUPPORT		0	270		0	150	0	420
e) CREDIT FUNDS		0	1,800		650	0	0	2,450
f) OWNER'S EQUITY		0	0		0	490	0	490
II. FENACRE(*)		1,084	4,364	5,448	1,200	1,430		
a) TECHNICAL ASSISTANCE(INSTITUTIONAL CONTRACT)		918	0		0	0	918	0
1) US LT FENACRE Credit Advisor(36 pms)	720							
2) US/TCN ST FENACRE Advisors(18 pms)	198							
b) COMMODITIES		90	54		0	0	90	54
1) Computer System(FENACRE & ADEPI CUs)	90							
2) Office Furniture & Equipment(FENACRE/ADEPIs)	54							
c) TRAINING		76	110		0	0	76	110
1) In-country Training(3 ST courses/yr x 2)	60							
2) Invitational Travel(2 RTs/yr x 5)	40							
3) Seminars for Direct Beneficiaries(5/yr x 5)	50							
4) TCN Instructors for Seminars(2/tr x 3)	36							
d) OPERATIONAL SUPPORT(FENACRE & 5 ADEPI CUs)		0	0		0	350	0	350
e) CREDIT FUNDS		0	4,200		1,200	0	0	5,400
f) OWNER'S EQUITY		0	0		0	1,080	0	1,080
III. ADEPIs & FEBOFIs		353	425	778	0	200		
a) TECHNICAL ASSISTANCE(INSTITUTIONAL CONTRACT)								
1) US/TCN ST ADEPI/FEBOFI Advsrs(18 pms)		198	0		0	0	198	0
b) COMMODITIES								
1) Office Furniture & Equipment(7 new posts)		0	42		0	0	0	42
c) TRAINING		80	8		0	0	80	6
1) In-country Training Seminars(2/yr x 2)	8							
2) Invitational Travel(4 RTs/yr x 5)	80							
d) OPERATIONAL SUPPORT		0	300		0	200	0	500
e) POLICY RESEARCH STUDIES		75	75		0	0	75	75
IV) OTHER IMPLEMENTATION COSTS		690	40	730	0	0	690	40
a) AID Project Coordinator(48 pms)	600							
b) Outside Ex-post Evaluations(3 pms/eva. x 2)	90							
c) Audits(2/LOP)	40							
V) PRICE/QUANTITY CONTINGENCIES		80	248	328	0	0	80	248
T O T A L S:		2,703	7,297		1,850	2,270	2,703	11,417
				10,000	4,120		14,120	
PERCENTAGE OF TOTAL PROJECT COSTS:		(70.8%)			(13.1%)	(16.1%)	(100.0%)	
					(29.2%)			

(*) Includes 5 ADEPI Credit Unions as part of the FENACRE system.

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TABLE II: PROJECTION OF EXPENDITURES BY PROJECT YEAR(IN US$ 000)

FINANCING SOURCES/IMPLEMENTING AGENCIES	PROJECT YEARS								
	YEAR 1		YEAR 2		YEAR 3		YEAR 4		YEAR 5
I. AID GRANT	FX	LC	FX	LC	FX	LC	FX	LC	FX
A. PRODEM									
a) Technical Assistance	96	0	96	0	80	0	64	0	64
b) Commodities(Includes La Paz extension & Sta Cruz)	56	85	0	0	0	0	0	0	0
c) Training	8	15	8	25	8	15	8	5	8
d) Operating Support	0	125	0	145	0	0	0	0	0
e) Credit Funds	0	1,000	0	800	0	0	0	0	0
B. FENACRE									
a) Technical Assistance(Institutional Contract)	306	0	306	0	306	0	0	0	0
b) Commodities	70	39	20	15	0	0	0	0	0
c) Training	20	40	20	40	20	10	8	10	8
d) Operational Support(Fenacre & 5 ADEPI CUs)	0	0	0	0	0	0	0	0	0
e) Credit Funds	0	1,656	0	944	0	800	0	512	[illegible]
C. ADEPIs & FEBOPIs									
a) Technical Assistance(Institutional Contract)	66	0	66	0	66	0	0	0	0
b) Commodities	0	22	0	20	0	0	0	0	0
c) Training	16	4	16	4	16	0	16	0	16
d) Operating Support	0	60	0	60	0	60	0	60	0
e) Policy Research Studies	25	25	25	25	25	25	0	0	0
D. OTHER IMPLEMENTATION COSTS									
a) AID Overall Project Coordinator	150	0	150	0	150	0	150	0	0
b) Outside Ex-post Evaluations	0	0	45	0	0	0	45	0	0
c) Audits	0	0	0	20	0	0	0	20	0
E. Price/Quantity Contingencies	20	48	20	50	15	50	10	50	15
TOTAL AID CONTRIBUTION:	833	3,119	772	2,148	686	960	301	657	111
YEARLY TOTALS:		3,952		2,920		1,646		958	
II. HOST COUNTRY CONTRIBUTION									
1. GOB									
A) PRODEM									
a) Credit Funds	0	0	0	350	0	300	0	0	0
B. FENACRE									
a) Credit Funds	0	200	0	400	0	600	0	0	0
TOTAL GOB CONTRIBUTION:	0	200	0	750	0	900	0	0	0
2. PRIVATE SECTOR									
A) PRODEM									
a) Operational Support	0	30	0	30	0	40	0	30	0
b) Owner's Equity	0	80	0	100	0	120	0	100	0
B. FENACRE									
a) Operational Support	0	60	0	60	0	70	0	80	0
b) Owner's Equity & Institutional Overhead	0	140	0	250	0	300	0	250	0
C. ADEPIs & FEBOPIs									
a) Operational Support	0	40	0	40	0	50	0	40	0
TOTAL PRIVATE SECTOR CONTRIBUTION:	0	350	0	480	0	580	0	500	0
TOTAL HOST COUNTRY CONTRIBUTION:	0	550	0	1,230	0	1,480	0	500	0

MICRO & SMALL ENTERPRISE DEVELOPMENT

GRAND TOTALS:	833	3,669	772	3,378	686	2,440	301	1,157	111

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D. Project Accounting and Disbursement System

The disbursement system includes measures to assure the systematic and timely flow of project funds. The system will provide for advances of AID local currency funds, and counterpart local currency funds to be deposited as they are generated into special project bank accounts to be maintained by PRODEM and FENACRE. Both PRODEM and FENACRE will be responsible for disbursing funds from the special accounts in accordance with quarterly budget approvals by USAID. PRODEM and FENACRE will submit a 12 month implementation plan setting forth the administrative costs in Bolivianos including salaries, office rent, office equipment and materials, etc. AID will approve the plan through a PIL. This Plan should contain all information necessary to implement the Project. As a minimum it should include: (1) monthly schedule of salaries and other recurrent costs by source of funding i.e. AID and counterpart contribution and (2) a procurement schedule for the purchases of office equipment, supplies, etc. USAID/Bolivia dollar payment for technical assistance, international training, purchase of vehicles and computers will not be made through the special accounts, but directly to suppliers. In order to implement the new disbursement system, USAID/Bolivia and the Grantees have agreed on detailed disbursement schedules for the Project. (Table II).

AID funds for the project will be channeled as indicated in Table III below. (Method of Implementation and Financing for AID Resources).

TABLE III

METHOD OF IMPLEMENTATION AND FINANCING FOR AID RESOURCES

(In US$ 000)

MAJOR PROJECT ELEMENT	TYPE OF ASSISTANCE	METHOD OF IMPLEMENTATION	METHOD OF FINANCING	ESTIMATED AMOUNT
Technical Assistance	(AITEC) Host-Country Contract	Non-Profit Institutional Contractor	Direct Payment	400
Technical Assistance	Direct AID Contract	Profit making Institutional Contractor	Direct Payment	1,116
Commodities (computer & vehicles)	AID direct Procurement	Profit making International Contractor	Direct Payment	146
Commodities (office furniture, equipment and motorcycles)	Host Country Contract	Profit making Local Institutional Contractor	Direct Reimbursement	181

MAJOR PROJECT ELEMENT	TYPE OF ASSISTANCE	METHOD OF IMPLEMENTATION	METHOD OF FINANCING	ESTIMATED AMOUNT
Training (Local)	Inter-Institutional Contract	Profit making Local Institu - tional Contractor	Direct Reimbursement	100
Training (Short term interna-tional courses and instructors)	Place by Mission	Invitational Travel	Direct Payment	196
Training (Local seminars on the job training)	Implementing Agencies	Provided by the Implementing Agencies	Direct Reimbursement	83
Operational Budget Support (PRODEM, FEBOPI, and ADEPIs)	Implementing Agencies	Subsidy Financing	Direct Reimbursement	570
Policy Research Studies	Direct AID contract or Host Country Contract	Profit Local or TCN Institutional Contractor	Direct Payment or Direct Reimbursement	150
Other Implemen-tation Costs (AID Project Coordinator)	Direct AID Contract	PSC	Direct Payment	600
Other Implemen-tation Costs (Outside evaluations)	Direct AID Contract	Profit making Institutional Contractor	Direct Payment	90
Other Implemen-tation Costs (Audits)	Implementing Agencies	Profit making Local Insti-tutional Contractor	Direct Reimbursement	40
Credit Funds (FENACRE)	ICI Arrangements	Loan Financing	Direct Reimbursement	4,200
Credit Funds (PRODEM)	Arrangement with PRODEM	Loan Financing	Direct Reimbursement	1,800
Sub-total				9,672
Contingencies in price and quantity				328
Total AID Contribution				$10,000

0732L

E. Procurement Plan

Acquisition of goods and services will follow AID Procurement Regulations (HB 15, HB 14, HB 11). Eligible geographic codes are the United States (000) and Bolivia. Waivers approved by the Mission Director will be required for the procurement of goods and services from outside these geographic areas.

1. Procurement of Commodities

Computer Systems

Computer systems will be acquired for PRODEM, FENACRE and ADEPI Credit Unions. The computers source and origin will be U.S. and Bolivia and will be purchased by AID under RFP procedures (HB 14) whether in the U.S. or locally, depending on delivery time, maintenance service and needs of the implementing agency. Procurement is expected to take place by the end of the fourth quarter of FY 1988. Specifications will be prepared by PRODEM, FENACRE and ADEPIs under the guidance of the Overall Project Coordinator and the USAID ADP Specialist.

Vehicles/Motorcycles

Source and origin of vehicles will be Code 000 and will be purchased in the U.S. unless there are U.S.-manufactured vehicles in stock in Bolivia. The motorcycles will be purchased in Bolivia, and will be of Japanese manufacture because there are no known motorcycles of U.S. manufacture of the type required by the Project.

Office Furnishings

Office furnishings will be procured directly by the participating entities using at least three competitive quotations (per HB 11). Contracting procedures (advertising, evaluation, award) will be reviewed and approved by USAID before the contracts are signed. The following entities will purchase office furnishings.

- PRODEM for expansion of La Paz office and the establishment of an office in Santa Cruz.

- FENACRE for the unit that will manage the project.

- FEBOPI and ADEPI for establishment and/or expansion of seven offices

- ADEPI Credit Unions for the establishment and/or expansion of five ADEPI credit unions.

2. Procurement of Services

Technical Assistance to PRODEM

Technical assistance will be contracted by PRODEM (HB 11) with AITEC/Acción Internacional under a sole source procurement selection. (A sole waiver will be required). The AITEC/Acción Internacional will cover both long- (36 pm) and short- (10 pm) term assistance. The contract is expected to be signed during the first half of FY 1989. The contract document will be prepared by PRODEM and approved by USAID.

Technical Assistance to FENACRE/FEBOPI/ADEPIs

Long- (36 pm) and short- (36 pm) term technical assistance to FENACRE will be procured under full and open competition procedures (HB 14). If available, the assistance could also be procured under 'a) procurement procedures (Gray Amendment). This assistance will be contracted by AID. The PIO/T will be prepared by September 31, 1988 and sent to RCO for necessary action.

The provision of technical assistance is expected to start by January 1989.

Training

Training will be provided at two levels-- to the entities involved in project implementation and to the project-end beneficiaries. The training will be provided directly by the participating institutions, of if necessary contracted (HB 11) in Bolivia or 941 Code countries by PRODEM for the micro enterprise segment and by FENACRE for the small enterprise segment of the Project.

F. Waivers

A Sole Source Waiver (less than full and open competition) is required to allow the contract with AITEC International to provide technical assistance to PRODEM. There are three major reasons to contract AITEC on a non-competitive basis:

-- AITEC has a unique expertise in the design and implementation of micro enterprise development projects in Latin America;
-- AITEC developed and successfully worked with PRODEM in the implementation of the existing pilot Micro Enterprise Development Project; and
-- Implementation of the micro enterprise component of this Project represents a continuation of the current pilot project with PRODEM. If competed, AITEC will most likely be selected again on the basis of its unique capability, experience in the field, and the advantage of being able to continue to assist PRODEM with its expansion and replication plans without interruption. Thus, the continued use of AITEC will safe valuable time and will further the development objectives of the USAID program in Bolivia by expediting Project implementation.

This waiver will be approved by the Mission Competition Advocate, Per FAR 6.303-4.

0732L

VII. CONDITIONS PRECEDENT (CPs) AND COVENANTS

The Agreement to be signed with the GOB Ministry of Planning will have two CPs:

(i) a legal opinion of the Attorney General of Bolivia, or other counsel acceptable to A.I.D., stating that this Agreement has been duly authorized, or ratified by, and executed on behalf of the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms; and

(ii) a statement of the name(s) of the person(s) holding or acting in the office of the Grantee specified in Section 8.2 of the Agreement and of any additional representatives, together with a specimen signature of each person specified in such statement.

The Cooperative Agreements to be signed with FENACRE and PRODEM will have the following CPs:

A. <u>Conditions Precedent to First Disbursement under the Credit Component</u> (FENACRE)

Prior to the first disbursement under the Grant or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made for the credit component of the Project, FENACRE will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

(a) a plan on how FENACRE and the participating credit unions of the system will segregate these funds from other funds, (b) a set of approved credit regulations, including loan eligibility criteria and loan appraisal procedures, and (c) an investment plan to maintain the value of the funds, cover all costs and risk associated with managing the funds and stimulating savings mobilization in the credit union system.

Prior to the disbursement of funds by FENACRE to the participating credit unions, FENACRE will certify that the credit union has all the necessary controls and accounting systems to effectively account for the use of such funds.

B. <u>Conditions Precedent to First Disbursement under the Credit Component</u> (PRODEM)

Prior to the first disbursement under the Grant or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made under the credit component of the Project, PRODEM will, except as

A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

(a) evidence of the installation by PRODEM of a new accounting system, audited and approved by USAID/Bolivia, in addition to a computerized portfolio control, (b) projections for the expansion of the program that separates operating from establishment costs and non-financial from financial costs, and (c) an investment plan that would guarantee the maintenance of value of the funds, including an interest rate and fee structure that would cover all costs and risks of administering the credit. The investment plan would also provide a mechanism for increasing the fund's capitalization from internal sources (savings) that leverages the funds by at least 10%.

VIII. PROJECT ANALYSES SUMMARY

A. Institutional and Administrative Analysis

The Micro-and Small-Scale Enterprise Development Project is designed to channel credit, technical assistance and training to micro-and small-scale entrepreneurs in Bolivia through several existing Bolivian institutions:

PRODEM -- A local non-profit foundation that provides credit, training & technical assistance to micro-enterprises.

FENACRE -- The national association of credit unions, which provides interlending services, auditing and training support to its affiliated credit unions, and loans directly to end users.

CREDIT UNIONS -- The affiliated members of FENACRE, which provide credit and savings services to their individual members, many of whom are micro- and small-scale entrepreneurs. Part of the funds channeled through the credit union system will be managed by five newly created credit unions associated with the ADEPIs; the other part will be managed by 23 existing urban credit unions.

FEBOPI -- The national association of small-scale industrialists, which was organized to represent the interests of this sector of the economy.

ADEPIs -- Departmental (state) level associations of small-scale industrialists that are affiliated with FEBOPI. These institutions will be expected to provide and/or coordinate training and technical assistance to small-scale enterprise credit recipients.

The ultimate success of the project, in terms of its socio-economic impact on the intended beneficiaries, depends on the implementation abilities of these institutions.

1. PRODEM

PRODEM has compiled an impressive track record during its first year of operations, reaching a large number of clients with credit and basic training while experiencing a very low delinquency rate. The credit component of PRODEM is well-managed, particularly with regard to rapid signalling and follow-up of loan delinquencies. As a result, delinquency rates for the program have been very low.

The financial administration of PRODEM, however, is weak in a number of significant areas. PRODEM does not have a formal budgeting process, does not project its cash flows, and has an accounting system that permits commingling of funds. Financial reports produced by PRODEM's accounting system do not entail a rigorous examination of the financial status of the institution. PRODEM needs to improve its financial administration by installing a better accounting program (including budgeting and financial projections modules) that can manage separate credit lines and cost centers without commingling funds. For these reasons, PRODEM will be asked to consider purchasing (and, if necessary, modifying) a commercially produced savings and loan package. At the present time two such small-system packages, custom-developed for the Bolivian environment, exist in the country -- one produced by SEINCO of Cochabamba, the other by Alpha Systems of La Paz.

Under the proposed program, PRODEM's volume of business would increase at least 1000%. It has not demonstrated fully the institutional capacity to manage a program of this magnitude. It would need increased staff and office facilities just to handle this increased volume of business, including, most importantly, a general manager (the contract project advisor should not perform administrative staff functions in the organization).

At present, PRODEM does not keep sufficient information on businesses to enable a reasonable evaluation of project impact; the basic client record maintained by PRODEM is inadequate for this purpose. PRODEM also does not presently have the means to determine the impact or value of its training program. Basic improvements in statistical recordkeeping would be required to manage PRODEM's responsibilities under the monitoring plan. For this purpose, and to handle the expanded loan volume, PRODEM will need additional computer equipment.

The PRODEM program does not serve to establish effective linkages between its clients and formal financial institutions. There is no effective graduation mechanism to help long-term clients obtain financing and services from other institutions. During the implementation process, PRODEM should consider of establishing joint or allied operations with credit unions, to save money and facilitate graduation of clients. During Project implementation, consideration will be given to establishing a credit union for La Paz clients, or to affiliating those clients with existing credit unions.

Replication of PRODEM offices in other cities will be carefully planned in coordination with other USAID priorities and objectives. No expansion will take place until a plan for the self-sufficiency of the La Paz Office is carefully developed.

Disbursements under the program will be carefully monitored (through the proposed monitoring plan) to ensure that the rate of increase in PRODEM's portfolio does not exceed its ability to manage the funds. Likewise, technical assistance to PRODEM will be planned to facilitate PRODEM's ability to handle a larger volume of business.

2. FENACRE

FENACRE is fully capable of implementing a credit fund of the magnitude contemplated by the Project. FENACRE has 25 years of experience as a financial intermediary and as a source of training and technical assistance to cooperative credit unions. It has a large, experienced staff. It has a well-developed accounting and auditing system, and has had past experience in managing large amounts of donor agency funds. The credit union system has approximately 100 viable credit unions nationwide, 23 of which operate in urban areas. An estimated 10% of the members of these credit unions are small-scale entrepreneurs who would be eligible for credit under the program.

FENACRE will need to hire relatively few new staff members (a funds manager, two specialized small-business credit officers and a secretary) to manage the fund. It will also need new office equipment, including a new computer system, to handle the accounts and reporting requirements of the Project. The entire credit union system needs to develop a set of operating standards acceptable to AID prior to the disbursement of funds.

Existing extension agents, both in Cochabamba and the regional offices, should be able to meet the regular technical assistance needs of the participating credit unions. They will need to receive further training in technical credit union/banking subjects -- savings mobilization, development and introduction of improved services, competitive positioning, promotion, liquidity management and delinquency control --to be able to provide effective support to local credit unions. This training will be arranged either under the SFM Project, or under this Project.

FENACRE has a well-developed accounting and internal auditing system and maintains an accurate, up-to-date set of accounts. Interest rate policies are adequate, though there is still a tendency to support low interest rates on loans over fair interest rates to savers in the system. To maximize the impact of this Project it will be necessary to manage the fund as a separate credit line, ensuring that all reflows are dedicated to additional small-scale enterprise lending. Also, FENACRE is not, at present, able to distinguish its administrative costs by program. A cost-center accounting system that accurately attributes program costs is essential to effective management of the fund, especially in the determination of interest rates.

USAID/Bolivia's plans to provide technical assistance to FENACRE will be coordinated with any future IDB loan that would also contain a technical assistance component.

In summary, FENACRE, in addition to being able to reach entrepreneurs directly, is also capable of managing the production credit lines to its member credit unions. It will have to add a minimal number of staff, install a new computer system to manage the accounts and maintain required statistical data and simplify its loan procedures. FENACRE will serve as an intermediary credit institution in this process, channeling funds to member credit unions for on-lending to small enterprises.

3. Credit Unions

The small-scale enterprise component of the Project is designed to channel credit through two different types of credit unions: (1) a limited number of newly-formed credit unions that are associated with the departmental ADEPIs, and (2) other urban credit unions that wish to access the credit line. Part of the funds channeled through FENACRE will be earmarked for the ADEPI credit unions; the other part will be available for use by other credit unions in the system. The ratio will depend on the actual performance of each mechanism, as assessed during project implementation.

4. ADEPI Credit Unions

The various departmental associations of small industry have established, or are in the process of establishing, credit unions by which to attract and provide financing to their membership. All of these credit unions will be affiliated with FENACRE. Membership is limited to members of the ADEPI. At the present time three such credit unions -- in La Paz, Cochabamba and Santa Cruz -- have been established, and have received small amounts of funding from FENACRE to initiate lending activities. Only one of these credit unions has actually received its persona juridica. Two other ADEPIs are in the initial stages of establishing a credit union.

The principal strength of the ADEPI credit unions lies in the philosophy of the ADEPI members who established them, and their evident responsiveness to those who would seek to assist them. The close bond of association among members, the board and the ADEPI, provides a good mechanism for evaluating the credit worthiness of the applicant and reducing credit risk. The fact that all potential members own legally registered businesses and have published balance sheets and income-expense statements also serves to reduce credit risks.

The primary weakness of these credit unions lie in their inexperience -- all have been created in the last 6-8 months. None have paid staffs or furnished offices. None have budgets or financial projections. Loan appraisal, collections, delinquency control and other operating procedures are not well developed. The current practice of granting loans in excess of five times the amount of a member's savings (one of the credit unions is reportedly lending at a ratio of 10:1) greatly increases the risk of delinquency. The membership development process of the credit unions is either in very early stages or has not yet begun. Thus, with the result that membership loyalty has not had time to mature. The Project contemplates strengthening these organizations.

At the present time these credit unions do not have the ability to handle the funds of this Project, and major improvements need to be made in advance of disbursing large amounts of credit. However, FENACRE will certify and USAID will approve the capability of each credit union to participate in the Project:

The improvements needed include:

* Staffing -- the large ADEPI credit unions each need a paid staff of at least seven individuals (manager, credit officer, credit analyst, cashier, accountant, secretary and messenger); smaller credit unions could operate with a reduced staff;

* Training -- this staff require training in both credit union operations and small-enterprise lending procedures (especially business plan analysis and loan appraisal);

* Office -- the credit unions need an office and basic office furnishings and supplies;

* Equipment -- because of the large volume of credit these new credit unions are expected to handle in a short period of time, a computerized accounting system should be installed at the beginning; and

* Policies and Procedures -- the credit unions need to have a well-defined set of policies and procedures.

Both FENACRE and the Project Coordinator, in concert with the technical assistance to be provided, ensure that the above conditions are met before significant amount of credit is made available to these credit unions. The Project initially concentrate on achieving these conditions, while advancing small amounts of credit funds to develop needed experience in credit operations. Only when project management is satisfied that credit unions are capable of managing large amounts of credit effectively will credit be made available.

5. Other Credit Unions

There are approximately 100 active credit unions in Bolivia. Twenty-three of these are located in urban areas and could be eligible to participate in the Small-Scale Enterprise Project.

Approximately 3,800 credit union members are estimated to be involved in small-scale productive enterprises that could qualify for credit under the project. At least 50% of credit union members are women.

The principal strength of the credit unions is that they have a history of providing savings and loan services. Many are strategically located within the different cities. Those that have managed to survive the period of hyperinflation -- although with reduced membership and capital -- are financially sound institutions.

The major weakness of Bolivia's credit unions is their lack of liquidity. Their capital base declined significantly during the past few years and, as a result, their lending activities have been severely cut back. Many managers lack the financial sophistication necessary to operate the credit unions as competitive financial institutions in the current environment, although the experience of the past few years has forced significant changes on credit union management as well. Few of the credit union managers have adequate experience with small-enterprise credit, which involves larger loan amounts and greater risks (because the ability to repay is based on the earning power of the investment rather than the personal assets of the borrower). Finally, while all of the credit unions have functioning accounting systems, these are not very sophisticated, and do not provide for the management of separate credit lines. Again, the Project will provide strengthening assistance in the areas.

In general, FENACRE needs to increase the level of training and support to credit union managers in the areas of finance, liquidity management, new services, delinquency control, competitive positioning and promotion (marketing). Directly related to this project, managers and loan officers of participating credit unions will undergo a special training program in analyzing business loans and managing small business credits.

Because of the continued tendency of credit unions to underprice loan services, the financial terms used by the participating credit unions need to be reviewed to ensure that the credit unions do not lose money on the loans; that is, interest rates must be planned to cover administrative costs, risk, and maintenance of value.

Business loans greatly increase the amount of risk to credit unions. The program needs to investigate options for insuring borrowers' inventory and equipment. Insurance is useful not only to cover risk, but also to improve the borrowers' chances of graduation to the banking system.

6. ADEPIs

The three ADEPIs studied during the intensive review -- La Paz, Cochabamba and Santa Cruz -- are comprised of energetic, dynamic individuals who have succeeded in involving their organizations with the PL-480 program, profiling and providing services to their members with the help of the Instituto Nacional de Asistencia Social, Económica y Técnica (INASET), and who have definite ideas for achieving self-sufficiency. The other ADEPIs have similar reputations. Membership in the three ADEPIs ranges from five to 15% of eligible small businesses in each city.

Because the ADEPIs have limited staff (La Paz has only three salaried staff, for example, and Cochabamba has none), the directors perform many traditional staff roles, at no salary.

Services to date have largely been limited to publicity and information dissemination. The ADEPIs have arranged some training courses in administration, basic accounting, cost accounting and commercialization. The La Paz ADEPI is also planning to develop a financial and technical department that will attempt to mobilize additional funds and provide technical assistance to its members. This unit will be staffed by an industrial engineer, an economist/financial analyst and a secretary. The Small-Scale Enterprise Project will attempt to augment and utilize this staff for non-financial technical assistance and business plan development support to the ADEPI members. The ability of the other ADEPIs to fulfill their responsibilities under the Project will depend on the development of similar capabilities.

The principal weakness of the organizations is that they are relatively new and therefore inexperienced. They have limited staff, few assets, little income and virtually no technical support capability. They were created as interest group associations, and although they have an interest in providing technical assistance and training, they have no past experience or expertise in these field. The Project will attempt to address these weaknesses through focused training programs.

Since the success of the Project will depend, in part, on an active technical role by the ADEPIs, this capability must be developed at the outset by the Project itself. To carry out their role under the Project, each ADEPI will need:

* A technical assistance department comprised of at least one industrial engineer, a financial analyst/economist and a secretary. These individuals will be trained in business plan preparation, operational and financial analysis of businesses, and technical assistance techniques.

* staff trained in operational and financial analysis of businesses and business plan development.

* limited office equipment and supplies.

* adequate safeguards to maintain the separation of functions between the ADEPIs and their credit unions.

7. Summary

The institutions identified to implement the project have the potential for fulfilling the roles expected of them, even though their past experience and current capabilities vary widely. PRODEM, FENACRE and the credit union system, in particular, can fulfill their roles with relatively little changes. The ADEPIs and the ADEPI credit unions are weak organizations that will require considerable assistance before they can perform adequately. FENACRE will certify and USAID will approve those qualifying for participation in the Project.

B. Economic Analysis

Quantification of the benefits to be derived from this Project as a whole is almost impossible in view of the fact that it will entail subloans to thousands of borrowers whose identity is not known at this point. However, we can look at the likely benefit-cost situation of a limited number of individual sub-borrowers and users that will obtain loans from PRODEM (in the case of micro entrepreneurs) and FENACRE (for small enterprises) 6/. Some illustrative cases of borrowers from each of these organizations are examined below.

PRODEM

The financial situation of a sample of 22 micro-enterprises that are credit clients of PRODEM are summarized in tables 1 through 5. Each table summarizes the situation for a sample of entrepreneurs in different lines of business: the five tables represent the financial situation of 5 clothiers (table 1), 3 carpenters (Table 2), 5 shoemakers (Table 3), 4 entrepreneurs in other lines (Table 4) and 5 small merchants (Table 5). The loans range from US$180 to US$316, and are for an average period of three months each (though continuously renewable over a period of one year).

Actual data for these groups was available for the first two quarters only, the third and fourth quarter were projected to obtain performance for the full year. We projected income and expenditures to increase at a lower rate during the third and fourth quarters than the

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6/ Micro enterprises are defined, for purposes of this project, as family run and staffed businesses with no outside wage labor, and with no access to credit from FENACRE, other credit cooperative or the formal financial system. "Small" enterprises may have to 10 wage earning employees (other than family members) and are presumed to have access to credit from FENACRE or other coop or financial institution.

observed increase during their first two. Thus, in the case of the clothing manufacturers, the increase in income as a result of the loan was reported to be 40% in the first quarter and another 24% in the second. We projected it to increase at the rate of 15% during the third quarter and 9% in the fourth.

Costs were also projected to increase throughout the year in line with the trend during the first two quarters. Labor costs were assumed to rise as well, even though, in many cases, the additional labor would be provided by family members without entailing increased financial outlays. Allowance was also made for the cost of PRODEM of providing the services (administration, technical assistance, training - entered on line 4 of the tables) as this is a social cost that must be covered, even though it is not a separate charge to the borrower.

Note that each table calculates the difference in income and costs with and without the loan. The difference in income and expenditures realized from the loan throughout the year (i.e. the net addition to profit obtained as a result of the loan) is then related to the average amount of the loan (line 6) to obtain the annual profit rate (line 7).

Note that the additional profit in relation to the amount of the loan is very high - an average 803% for the clothiers, 613% for the carpenters, 688% for the shoemakers, 596% for entrepreneurs in "other" enterprises and 185% for the small merchants (see Tables 1-5). The total profit margins (total revenue less total costs or line 5 of the five tables) of these borrowers increased substantially as a result of the loan, with the rate of increase ranging between 42% (for carpenters) to 151% for the clothing manufacturers, with the average for the five groups at 84%. These high profit margins suggest that the entrepreneurs should be able to generate their own working capital over a period of a year, or at the outset, 18 months. The repayment period of the subloans should be limited to the length of the production cycle -- i.e. the interval between the incurrence of costs and the sale of the final output -- which varies with the type of business. Renewal of repaid loans will generally occur, but there should be a maximum period after which the beneficiary should be cut off to make room for others. It is recommended that this maximum "graduation" period be set at 24 months.

FENACRE

The Mission's economic staff visited FENACRE and the headquarters of a producer cooperative in Cochabamba, as well as eight small entrepreneurs operating in the area. All personnel interviewed viewed the acute shortage of working capital as the major obstacle to increased production, and all entrepreneurs noted that they were operating at levels far below installed capacity, usually in the range of 20 to 30 percent. Limited demand for the final output was also mentioned in some cases, but was generally considered to be second in importance to the shortage of working capital. The estimates provided by four interviewees wit' regard to the likely impact of providing credit for working capital purposes showed very high rates of return attributable to a loan of US$3,000 to US$5,000.

Since no credit had been granted for working capital either by FENACRE or some member cooperative, the individual entrepreneurs interviewed could do no more than given their best estimates with regard to the likely impact on production, costs and profits that they expected from a loan for working capital purposes over a period of one year. These estimates are summarized in Table 6 through 9.

The four producers interviewed include a guitar producer, a shoemaker, a food processing shop and a metal workshop. The methodology used was the same as for PRODEM. The data show the situation with respect to sales, production costs and profits both under present conditions, i.e. without credit, in comparison with a loan or a series of loans available over a period of one year. In the third column of the tables, we show the increase to the amount of the loan. We show both the annual rate of return from the loan to the individual firm as well as the social rate of return arising from the loan. The difference between the two concepts is the fact that, in calculating the latter, we have deducted the cost of administering the loan which is not an additional cost to the firm (but is covered by the interest rate charged to the firm). The interest rate charged to the firm has not been included among the costs in these calculations. As in the case of PRODEM, the rate of return must be high enough to cover FENACRE's interest charge as well as repayment of principal.

Note that the "annual social rate of return", or the increase in profit resulting from the loan as a proportion of the amount of the loan, is quite large: 167% for the guitar producer, 197% for the shoemaker, 291% for the food processor and 184% for the foundry and metal work shop. This profit rate is large enough to enable the entrepreneurs to repay their loans with interest, as well as build up their own working capital, over a period of 18 months.

AVERAGE CLOTHIER*

TOTAL INCOME AND EXPENDITURES
(In Bolivianos)

	QUARTERLY W/O CREDIT	FIRST QUARTER WITH CREDIT	SECOND QUARTER WITH CREDIT	THIRD QUARTER WITH CREDIT	FOURTH QUARTER WITH CREDIT	CUMULATIVE WITHOUT CREDIT	CUMULATIVE WITH CREDIT	DIFFERENCE (Absolute)
	4,884	6,825	8,496	9,770	10,650	19,536	35,741	16,205
	4,884	6,825	8,496	9,770	10,650	19,536	35,741	16,205
RES	4,079	5,272	6,537	7,518	8,194	16,315	27,521	11,205
	408	585	741	852	929	1,632	3,107	1,475
ials	3,603	4,563	5,655	6,503	7,089	14,412	23,810	9,398
	24	27	42	48	53	96	170	74
	44	97	99	114	124	175	434	259
OR THE EUR (1-2)	805	1,553	1,959	2,253	2,456	3,221	8,221	5,000
ROVIDING SERVICES	0	36	36	36	36	0	144	144
BALANCE (3-4)	805	1,517	1,923	2,217	2,420	3,221	8,077	4,856
OAN PROVIDED								605
NVESTMENT (5 AS % OF 6)								802.60%

5 clothiers.

AVERAGE CARPENTER*

TOTAL INCOME AND EXPENDITURES
(In Bolivianos)

	QUARTERLY W/O CREDIT	FIRST QUARTER WITH CREDIT	SECOND QUARTER WITH CREDIT	THIRD QUARTER WITH CREDIT	FOURTH QUARTER WITH CREDIT	CUMULATIVE WITHOUT CREDIT	CUMULATIVE WITH CREDIT	DIFFERENCE (Absolute)
INCOME	6,240	7,650	10,950	14,783	19,956	24,960	53,339	28,379
Sales	6,240	7,650	10,950	14,783	19,956	24,960	53,339	28,379
EXPENDITURES	3,864	5,455	7,725	10,970	15,578	15,456	39,729	24,273
Labor	840	1,035	1,740	2,471	3,509	3,360	8,754	5,394
Raw Materials	2,940	4,308	5,871	8,337	11,838	11,760	30,354	18,594
Other	60	87	84	119	169	240	460	220
Equipment	24	25	30	43	61	96	160	64
BALANCE FOR THE ENTREPRENEUR (1-2)	2,376	2,195	3,225	3,812	4,379	9,504	13,610	4,106
COST OF PROVIDING SERVICES	0	36	36	36	36	0	144	144
NET TOTAL BALANCE (3-4)	2,376	2,159	3,189	3,776	4,343	9,504	13,466	3,962
AVERAGE LOAN PROVIDED								646
BALANCE/INVESTMENT (5 AS % OF 6)								613.37%

*Average of 3 carpenters.

AVERAGE SHOEMAKER*

TOTAL INCOME AND EXPENDITURES
(In Bolivianos)

	QUARTERLY W/O CREDIT	FIRST QUARTER WITH CREDIT	SECOND QUARTER WITH CREDIT	THIRD QUARTER WITH CREDIT	FOURTH QUARTER WITH CREDIT	CUMULATIVE WITHOUT CREDIT	CUMULATIVE WITH CREDIT	DIFFERENCE (Absolute)
OME	6,144	7,350	8,706	10,186	11,714	24,576	37,956	13,380
es	6,144	7,350	8,706	10,186	11,714	24,576	37,956	13,380
ENDITURES	4,983	5,665	6,784	7,801	8,191	19,931	28,440	8,509
or	804	915	1,143	1,463	2,034	3,216	5,555	2,339
Materials	4,110	4,674	5,556	7,112	9,885	16,440	27,227	10,787
er	24	24	30	38	53	96	146	50
ipment	45	52	55	70	97	179	273	94
ANCE FOR THE REPRENEUR (1-2)	1,161	1,685	1,922	2,385	3,523	4,645	9,516	4,871
T OF PROVIDING SERVICES	0	36	36	36	36	0	144	144
TOTAL BALANCE (3-4)	1,161	1,649	1,886	2,349	3,487	4,645	9,372	4,727
RAGE LOAN PROVIDED								687
ANCE/INVESTMENT (5 AS % OF 6)								687.99%

ge of 5 shoemakers.

OTHER PRODUCTIVE ENTREPRENEURS*

TOTAL INCOME AND EXPENDITURES
(In Bolivianos)

	QUARTERLY W/O CREDIT	FIRST QUARTER WITH CREDIT	SECOND QUARTER WITH CREDIT	THIRD QUARTER WITH CREDIT	FOURTH QUARTER WITH CREDIT	CUMULATIVE WITHOUT CREDIT	CUMULATIVE WITH CREDIT	DIFFERENCE (Absolute)
INCOME	7,401	9,393	11,475	13,541	15,436	29,604	49,845	20,241
Sales	7,401	9,393	11,475	13,541	15,436	29,604	49,845	20,241
EXPENDITURES	5,698	7,396	9,280	10,672	11,205	22,793	38,552	15,759
Labor	798	933	1,428	1,728	2,022	3,192	6,110	2,918
Raw Materials	4,818	6,375	7,755	9,384	10,979	19,272	34,492	15,220
Other	21	24	33	40	47	84	144	60
Equipment	61	64	64	77	90	245	294	49
BALANCE FOR THE ENTREPRENEUR (1-2)	1,703	1,997	2,195	2,869	4,231	6,811	11,293	4,482
COST OF PROVIDING SERVICES	0	36	36	36	36	0	144	144
NET TOTAL BALANCE (3-4)	1,703	1,961	2,159	2,833	4,195	6,811	11,149	4,338
AVERAGE LOAN PROVIDED								728
BALANCE/INVESTMENT (5 AS % OF 6)								595.83%

*verage of 4 entrepreneurs.

AVERAGE MERCHANT*

TOTAL INCOME AND EXPENDITURES
(In Bolivianos)

	QUARTERLY W/O CREDIT	FIRST QUARTER WITH CREDIT	SECOND QUARTER WITH CREDIT	THIRD QUARTER WITH CREDIT	FOURTH QUARTER WITH CREDIT	CUMULATIVE WITHOUT CREDIT	CUMULATIVE WITH CREDIT	DIFFERENCE (Absolute)
1. INCOME	1,386	1,802	2,342	3,081	4,005	5,544	11,230	5,686
--Sales	1,386	1,802	2,342	3,081	4,005	5,544	11,230	5,686
2. EXPENDITURES	1,059	1,407	1,871	2,457	3,266	4,236	9,001	4,765
--Labor	0	0	0	0	0			
--Raw Materials	1,026	1,365	1,815	2,382	3,168	4,104	8,730	4,626
--Other	33	43	56	75	98	132	271	139
--Equipment	0	0	0	0	0	0	0	0
3. BALANCE FOR THE ENTREPRENEUR (1-2)	327	394	472	624	740	1,308	2,230	922
4. COST OF PROVIDING SERVICES	0	36	36	36	36	0	144	144
5. NET TOTAL BALANCE (3-4)	327	358	436	588	704	1,308	2,086	778
6. AVERAGE LOAN PROVIDED								420
7. BALANCE/INVESTMENT (5 AS % OF 6)								185.18%

*Average of 5 merchants.

TABLE 6

Guitar Producer
(in Bolivianos)

Credit: US$ 4,000

	Without Credit	With Credit	Difference
Production and Sales/Month			
Guitars	1,800 1/	4,800 1/	
"Charangos" (small native guitars)	3,850 2/	8,800 2/	
Other Products	200	450	
Total	5,850	14,050	8,200
Cost of Production/Month			
Raw Materials (mostly wood)			
Wood	600	1,440	
Other Inputs	1,400	3,360	
Labor	2,650 4/	6,400	
Rent	490	800	
Total Costs	5,140	12,000	6,860
Profit to Firm/Month	710	2,050	1,340

Annual Rate of Return from Loan to Firm $\text{Bs } 1{,}340 \times 12 = \frac{\text{Bs } 16{,}680}{9{,}430 \text{ 3/}} =$ 171%

Cost of Providing Loan — 414

Annual Social Rate of Return: $\text{Bs}16{,}080 - 414 = \frac{15{,}666}{9{,}400} =$ 167%

1/ Guitars without credit: 15 guitars X Bs 120 = Bs 1,800
Guitars with credit: 40 guitars X Bs 120 = Bs 4,800

2/ Charangos without credit: 35 charangos X Bs 110 = Bs 3,850
Charangos with credit: 80 charangos X Bs 110 = Bs 8,800

3/ Amount of loan: \$ 4,000 X 2.35 = Bs 9,400

4/ Some of these labor costs are believed to be paid to family members

TABLE 7

Shoemaker
(In Bolivianos)

Credit: US$ 3,000

		Without Credit		With Credit		Difference
Production and Sales/Month						
120 pairs at Bs 25/pair		3,000				
350 pairs at Bs 25/pair				8,750		5,750
Costs of Production/Month						
Raw material, leather		1,400		4,220		
Other Materials		345		1,035		
Wages and Utilities		528		1,584		4,566
Total		2,273		6,839		
Profit of Firm/Month		727		1,911		1,184
Annual Rate of Return from Loan to Firm	1,184 X 12	=	$\frac{14,208}{7,050}$ 1/		=	201%
Cost of Providing Loan		-		310		
Annual Social Rate of Return	Bs 14,208 - 310 =		$\frac{13,888}{7,050}$		=	197%

1/ Assumes loan of US$ 3,000 X 2,35 = Bs 7,050

TABLE 8

Food Processing Shop 1/
((In Bolivianos)

Credit:US$ 5,000

	Without Credit	With Credit	Difference
Production and Sales/Month			
2,080 kilos x Bs 7.3	15,184		
3,120 kilos x Bs 7.3		22,776	7,592
Costs of Production			
Raw Material			
2,600 kilos (of meat) x Bs 3.0	7,800		
3,900 kilos x Bs 3.0		11,700	
Labor and Utilities			
6 x Bs 200	1,200		
10 x Bs 200		2,000	
Depreciation			
Machinery (over 20 years)	410	410	
Cars	352	352	
Bldg.	117	117	
Total Costs	9,879	14,579	4,700
Profit to Enterprise	5,305	8,197	2,892
Annual Profit Rate of Enterprises:	Bs 2,892 x 12 =	34,704 / 11,750 2/ =	295%
Cost of Providing Loan	-	517	
Annual Social Rate of Return:	Bs 34,704 - 517 =	34,187 / 11,750	291%

1/ Hamburger meat, sausages, ham and related products
2/ Amount of loan: US$ 5,000 x 2.35 = Bs 11,750

TABLE 9

Foundry and Metal Workshop
(In Bolivianos)

Credit: US$ 3,000

	Without credit	With credit		Difference
Sales, Annual	Bs 58,000	Bs87,000 1/		Bs 2,900
Costs, Annual				
Raw Material	25,142	37,713 1/		
Wages and Salaries	8,014	10,418 2/		
Depreciation	7,508 3/	7,508 3/		
Other Costs	4,776	5,492 4/		
Total Costs	45,440	61,131		15,691
Profit, Annual	12,560	25,869		13,309
Annual Rates of Return from Loan to Firm		Bs 13,309 / 7,050	=	189%
Cost of Providing Loan	-	310		
Annual Social Rate of Return	(13,309 - 310)	12,999 / 7,050	=	184%

1/ Increase by 50%
2/ Increase by 30%
3/ There is a substantial amount of fixed capital in this enterprise, valued at $63,900. Depreciation calculated as follows: $63,900:20 years = $3,195/year x Bs 2.35 = Bs 7,508. In fact, owner is not able to cover depreciation at this time. His monthly gross income (without depreciation and without credit) is about Bs 7,640.
4/ Increased by 15%.

C. Technical Analysis

This annex examines number of specific technical issues related to the design and implementation of the proposed Project.

Displacement

"Displacement" -- a condition in which an increase in output or activity by one group of individuals causes a reduction in output or activities in another -- does not appear to be a major factor in this Project.

In the micro-commercial population the main effect of the Project will be to lower the cost of working capital, resulting in higher profitability with the same sales base. Expansion of sales, especially to the point of reducing the market for other vendors, does not appear to occur under these conditions.

Small-scale enterprises generally produce for a segmented market, in which they occupy a particular niche. Access to credit allows them to expand within this niche rather than to compete in the general market. Thus, displacement does not seem to be a major constraint to implementing this Project with small-scale producers in Bolivia.

Micro-producers, on the other hand, are generally competing in a highly competitive, undifferentiated market that clears slowly. Access to credit tends to increase the volume of products available in this market, and may lead to some displacement -- in the form of slower turnover, lower prices or even producers leaving the market. Most of the small enterprise subsectors that will be assisted under the Project should not be subjected to significant displacement from a project of this size. With few exceptions, existing markets appear to be sufficiently large to absorb the additional production or sales of operation brought about by the Project. Areas in which displacement is a potential issue include shoe-making, clothing manufacturing and furniture. Research into the market clearing mechanisms and potential for market segmentation or expansion needs to be conducted as part of the Project for these sectors.

Graduation

"Graduation" is an especially critical issue for the PRODEM component of this Project because of the effects of aging on its program. The PRODEM model initially recruits a large number of clients into the program with small, short-term loans. As these loans are repaid, the groups graduate to larger loans with longer repayment periods. This has two effects on the program:

First, with a fixed loan portfolio, the number of clients the organization can service declines rapidly. With a $1.0 million portfolio, for example, the program can service 10,000 individuals with first loans of $100, but only 2,000 with fifth loans of $500 -- an inevitable attrition rate of 80 percent within a relatively short period.

Second, the demand on credit resources by clients progressing through the system absorbs all available resources so that funds are not available for initiating new groups into the system. For a program that is intended to serve as an access point for first-time borrowers, this effect of the aging of the portfolio is a serious problem.
Third, the automatic aging of the portfolio has a decidedly negative impact on earnings. PRODEM currently charges an interest rate that barely covers the cost of funds and maintenance of value; administrative costs are covered by a separate commission (fee), at the rate of 2.5 percent per loan. A $1.0 million portfolio of one-month loans turns over twelve times during a year and, under the PRODEM formula, would generate $300,000 in fee income. On the other hand, a $1.0 million dollar portfolio of 6-month loans turns over only twice a year and would generate only $50,000 in income.

With a fixed portfolio, therefore, and clients staying in the program longer, fewer and fewer new clients can be served, and PRODEM earns less and less income to cover administrative costs. Early in the program, PRODEM will be requested to submit a graduation strategy dealing with this issue.

In both PRODEM and FENACRE, the purpose of the graduation programs will be to make these institutions both stronger and capable of serving a growing number of beneficiaries. Client capitalization (self-capitalization) will be an essential part of these programs. Although it is important that clients "graduate" from PRODEM and FENACRE assistance, because it is not anticipated that commercial banks will be prepared to do business with micro and small enterprises anytime in the medium term future, graduation does not imply a transition to alternative financial and technical assistance institutions. Graduated clients will probably have to rely on their own resources.

Women in Development

Bolivia's recent economic crisis has actually increased women's role in business. In the face of decreasing formal sector employment, the informal sector has grown to meet the needs of the urban and semi-urban poor. Women have moved rapidly into this sector to supplement their family's low formal sector wages or to compensate for the loss of employment by the male head of the family.

Still, micro and small scale producer enterprises are predominantly owned by males. But, as the social soundness analysis points out, these tend to be family businesses, with women family members frequently taking the lead role in managing the businesses and marketing the products. Most of the small enterprises affiliated with the ADEPIs are owned by men, although women ownership is common in clothing manufacturing and foostuffs processing.

This project could be instrumental in increasing the role of women in the micro and small enterprise sectors, particularly with respect to giving women entrepreneurs access to formal credit and training, and also in involving women more in the management of institutions such as FENACRE and PRODEM.

USAID plans two important studies over the next six months which will lead to a more aggressive women in development program, and will include this Project. In January 1989, USAID will enlist the services of the International Center for Research on Women to:

1. Carry out a Mission wide assessment for women's credit needs in Bolivia, and

2. Develop a Mission women in development implementation plan. The Micro and Small Enterprise Project will be made an integral part of the design and implementation of the plan. Within the context of a finalized plan, both PRODEM and FENACRE will develop their own plans illustrating the role of women in their programs.

In addition, the Bolivian National Business Women's Association (AMEP) will participate in a marketing study to determine the demand for services and credit for women and to identify prospective women to fill managerial positions with PRODEM and FENACRE. Training plans for qualified women managers will also be developed.

Also, the Project is expected to have a significant impact on women as direct beneficiaries of Project-financed credit and training activities. Currently, women participation as beneficiaries under the PRODEM pilot project is very high; it ranges from 96% for micro commerce loans to 28% for production loans. In the case of FENACRE, women participation as direct beneficiaries of credit programs ranges from 28% in Sucre to around two percent in Cochabamba. The ratio of female-male beneficiaries under the PRODEM component of the Project is expected to continue while FENACRE will be encouraged to increase its efforts to reach more women than in the past. This will be done through awareness meetings with FENACRE management and the development of specific plans using the aforesaid studies.

Minimizing Risk

Small-scale enterprise credits carry a great deal of risk. Thus, risk miminization is an important technical issue for the project. The institutions have developed several mechanisms for minimizing risk:

* Small-group, closed association bonds, such as the solidarity groups of PRODEM and the closed field of memberships of the credit unions reduce risk and the cost of operations of the institutions;

* Small loan size compared to the personal capacity of the borrower to repay;

* Small individual loan size compared to the total institutional portfolio, so that a single loan default does not place the institution at risk;

* "Socialization" of the borrower into the culture of the institution -- through the mandatory savings period in the credit unions and the structured loan schedule of PRODEM --is another major risk-minimizing mechanism;

Insurance, guarantee funds and other risk-reducing techniques have not been widely used in Bolivia, but may be necessary to deal with the increased risk of small-scale enterprise lending. These will be explored during project implementation.

Guarantees

Guarantees are perhaps the largest single impediment to institutional small-enterprise credit in Bolivia. The small-scale enterprises interviewed during the course of this review indicated that the level of guarantees required by formal sector financial institutions, far more than interest rates, excluded them from that market.

Although the guarantee problem is not an easy one to resolve, several options will be explored during the initial stages of the Project. These include: cross-guarantees among members of the boards of the ADEPIs or borrowers; loan insurance (not only life insurance to cover a loan, but other forms such fire, casualty and theft insurance on equipment, inventory and plant); or the creation of a guarantee fund in the credit union system.

Alternative Financial Intermediaries

At the present time there does not appear to be a feasible alternative to the use of credit unions or PRODEM as the financial intermediaries.

At some point other financial institutions may take a greater interest in serving the small enterprise sector, but at present it does not appear that a viable alternative to using the credit union system exists. The mid-term evaluation of the project will review the options to determine the feasibility of alternative strategies.

Leveraging Funds

The Project has an interest in leveraging the loan fund -- that is, encouraging the intermediary institutions to invest their own capital in loans to small enterprises. At the present time, only the credit union system has been willing to place its own funds at risk in small loans to relatively low-income individuals and businesses.

Although it will not be possible to leverage local funds at a 3:1, 2:1 or even 1:1 ratio, it should be possible to achieve some leveraging of the funds. The credit union system typically requires a member to have on deposit in the credit union a percentage of the amount he/she intends to borrow. The normal ratio varies from 3:1 to 5:1. The ADEPI credit unions are currently lending at a ratio of 10:1. At a minimum, funds channeled through the credit union system should achieve a 10 to 20% leveraging from the beginning. The credit union system sometimes requires that the member capitalize the loan -- that is, increase his/her savings by a certain percentage of the loan. This can be accomplished by either discounting the amount of the savings from the loan or increasing the amount owed on the loan to cover the savings. A 5% capitalization requirement would have the effect of increasing the amount of local funds available for lending by 25 to 50% (depending on the term of the loan) over a five-year period.

PRODEM has recently initiated a similar capitalization (savings) program, although procedures and a plan for reutilizing these funds has not yet been developed.

Potential micro- and small-scale borrowers interviewed during the intensive review indicated a willingness to participate in such a capitalization scheme, as long as a fair rate of interest is paid on the savings. Savings should be collected in the form of a time-deposit in order to ensure their permanence in the financial intermediary.

Alternative Disbursement Mechanisms

A concern was expressed during intensive review about a funding mechanism that grants the credit funds to FENACRE and PRODEM for two reasons:

* Once granted, the Mission's control over the use of the funds is reduced; and

* If the funds are granted to the two institutions, the Mission lacks the flexibility of supporting other alternatives that might arise during the life of the project.

The first of these concerns can be addressed in the legal documents establishing the grants. The grant agreement can stipulate that the funds revert to Mission control if the institution does not utilize them properly.

The second problem is best resolved through the staggered disbursement schedule of the Project. Since credit disbursements are staggered throughout the life of the Project, the Mission will retain the ability to vary the amounts disbursed to each recipient, and may decide to add or delete intermediary institutions.

D. Social Soundness Analysis

1. Background

Bolivia is a rapidly urbanizing country. Between 1950 and 1980 the proportion of the population in urban areas increased from 26% to over 50%, and is even higher today. This increase has been concentrated in a few major urban clusters: the metropolitan areas of La Paz, Cochabamba, and Santa Cruz are the largest and fastest growing. By 1976 these three metropolitan areas accounted for 60% of all the urban population of the country; a percentage that is certainly higher today.

With this rapid shift of the population from rural areas to urban centers, and the high natural population growth rates of the urban centers, the supply of labor in the urban centers grew at a much faster rate than the demand for labor -- both in the public sector and in the formally established private sector enterprises. Faced with no employment opportunities, large numbers of urban residents turned to self-employment as a subsistence strategy, with the result that self-employment (in manufacturing, service and commercial activities) became the most common means of urban employment. By 1976, over 47% of the urban labor force was working either as self-employed individuals or in very small enterprises. By the end of 1987, approximately 60% of the urban labor force is estimated to be self-employed or working in very small enterprises.

2. Project Clients

Traditional definitions of "micro-" and "small-scale" enterprises have tended to focus on the number of employees or amount of capital employed, indicators which can give conflicting classifications. At the same time, micro-enterprises have generally been assumed to be non-formal, semi-illegal entities, while small-scale enterprises have been generally described as formally-registered legal businesses.

Neither the scale of operations nor the classification of "informal-formal" have proved particularly useful in describing the small-scale enterprise sector in Bolivia.

In the past few years, empirical information from a variety of sources shows that the small-scale private sector enterprises of Bolivia fall into two very distinct categories: self-employed micro-scale enterprises and small-scale enterprises employing permanent workers. These two categories are differentiated not so much in terms of legal registration (formal versus informal) or number of workers (employed or family), but in terms of their internal organization, scale of operations and the way in which they conduct their business.

The Self-Employed Micro-Enterprise

Firms in this category are made up of self-employed individuals (male and female) who work alone or with the help of unpaid family workers and/or apprentices. They do not employ full-time outside labor. An estimated 101,000 such micro-enterprises function in La Paz, 31,000 in Cochabamba , and 43,000 in Santa Cruz. The owners of these enterprises and their helpers account for 33% of the total urban labor force in La Paz, 41% in Cochabamba, and 33% in Santa Cruz.

These micro-enterprises function in all economic areas. They provide goods and services to all urban and rural consumers. They dominate the main market places of the cities and towns and have important forward and backward economic linkages within and between economic sectors. Segments of these urban micro-enterprises (like retailing of agricultural products, and sales of inputs for agricultural production) have important linkages with the agricultural producers of the country. Unfortunately, many of the micro-commercial enterprises are also engaged in the importation (legal and contraband) of products that compete with locally manufactured goods.

Self-employment in such enterprises is primarily a means of subsistence and additional source of income for the family. An estimated 80% of the households in La Paz have one or more family members engaged in such an enterprise. Income from these activities is relatively good, as participants in this sector have average earnings almost twice the minimum wage in the country.

As one of the few alternatives to employment in the urban centers, the micro-enterprise sector is highly dynamic and very competitive. Producers and vendors tend to produce or market the same mix of goods as their competitors, and there is little product or market differentiation. Some sectors of the micro-producer sector (especially shoemakers and clothing manufacturers) compete directly with imported and contraband merchandise, usually at a distinct price disadvantage. Markets appear to clear slowly, and the economic return to labor is low.

The majority of the micro-entrepreneurs are of Aymara and Quechua origin, and speak Spanish (the dominant urban language) as a second language. Cultural and social barriers discriminate against the micro-entrepreneur in his dealing with the " formal" public and private sector.

Women represent 48% of this sector. There are differences among sectors, with women-owned and operated firms dominating the commerce sector (71%) and men-owned firms predominant in the construction, transport and manufacturing sectors. It is important to note, however, that these are predominantly family-run enterprises, especially in the manufacturing sector. While a business may be listed as being "male-owned", the spouse usually plays an important role in the management of the business or marketing of the product.

Small-Scale Enterprises

Most businesses in Bolivia are small. If five employees were defined as the upper limit for a "small-scale" enterprise, then more than 90% of all registered enterprises (formal or informal) in the country would be classified as "small-scale." If 20 employees is defined as the upper limit, 98% of all business enterprises in the country would fall within this classification.

Several characteristics (other than number of employees) distinguish small-scale enterprises from micro-enterprises described above. All of the small enterprises affiliated with the ADEPIs are legally registered with a RUC number. All have up-to-date balance sheets and income/expense statements for their businesses. Most operate at reduced levels from the pre-1985 period, in terms of both employment and production. Thus, a five-employee operation may well have had 20 or 30 employees prior to the period of hyperinflation. This means that they generally have excess capacity in plant and equipment. Finally, most of these enterprises had regular access to bank lines of credit prior to the period of hyperinflation; with the retrenchment of the banking system, all of these enterprises have been squeezed out of the financial markets.

Another characteristic distinguishes these enterprises from their micro-enterprise counterparts: they generally occupy specialized market niches, with both product and market differentiation. Thus, they do not compete directly with imported or contraband products.

The combination of well-defined market niches, under-utilized capacity and a lack of access to traditional lines of credit for working capital indicates that providing this sector with capital should result in a fairly high rate of employment generation.

3. Problems

As businesses, micro-and small-enterprises share many of the same problems. The differences are in the magnitude of the businesses, and in the specificity of the technological and management needs associated with size. It is the social and cultural characteristics of the entrepreneurs that differentiate them and that require institutions and mechanisms appropriate to attend to their needs. The following problems and the derived recommendations apply to both micro-and small-scale enterprises, albeit to different degrees.

Lack of working capital is the key problem faced by both micro-and the small-scale enterprises. The small-scale industries examined during this intensive review indicated that absence of credit, rather than interest rates, was the major problem they faced. Credit demand is very high in both sectors, although the magnitude of credit amounts requested varies substantially. Credits needs in the range of $500 to $1,500 are in high demand and make a significant difference in the productive capacity of the micro-entrepreneur. Even for firms in this category, a loan of $300 would have an insignificant impact. Small-scale entrepreneurs are seeking credits in the range of $10,000 to $40,000. There is also a substantial difference in the maturity of the loans required: micro-enterprise loans can be in the range of three to six months, while small-scale enterprise loans are needed for a period of one to three years.

Poor or non-existent access to "formal" credit has a profoundly negative impact on the micro-entrepreneur, as it forces him or her to work in what can be called a "Supplier and Client" credit system: the supplier or the client provides the working capital, and the micro-entrepreneur the skilled labor and tools. Working capital is almost always provided in the form of production material (in manufacture and construction) and merchandise (in commerce). The interest rates in this supplier and client credit system are so high (minimum 10% month) that the profit margin and income of the micro-enterprise is reduced to the point of simply allowing for subsistence, with little chance of capitalization.

Small enterprises tend to operate within the "formal" credit system when funds are available. However, they do have difficulties in obtaining these credits, if and when available, by a series of constraints associated with guarantees, bureaucratic procedures, and the general lack of interest on the part of the financial institutions to finance high-risk, low-profit loans. The current economic environment in Bolivia has led the banks to restrict lending to their preferred customers, leaving the small enterprise sector with no access to credit.

The rest of the problems that the micro-entrepreneur faces -- such as competition, pricing, market and product differentiation, production technologies and business management -- can only be effectively tackled when the problem of working capital is no longer the overriding survival issue. This is the context in which ancillary services, such as training and technical assistance, need to be considered.

4. Training and Technical Assistance

The two sectors (micro- and small-scale) differ substantially in their ability to absorb and utilize training and technical assistance. Micro-entrepreneurs, such as those served by PRODEM, may indeed have a need for a generalized introduction to business practices and concepts, including basic bookkeeping. As a result, simplified generic training courses provided on a large scale make sense. However, there is also a need for specific assistance related to particular problems or issues.

The situation is quite different among the small-scale entrepreneurs, where it cannot be assumed that a basic introduction to business practices is needed. Most of these firms have been in operation for more than 10 years. They have well established accounting systems. They understand the financing of their businesses. And while they may need assistance in adopting new production technologies, this tends to be so specialized that a training institution cannot possibly cover the spectrum of issues effectively.

What both of these conditions point to is that training and technical assistance must be demand driven to be effective. There are few general topics that can be strung together to form a rational curriculum for the heterogeneous spectrum of small enterprises.

5. Conclusions and Recommendations

The proposed Project, by providing credit (formal credit with clear rules at competitive interest rates), attacks the main problem of the micro- and small-scale entrepreneur in Bolivia. Flexibility and adaptability to the clients' needs, as well as knowledge of the productive cycles in each sector, should provide differentiated loan packages that help in the growth and development of the enterprise.

Clients, who have survived and prospered in business for 10 to 20 years should be identified and treated as preferential clients of the institutions. That is, they should not be required to conform to rules designed for beginners. After the fourth or fifth loan, after having established a track record as a "good client", and after agreeing on a loan guaranty, these clients could be given access to a line of credit (predetermined amount). The client can then have flexibility in the use of funds for business opportunities, and also lower the costs of the standard procedure of meetings, lectures, and coordination of the solidarity group to which he or she belongs.

For the micro-enterprises, aside from training in rudimentary business practices, training and technical assistance needs and requests should emerge from the perception and the initiative of the clients. Clients could be aided in understanding their technical and training needs by sector specific studies of production techniques, technology, markets and marketing, etc. These studies should not emphasized, how a business "should" operate, but rather should explain how the sector works and how business can exploit opportunities for increased profit within the sector.

The mix of institutions selected to act as credit intermediaries are well adapted to working with specific segments of clientele. PRODEM's organizational structure and methods of operation have been well designed and are effective in reaching a defined target clientele. The credit union system appears well-suited to providing the credit resources with a minimum of supervision in the form of training or technical assistance, an approach which appears to fit well with the characteristics of the client base.

E. FINANCIAL ANALYSIS

The purpose of this financial analysis is to determine whether the two principal implementing institutions, PRODEM and FENACRE, are likely to prove financially viable during and beyond the project implementation period. The Mission's economic staff worked closely with senior PRODEM and FENACRE officials to develop annual projections of revenues, expenditures and net income during the project implementation period. The analysis takes into account AID's disbursement schedule planned for these two institutions, including their expected impact on both revenues and costs. Clearly, these projections are somewhat speculative: they are dependent on the implementation of the AID disbursement schedule that is subject to future funding availability; they also assume the maintenance of political and economic stability; and the continued efficient management of both institutions. The methodology employed and the detailed assumptions underlying the projections are presented in detail in connection with the projection of the income statements for PRODEM and FENACRE.

1. PRODEM

PRODEM, the institution administering loans and technical assistance to micro enterprises, began operations in early 1987. PRODEM's current practice is to service the same group of borrowers until such time as they become eligible for loans from a credit cooperative or other financial institution, a process that might take four to five years, or even longer. Since it is the Project's objective to reach a substantial and growing number of micro-enterprises, AID has discussed with PRODEM'S management the possibility of limiting the graduation period with AID funding to a maximum of two years. The purpose of this limit is to provide other micro-enterprises the opportunity to obtain access to credit for working capital financing from PRODEM on "reasonable" terms. The economic analysis (presented in Section VIII. B of this paper) shows that a two-year graduation period could be sufficient to enable most micro-enterprises to capitalize themselves to the point where they can auto finance their working capital requirements.

However, we have developed two alternative sets of projections with the help of PRODEM's staff. The first projects PRODEM's financial situation on the assumption of an average graduation period of four years (i.e. designed to approximate the "standard" or current situation). The second alternative, summarized in Table 2, assumes a two-year maximum graduation period.

The two models projected in this analysis realize significant surpluses in their current operations (line 3 of Tables 1 & 2). The first two years are identical in both models since no "graduation" can be expected under either of these scenarios during this initial period. The remainder two show some differences owing mainly to the additional resource requirements under the Two-Year Model to support needed credit investigation and follow-up work, which is called for by the higher turnover of beneficiaries. These higher costs are partially compensated by larger revenues collections through PRODEM's flat fee provision. The current procedure is for PRODEM to charge a 2.5% flat fee on the face value of every loan and on every loan extension that is granted. This is in addition to the current 27% annual interest rate charged. It is PRODEM's practice to expand the maturity period of a loan, as well as the amount of the loan, the longer the customer remains with PRODEM and makes repayments on schedule. Thus, the average loan period is about three months the first year, four months the second, and five months in the third and fourth years. With a two-year maximum graduation period, the average loan period would be three to four months, which would provide a larger revenue from the flat 2.5% loan commission, since that amount is also charged on each loan extension. The additional amount collected from this commission under the two-year graduation model partially offsets the additional cost associated with the higher turnover of clients under this alternative.

After adjusting the loan portfolio for inflation (to maintain its value in real terms), the results of both models are, again, identical in the first two years (line 8 of Tables 1 & 2). The Four-Year Model shows surpluses in the third and fourth years. The Two-Year Model continues to show deficits, albeit of declining magnitude in each subsequent year. Under the Four-Year Graduation Model, revenues exceed total expenditures (including allowance for bad debts and adjustment of portfolio value for inflation) by 10% in the fourth year (1991), while under the two-year graduation model, revenues cover almost entirely total expenditures (97%) (see line 10 of tables 1 & 2). Since the two-year maximum graduation period permits a fairly rapid expansion of the number of beneficiaries served by PRODEM, AID has a strong preference for this alternative, at least as far as use of its own funds is concerned, since the benefits of reaching a larger population is greater than the small deficit that PRODEM would realized at the end of the last projected year (about US$ 26,000).

The detailed assumptions on which our projections are based are as follows:

a. The USAID disbursement schedule for PRODEM is projected as follows:

USAID Disbursement Schedule

Date	Amounts in U.S. Dollars	Average Projected Exchange Rate (Bs to U.S.$ 1)	Amounts in Bolivianos
1988	610,000*	2.40	1,464,000
1989	1,250,000	2.76	3,450,000
1990	500,000	3.17	1,585,000
1991	500,000	3.74	1,870,000
Total	2,860,000		8,369,000

*/ This includes US$ 250,000 for PRODEM from the IBRD.

b. Interest Rate Charged (without flat commission):

To cover "maintenance of value" (depending on year)	10% to 20%
Allowance for bad debts	2%
Spread to cover operating costs (depending on year)	15% to 5%
Total	27%

c. Flat Rate Commission Charged

2.5% of value of loan every time it is granted or extended.

d. Calculation of Loan Portfolio

The amount of loan portfolio is estimated by taking the loan portfolio at the end of the prior year and adding the disbursement of the AID loan effected during the current year. Furthermore, it is assumed that, at any time, only 75% of the amount available will be lent out while 25% will remain idle.

e. Bad Loan Reserve Adjustment

A 2% allowance of the current portfolio is made for losses resulting from uncollectible loans.

f. Adjustment for Maintenance of Value of the Portfolio

In order to maintain the real value of the loan portfolio, we adjusted it with the projected rate of inflation. Inflation rates assumed were 20% for 1988, 17% for 1989, 12% for 1990 and 10% for 1991.

g. Financial Costs

PRODEM has contracted three loans to be used for working capital credit: two from PL-480 for a total of US$ 620,000, and one from the IBRD for US$ 250,000. All loans have a four year maturity, at 8% annually plus maintenance of value, to be paid back in a lump sum at the end of the period.

h. Salaries and Other Costs

These costs include labor, rent, utilities, office supplies, and other. They will vary somewhat depending on the length of the average graduation period. Under the four-year graduation model, the number of employees and the total annual outlay on wages is as follows:

Date	(1) Number of Employees	(2) Average Monthly Wage	(3) Annual Outlay on Wages
1988	22	1,119	295,416
1989	35	1,243	522,060
1990	38	1,425	649,800
1991	40	1,710	820,800

To estimate total non-financial costs, including labor, the figures in column 3 were multiplied by a factor of 1.5.

i. Cost Figures in Two-year Graduation Model

In the case of the two-year graduation model (summarized in Table 2), the same cost figures are used for years 1 and 2; cost figures in year 3 and 4 were adjusted to reflect an increased number of new beneficiaries and all the costs entailed in administering the new loans, including training. It is estimated that 16 additional people (raising the total to 54 in year 3 and 56 in year 4) in relation to the four-year graduation model will be needed to carry the additional work load entailed by the faster turnover of beneficiaries under the two-year model.

j. Flat Fee Commission Under Two-Year Model

For the two-year graduation model (table 2), the flat fee commission is also higher than under the four-year model for years 3 and 4, as a larger number of loans and loan extensions is granted each year. The average annual number of loans under each scenario is as follows:

Date	Four-Year Model	Two-Year Model
1987	4	4
1988	3.2	3.2
1989	2.7	3.7
1990	2.5	3.2

As a result of the difference in the annual number of loans granted, revenue collections under the fixed fee commission are 2.5% higher in years 3 and 4 of the two-year model as compared with the four year scenario.

Despite the above conclusions, the design team recommended that given the assumptions incorporated in the analysis and the limited empirical data available at this time, it would be desirable to carry out a special study that will provide the basis for a realistic graduation plan based on a more comprehensive assessment of entrepreneurs participating in the Project. (See Section V E of this PP - Evaluations and Audits).

2. FENACRE

FENACRE makes two types of loans, each with a different funding source. Its largest fund, originating from loans with PL-480 local currency generations, presently amounts to approximately US$12 million. Loans from this fund are used to finance agricultural production. The interest rate charged by FENACRE to member cooperatives is LIBOR (currently 7 to 8%) plus a mark-up of 3 to 5 percent. The cooperatives add 2% rate to this rate on loans to their members, so that end users pay 12 to 15 percent plus "maintenance of value". If it is assumed that the boliviano depreciates by about 15% annually in relation to the dollar, the effective interest rate to the final borrower is likely to fall within the range of 27 to 30 percent.

The second type of loan made by FENACRE is funded by its own resources - i.e. deposits and capital. These loans are for small scale, and light manufacturing industry, such as food processing, carpentry, textiles, shoe production, foundries, etc.; and for commercial establishments. These loans carry an interest rate of 27% on dollar denominated loans. Only about $2.0 million are available to FENACRE for loans in this category. There is, therefore, an acute shortage of credit for manufacturing enterprises, a deficiency that this project is designed to remedy at interest rates similar to the first type of loan.

Loans made with FENACRE funds (for both types of loan) generally are in the range of $2,000 to $5,000 per end-user.

FENACRE's projection of revenues, expenditures and profit are summarized in Table 3. Its main revenue comes from interest receipts. "Other Revenues" consist mostly of charges for services performed and from the sale of agricultural inputs.

Under expenditures, the major item is "interest on debt" which consists mostly of interest payments on loans contracted under the PL-480 program.

Since the interest charged is on dollar denominated loans, and since the whole analysis is in terms of constant 1988 bolivianos, no adjustment for inflation is required.

The AID disbursement schedule to FENACRE is as follows:

CY-1988	$ 1,900,000
CY-1989	1,300,000
CY-1990	1,400,000
CY-1991	510,000
CY-1992	210,000

Note that FENACRE's projected income statement shows a net profit in every year over the 1988-1993 projection. No subsidy is required in any year. While its profit rate is not large - amounting to only 3.4 to 5.0 percent of the current loan portfolio over the period 1990-1993, it is steadily rising - from only .75% in 1988 to 3.4% in 1990, 4.7% in 1992 and 5.0% in 1993. In this last year, revenues are expected to exceed expenditures by 21%.

These data establish both PRODEM and FENACRE as viable, self supporting institutions - PRODEM after 1991, and FENACRE throughout the project implementation period.

TABLE 1

PRODEM'S FINANCIAL SITUATION (1)

FOUR-YEAR GRADUATION MODEL
(In Bolivianos)

	1988	1989	1990	1991
1. REVENUES (2)	579,420	1,453,725	2,101,570	2,748,611
Interest Revenue	422,820	1,121,445	1,681,256	2,231,955
Commission	156,600	332,280	420,314	516,656
2. EXPENDITURES	527,604	919,986	1,131,932	1,416,704
Financial Costs (3)	84,480	136,896	157,232	185,504
Salaries & Other Costs (4)	443,124	783,090	974,700	1,231,200
3. OPERATING NET PROFIT (1-2)	51,816	533,739	969,638	1,331,907
4. OPERATING SUBSIDY REQUIRED	-	-	-	-
5. NET PROFIT (LOSS) AS % OF AVERAGE CURRENT PORTFOLIO	3.3%	12.9%	15.6%	16.1%
6. Bad Loan Reserve Adjustment (5)	31,320	83,070	124,538	165,330
7. Adjustment for Maintenance of Value of the Portfolio (6)	313,200	852,720	830,160	916,200
8. NET PROFIT OR LOSS AFTER ADJUSTMENTS (3-6-7)	(292,704)	(402,051)	14,941	250,377
9. TOTAL SUBSIDY REQUIRED	292,704	402,051	-	-
10. SELF-SUFFICIENCY (Revenues as a % of lines 2+6+7)	66.4%	78.3%	100.7%	110.0%

	1988	1989	1990	1991
A. TOTAL PROJECT DISBURSEMENTS (During the year)	1,464,000	3,450,000	1,902,000	2,244,000
B. CURRENT PORTFOLIO (7) (Average for the year)	1,566,000	4,153,500	6,226,875	8,266,500
C. EXPENDITURES/CURR.PORT.	33.7%	22.1%	18.2%	17.1%
D. INTEREST	27.00%	27.00%	27.00%	27.00%
E. COMMISSION (2.5% per loan)	10.00%	8.00%	6.75%	6.25%
F. EFFECTIVE INTEREST CHARGED	37.0%	35.0%	33.3%	33.3%
-MAINT.VALUE/CURR.PORT.	20.0%	17.0%	12.0%	10.0%

-SPREAD AVAILABLE TO COVER OPERATING COSTS	17.0%	18.0%	21.8%	23.3%

(1) Assumptions: 27% interest rate and 2.5% flat fee per loan.

(2) Revenues are calculated by multiplying the "effective interest charged" by the "current portfolio".

(3) "Financial Costs" cover interest payments (at 8% annually) on loans from PL-480 and IBRD.

(4) "Salaries and Other costs" includes salaries, rent, utilities, supplies, etc.

(5) "Bad Loan Reserve Adjustment" is the adjustment allowed for bad loans equivalent to 2% of "Current Portfolio".

(6) "Adjustment for Maintenance of Value of Portfolio" is calculated by multiplying assumed inflation rates of 20% in 1988, 17% in 1989, 12% in 1990 and 10% in 1991, by the "Current Portfolio" and the amounts undisbursed of each year.

(7) "Current Portfolio" is calculated on the assumption that at any time only 75% of the disbursed amounts will be lent out and 25% will remain idle.

TABLE 2

PRODEN'S FINANCIAL SITUATION (1)

TWO-YEAR GRADUATION MODEL
(In Bolivianos)

	1988	1989	1990	1991
1. REVENUES (2)	579,420	1,453,725	2,257,242	2,893,275
Interest Revenue	422,820	1,121,445	1,681,256	2,231,955
Commission	156,600	332,280	575,986	661,320
2. EXPENDITURES	527,604	919,986	1,542,332	1,909,184
Financial Costs (3)	84,480	136,896	157,232	185,504
Salaries & Other Costs (4)	443,124	783,090	1,385,100	1,723,680
3. OPERATING NET PROFIT (1-2)	51,816	533,739	714,910	984,091
4. OPERATING SUBSIDY REQUIRED	-	-	-	-
5. NET PROFIT (LOSS) AS % OF AVERAGE CURRENT PORTFOLIO	3.3%	12.9%	11.5%	11.9%
6. Bad Loan Reserve Adjustment (5)	31,320	83,070	124,538	165,330
7. Adjustment for Maintenance of Value of the Portfolio (6)	313,200	852,720	830,160	916,200
8. NET PROFIT OR LOSS AFTER ADJUSTMENTS (3-6-7)	(292,704)	(402,051)	(239,787)	(97,439)
9. TOTAL SUBSIDY REQUIRED	292,704	402,051	239,787	97,439
10. SELF-SUFFICIENCY (Revenues as a % of lines 2+6+7)	66.4%	78.3%	90.4%	96.7%

	1988	1989	1990	1991
A. TOTAL PROJECT DISBURSEMENTS (During the year)	1,464,000	3,450,000	1,902,000	2,244,000
B. CURRENT PORTFOLIO (7) (Average for the year)	1,566,000	4,153,500	6,226,875	8,266,500
C. EXPENDITURES/CURR.PORT.	33.7%	22.1%	24.8%	23.1%
D. INTEREST	27.00%	27.00%	27.00%	27.00%
E. COMMISSION (2.5% per loan)	10.00%	8.00%	9.25%	8.00%
F. EFFECTIVE INTEREST CHARGED	37.0%	35.0%	36.3%	35.0%
-MAINT.VALUE/CURR.PORT.	20.0%	17.0%	12.0%	10.0%

-SPREAD AVAILABLE TO COVER OPERATING COSTS	17.0%	18.0%	24.3%	25.0%

(1) Assumptions: 27% interest rate and 2.5% flat fee per loan.
(2) Revenues are calculated by multiplying the "effective interest charged" by the "current portfolio".
(3) "Financial Costs" cover interest payments (at 8% annually) on loans from PL-480 and IBRD.
(4) "Salaries and Other costs" includes salaries, rent, utilities, supplies, etc.
(5) "Bad Loan Reserve Adjustment" is the adjustment allowed for bad loans equivalent to 2% of "Current Portfolio".
(6) "Adjustment for Maintenance of Value of Portfolio" is calculated by multiplying assumed inflation rates of 20% in 1988, 17% in 1989, 12% in 1990 and 10% in 1991, by the "Current Portfolio" and the amounts undisbursed of each year.
(7) "Current Portfolio" is calculated on the assumption that at any time only 75% of the disbursed amounts will be lent out and 25% will remain idle.

TABLE 3

FENACRE'S FINANCIAL SITUATION

(In 1988 Bolivianos)

	1988	1989	1990	1991	1992	1993
1. REVENUES	6,704,488	7,685,447	8,730,453	9,921,573	10,804,626	11,646,233
Interest Revenues	4,997,601	5,397,409	5,829,202	6,295,538	6,799,181	7,343,116
Other Revenues	1,706,887	1,843,438	1,990,912	2,150,186	2,326,201	2,507,977
2. EXPENDITURES	6,580,251	7,167,068	7,789,064	8,478,314	9,059,138	9,639,257
Salaries	1,786,404	1,893,588	2,007,204	2,127,639	2,255,294	2,390,612
Interest Paid on Deposits	1,166,031	1,282,634	1,410,898	1,551,987	1,707,186	1,877,905
Interest Paid on Debts	2,110,061	2,321,067	2,553,174	2,808,492	3,089,340	3,398,275
Other expenditures	1,517,755	1,669,779	1,817,788	1,990,196	2,007,318	1,972,465
3. NET PROFIT OR LOSS	124,237	518,379	941,389	1,443,259	1,745,488	2,006,976
4. NET PROFIT (LOSS) AS A % OF AVERAGE CURRENT PORTFOLIO	0.76%	2.29%	3.40%	4.34%	4.72%	4.98%
5. SUBSIDY REQUIRED	-	-	-	-	-	-
6. SELF-SUFFICIENCY (as % of 100)	101.9%	107.2%	112.1%	117.0%	119.3%	120.8%
A. TOTAL PROJECT DISBURSEMENTS (During the year)	0	4,560,000	3,120,000	3,360,000	1,224,000	504,000
B. CURRENT PORTFOLIO (Average for the year)	16,436,410	22,640,051	27,670,656	33,229,541	36,981,807	40,279,780
C. EXPENDITURES/ CURR.PORT.	40.0%	31.7%	28.1%	25.5%	24.5%	23.9%
D. INTEREST CHARGED	30.4%	23.8%	21.1%	18.9%	18.4%	18.2%

ANNEX A

LOGICAL FRAMEWORK

MICRO & SMALL ENTERPRISE ENTERPRISE DEVELOPMENT PROJECT

NARRATIVE	INDICATORS	TARGETS YEAR 1 1989 / YEAR 2 1990 / YEAR 3 1991 / YEAR 4 1992 / YEAR 5 1993	MEANS OF VERIFICATION	MAJOR ASSUMPTIONS
Goal: 1. To promote rapid & sustained economic growth in Bolivia, particularly among Bolivia's private sector enterprises	1. a. Increased sales of participating businesses b. Increased net income of participating businesses c. Increased purchases of locally produced raw materials and supplies by participating small businesses, resulting in secondary employment and income benefits	a. Businesses increase their sales by at least 25% b. Increase of at least $1.0 million per year in net income of participating businesses. c. Increase of at least $1.0 million in purchases of locally supplied raw materials per year	1. a. Business profiles loan applications b. Financial statements of participating businesses c. Impact analyses	1. GOB continues to support the growth and strengthening of the private sector. 2. Appropriate regulatory agencies of the GOB will review and act on policy recommendations presented by the privates sector, improving the operating environment for small businesses 3. Businesses spend about 50% of loan amounts on raw materials, 75% of which are locally produced.
2. To achieve a more equitable distribution of income	2. a. Increased number of jobs (both full-part-time) in participating businesses b. Increase in total real wage bill of employees of participating businesses	2. a. About 6,700 full-time jobs created b. Increase of at least $3.5 million in wages and personal income c. Increase in average salaries of employed workers exceeds annual inflation rate	2. a. Business profiles from loan applications b. Financial statements of participating businesses c. Impact analyses	1. Rate of inflation remains within manageable limits. 2. Rate of job creation is 1 job per $1,000 of new capital in the micro-enterprise sector and 1 job per $1,000 of new capital in the micro-enterprise sector and 1 job per $2,000 in the small-scale enterprises. 3. Capacity constraints in Bolivian companies require employment of additional workers to meet production demands. 4. Employers pass increased earnings on to workers in form of increased wages or bonuses.

PURPOSE	END OF PROJECT STATUS	TARGETS YEAR 1 1989 / YEAR 2 1990 / YEAR 3 1991 / YEAR 4 1992 / YEAR 5 1993	MEANS OF VERIFICATION	MAJOR ASSUMPTIONS
To stimulate the growth & development of Bolivia a small-scale enterprise sector	1. a. Increased investments in plant, equipment and inventory among participating small enterprises b. Improved level of operating efficiency among participating small enterprises c. Improved business skills & practices (especially in areas of production technologies, product differentiation, marketing, inventory management & market segmentation) among participating small enterprises d. Increased use of formal financial institution credit facilities by project beneficiaries	1. a. 25% increase in permanent business investments in plant, equipment and inventories b.-c. Measurable improvements in skills and practices in at least 75% of assisted businesses d. A minimum of 2,000 micro-and small-scale entrepreneurs with on-going, independent relationship with credit unions	1. Business profiles associated with loan applications 2. Financial statements of participating businesses 3. Impact analyses 4. Technical assistance reports 5. Mid-term & end-of-project evaluations 6. Beneficiary surveys and interviews 7. General surveys of non-beneficiary micro and small enterprises	1. Banking System will return to lending to small enterprises 2. Entrepreneurs apply the results of training and technical assistance to their businesses.

PURPOSE	END OF PROJECT STATUS	TARGETS YEAR 1 1989	YEAR 2 1990	YEAR 3 1991	YEAR 4 1992	YEAR 5 1993	MEANS OF VERIFICATION	MAJOR ASSUMPTIONS
improve the ality and quan- ty of support rvices (includ- g credit, aining, & chnical assis- nce) to the ll-scale erprise tor in ivia	Credit 1. A permanently capitalized loan fund of at least $2.45 million in PRODEM, making loans to micro-enterprise borrowers, with:						1. Financial records of the loan funds in PRODEM, FENACRE & the credit unions.	1. Rate of inflation is maintained by the GOB within manageable limits
	a. a low delinquency rate	1. a. Less than 5% of the outstanding portfolio						
	b. Capital fund growing, in real terms, at a rate of at least 5% per year through internal savings mobilization and maintenance of value provisions	b. Savings account balance reach $350,00 by the end of project						
	c. An annual loan volume of at least $5.0 million to a minimum of 5,000 borrowers No. of loan recipients	c. 1) 4,000	5,000	6,000	5,000	5,000		1. Demand for credit in the sector will exceed the supply at interest rates and commissions charged by the intermediary institutions
	2. A permanently capitalized loan fund of at least US$5.4 million in FENACRE & the credit union system, making loans to micro-& small-enterprise credit union members, consisting of the following:							
	a. 5 self-sufficient ADEPI credit unions	a.				5		
	b. Up to 20 other credit unions providing small-enterprise credits to their members	b.				20		
	c. Capital fund growing, in real terms, at a rate of at least 10% per year thru internal savings mobilization, maintenance of value, & capitalization	c. Initial capitalization at least 10% of loan amount, with an annual growth in internal savings of at least 10% per year among program participants						
	d. Low Delinquency rate	d. Less than 5% of the outstanding portfolio						
	e. Loans to at least 1,800 small businesses through the credit union system 1) ADEPI CUs							1. Demand for credit in the sector will exceed the supply at interest rates and commissions charged by the intermediary institutions
	a) No.of loan recipients	a. 200	300	500	700	900		
	2) Other CUs a) No. of loan recipients	a. 200	400	600	800	900		

PURPOSE	END OF PROJECT STATUS	TARGETS	YEAR 1 1989	YEAR 2 1990	YEAR 3 1991	YEAR 4 1992	YEAR 5 1993	MEANS OF VERIFICATION	MAJOR ASSUMPTIONS
	Institutional								
	1. PRODEM								
	a. At least 2 self-sufficient PRODEM offices (La Paz & El Alto) a/o S.Cruz servicing approxi.3,000 clients each	a. Centers should be self-sufficient within five years of being established						1. PRODEM financial and management records 2. Project audits 3. Mid-term evaluations	
	2. Credit Union System								
	a. Small-enterprise section of FENACRE & all credit union small-enterprise programs self-sustaining on the basis of self-generated income	a. FENACRE program self-sufficient within two years, ADEPI credit unions will be self-sufficient by the PACD							
	b. Operating systems, including loan monitoring, data processing, delinquency control & others functioning effectively	b. Systems operational & performing correctly							
	c. Effective capability to assess and analyze policy issues related to the credit union movement	c. Credit union movement has clear position on major policy issues affecting credit unions							
	3. FEPOBI/ADEPI								
	a. Fully-staffed, technical units operational in at least the ADEPIs of La Paz, Cochabamba & Santa Cruz, providing support to members in areas of business plan preparation and technical loan supervision	a. Each unit with at least one paid industrial engineer, financial analyst and secretary						1. Institutional records and evaluations 2. Reports & evaluations concerning the expansion of technical capabilities and staff	
	b. Technical units self-sufficient on basis of fee income	b.							
	1) La Paz	1)	30%	70%	100%	100%			
	2) Cochabamba	2)		30%	70%	100%			
	3) Santa Cruz	3)		30%	70%	100%			
	c. Effective capability to assess & analyze policy issues related to the small-enterprise sector.	c. Clear position articulated on major policy issues affecting the micro-enterprise sector							
	Training								
	1. Micro Enterprise								Training programs are appropriate to the needs of the participants
	a. PRODEM providing training in basic business management to at least 2,000 new beneficiaries by year 5	a.	700	800	1,000	1,200	1,300	1. Training reports and records	
	b. PRODEM sponsoring at least 5 open seminars each year to acquaint micro entrepreneurs with results of market and other special studies, with at least 100 participants in each seminar.	b.	5 500	5 500	5 500	5 500	5 500		
	2. Small-Scale Enterprises								
	a. Each ADEPI sponsoring at least 20 courses per year with an average attendance of 30 memebers							1. Training reports & records	
	No. of courses	1)	60	60	100	100	100		

OUTPUTS			TARGETS YEAR 1 1989	YEAR 2 1990	YEAR 3 1991	YEAR 4 1992	YEAR 5 1993	MEANS OF VERIFICATION	MAJOR ASSUMPTIONS
Institutional Development									
1. PRODEM's ability to provide credit, training & technical assistance to micro-enterprises increased	1. a. New PRODEM office established & staffed in El Alto or Santa Cruz	1. a.	X					Institutional Records project evaluations and audits	
	b. New PRODEM technical staff recruited trained & functioning in La Paz office	b.	X						
	c. PRODEM's accounting and statistical reporting/ information systems improved, with a functioning monitoring and control system	c.	X						
	d. Feasibility studies on other office expansions completed	d.							
	1) Sta Cruz (or El Alto)	d. 1)		X					
	2) Cochabamba	2)			X				
2. FENACRE's ability to support micro and small enterprise lending increased	2. a. Funds management capability established in FENACRE	2. a.	X					Institutional records project evaluations and audits	
	b. Computerized data processing system managing funds and statistical/monitoring information installed & functioning	b.	X						
	c. FENACRE field staff trained to provide technical assistance to member credit unions in areas of funds management, liquidity management, business plan analysis, loan servicing, collections & delinquency control	c.	X						
	d. Operating procedures & policies developed and in place	d.	X						
3. Ability of participating Credit Unions to effectively manage the funds established	3. a. Five ADEPI credit unions with trained, paid, & qualified full-time staff		La Paz Cochabamba S.Cruz		Two Additional			Institutional records project evaluations and audits	
	b. Accounting, loan appraisal, credit supervision, collections and delinquency control procedures established and functioning correctly in all participating credit unions		3		2				
	c. Computerized accounting & statistical reporting systems functioning in the five ADEPI credit unions	c.	3		2				
	d. Credit union staff trained in managing credit lines for small businesses	d.	10		5				
4. Technical assistance units established and staffed in the La Paz, Cochabamba & Sta Cruz ADEPIs	4. a. Technical/financial units established in the three ADEPIs, staffed with at least 1 industrial engineer, 1 financial analyst & a secretary	a.	La Paz Cochab.	S.Cruz				1. Project records 2. Evaluations and audits	
	b. Technical unit staffs trained in operational analysis of businesses, business plan preparation	b.	La Paz Cochab.	S Cruz					
	c. Business plan and operational analyses models & procedures developed	c.	2nd Qt.						
5. Policy Analysis studies conducted & capability developed	5. a. FEBOPI/INASET staff trained in policy analysis and research techniques	5. a.	A minimum of 5 by year 2 of the project					1. Project records	1. Policy analysis activities are coordinated with the policy analysis component of the Strengthening Financial Markets Project.
	b. FENACRE staff trained in policy analysis & research techniques	b.	A minimum of 5 by year 2 of the project					Evaluations & audits	
	c. Specific studies related to general policy analysis program completed	c.	According to schedule developed by Project Coordinator						

INPUTS			YEAR 1 1989	YEAR 2 1990	YEAR 3 1991	YEAR 4 1992	YEAR 5 1993	MEANS OF VERIFICATION	MAJOR ASSUMPTIONS
			TARGETS						
1. USAID/Bolivia	1. a. Technical Assistance								
	1) PRODEM	1)	96	96	80	64	64	Project Audits	
	2) FENACRE/CUs	2)	306	306	306	-	-	Periodic project reports	
	3) FEBOPI/ADEPIs	3)	66	66	66	-	-	AID controller reports	
	b. Commodities								
	1) PRODEM	b. 1)	141	-	-	-	-		
	2) FENACRE/ADEPIs CUs	2)	109	35	-	-	-		
	3) FEBOPI/ADEPIs	3)	22	20	-	-	-		
	c. Training								
	1) PRODEM	1)	23	33	23	13	13		
	2) FENACRE	2)	60	60	30	18	18		
	3) FEBOPIs/ADEPIs	3)	20	20	16	16	16		
	d. Credit								
	1) PRODEM--Micro-Enter.	1)	1,000	800	-	-	-		
	2) FENACRE/CUs -- Small-Scale Enterprises	2)	1,656	944	800	512	288		
	e. Other								
	1) Policy research studies	1)	50	50	50	-	-		
	2) Project coordination	2)	150	150	150	150	-		
	3) Proj. Evaluations & Audits	3)	-	65	-	65	-		
	4) Price/Quant.Cotingencies	4)	68	70	65	60	65		
	f. Budget Support								
	1) PRODEM	1)	125	145	-	-	-		
	2) FEBOPIs/ADEPIs	2)	60	60	60	60	60		
2. G O B	2. Credit Funds								
	1) PRODEM	1)	-	350	300	-	-		
	2) FENACRE	2)	200	400	600	-	-		
3. Bolivia Private Sector (PRODEM FENACRE)	3. a. Owner's Equity		220	350	420	350	230		
	b. Operating Support		130	130	160	150	130		
GRAND TOTAL			4,502	4,150	3,126	1,458	884	$14,120	

0742L

ANNEX B-1

FEDERACION NACIONAL DE COOPERATIVAS DE AHORRO Y CREDITO DE BOLIVIA

OFICINA CENTRAL Antezana S-0397 - Teléfonos 21374 - 28061 - Casilla 829 - Cochabamba-Bolivia OFICINA LA PAZ Juan de la Riva esq. Bueno 1480 - Teléfonos 328564 - 341335 - Casilla 20295 - OFICINA TARIJA Calle V. Lema esq. J.M. Saracho - Casilla 1346 - Teléfono 3631 OFICINA SANTA CRUZ Calle Arenales No. 262 - Teléfono 49339 - Casilla 1117 OFICINA SUCRE Calle Calvo esq. Plaza 25 de Mayo No. 7 - Teléfono 25524 OFICINA TRINIDAD Calle Cochabamba esq. M. Limpias Teléfono 20677 OFICINA ORURO Av. 6 de Octubre No. 5236 - Teléfono 51822.

FENACRE

Dirc. Telegráfica: "FENACRE"

RECEIVED USAID 21 JUL. 1988 LA PAZ

PS

DEP. OF. 1246/88

Cochabamba, 19 de julio de 1988

21 JUL. 1988

Señor
Reginald Van Raalte
DIRECTOR USAID/BOLIVIA
La Paz

Distinguido señor:

Como es de conocimiento suyo, la Federación Nacional de Cooperativas de Ahorro y Crédito de Bolivia FENACRE, está volcando sus esfuerzos y capacidad a la intermediación de recursos financieros dirigidos a fomentar actividades productivas en el País, hasta ahora con énfasis hacia el sector agropecuario. Al contar con Cooperativas cuyos socios se dedican a actividades productivas de Pequeña Industria y Artesanales; y al haber participado actívamente en la Organización de la Asociación de Pequeña Industria y Artesanía de Cochabamba, cuyo resultado final fue la organización departamental de ADEPI's y FEBOPI; FENACRE se ha preocupado de canalizar algunos escasos recursos en beneficio de este sector productivo desatendido por el Gobierno.

Por lo expuesto y de acuerdo a las conversaciones sostenidas con usted y personeros de esa misión, solicitamos por su intermedio la cooperación de USAID/B, en la implementación del "Proyecto de la Pequeña Industria, Artesanía y Micro-Empresa", de acuerdo a las funciones previstas en el Documento que está siendo elaborado por USAID/B, que principalmente establece la donación a FENACRE de un fondo que será canalizado hacia las Cooperativas cuyos socios tengan las actividades arriba mencionadas.

Asímismo, manifestamos que el aporte propio del Sistema FENACRE, para este Proyecto, alcanzará a $us. 1'383.900.-- (UN MILLON TRESCIENTOS OCHENTA Y TRES MIL NOVECIENTOS 00/100 DOLARES AMERICANOS), cuyo detalle encontrará en el documento que anexamos a esta nota.

FILE	ACTION	INFO
DIP		
DIR		
DD		
ECON		
EXO		
DP		
PD&I		
CONT		
PRD		
HHR		
SPLIT		
ACTION TKN		

/..

- 120 -

Creemos que la puesta en marcha del Proyecto mencionado, coadyuvará a la reactivación del aparato productivo del País en el sub-sector de la Pequeña Industria; ya que es el que genera el mayor empleo de la mano de obra del País después del sector Agropecuario; por lo tanto, sus efectos multiplicadores serán apreciables más rápidamente.

Con este motivo y seguros de contar con su amable colaboración, saludamos a usted con la mayor atención.

Celiar López Coelho
GERENTE DE OPERACIONES

Alberto Montero Cossío
GERENTE GENERAL

OAC/scv
Adj.: Lo Citado.
cc. : OF. REG. LP.
DEP.

ANEXO 1

APORTE DE "FENACRE" AL PROYECTO

		VALOR $US.
1.	Edificios (Depreciación)	10.000.--
2.	Vehículos (Gastos Combustible, mantenimiento)	5.200.--
3.	Moviliario, Equipo	2.500.--
4.	Mantenimiento de Edificio	10.000.--
5.	Sueldos de Personal de Apoyo y Viáticos indirectamente involucrado en el Proyecto (por los 5 años).	125.000.--
6.	Aporte propio de los socios beneficarios con el crédito	1'025.000.--
7.	Edificios y Equipos de las cuatro (4) primeras Cooperativas participantes en el Proyecto.	169.000.--
8.	Gastos en Servicios Básicos (agua, luz, teléfono, etc.)	35.000.--
9.	Gastos en Refrigerio y Servicio de Té	2.500.--
	TOTAL $US.	1'383.000.--

/scv

1222

Febopi

Federación Boliviana de la Pequeña Industria

La Paz, 22 de Julio de 1988
CITE. FEBOPI. 305/88

Señor
Reginald van Raalte
Director de la Misión
USAID - BOLIVIA
Presente.-

Ref: CONTRAPARTE VALORADA

Distinguido Señor:

Es de inmensa satisfacción, contar con la valiosa colaboración de la Institución que Ud. preside, en la concepción e implantación del proyecto: "Desarrollo de las Micro y Pequeñas Empresas Industriales". Este apoyo servirá sin duda, para la reactivación de éste amplio sector, situación que generará efectos positivos para la economía toda.

Hago llegar a Ud. un cuadro, resumen progresivo de la contraparte valorada que exponemos como Institución Cooperante, y un cuadro de nuestra estructura orgánica, como ente aglutinante de las Pequeñas Empresas Industriales y Artesanales a nivel Nacional.

Sin otro particular, aprovecho la oportunidad para renovar a usted las seguridades de mi consideración más distinguida.

E. Velazco

Dr. Enrique Velazco R.
PRESIDENTE FEBOPI

Adj.: Cuadro - Contraparte Valorada. (3)
Cuadro - Estructura Orgánica. (1)
FEBOPI, ADEPI, COOPERATIVAS, INASET (STAF)

RM/dg.
cc. Arch.

Calle Conchitas 524, Zona San Pedro 372128 8847

ANNEX C-1

1/2 UNCLASSIFIED STATE 043959/01

AID AMB DCM ECON

VZCZCLPO504
PP RUEHLP
DE RUEHC #3959/01 0430200
ZNR UUUUU ZZH
P 120155Z FEB 88
FM SECSTATE WASHDC
TO AMEMBASSY LA PAZ PRIORITY 3828
BT
UNCLAS STATE 043959

AIDAC

REC'D 2/12

FILE: PD&I

Project Development and Implementation
12 FEB 1988
USAID/BOLIVIA

LOC: 045 132
12 FEB 88 0156
CN: 05337
CHRG: AID
DIST: AIDE

ACTION: PS
INFO: D/DD
EXO
PD&I
C
RF 3
SF

E.O. 12356: N/A
TAGS:
SUBJECT: GUIDANCE FOR PREPARATION OF MICRO AND SMALL ENTERPRISE DEVELOPMENT PROJECT, 511-0596

REPLY DUE 2/19

ACTION TKN ______

1. THE DAEC REVIEWED THE SUBJECT PID ON JANUARY 22, 1988. THE CHAIRMAN OF THE DAEC COMPLEMENTED THE MISSION ON A WELL PREPARED PID THE MISSION MAY PROCEED TO DEVELOP AND OBLIGATE THE PROJECT IN THE FIELD SUBJECT TO THE FOLLOWING GUIDANCE:

2. FENACRE PROGRAM. BECAUSE ITS TIES ARE PREDOMINANTLY WIITH THE COOPERATIVE SECTOR, THE APPROPRIATENESS OF FENACRE TO UNDERTAKE A SMALL ENTERPRISE PROJECT WAS DISCUSSED AT THE DAEC FENACRE'S CAPABILITY TO WORK WITH AND SERVICE THE SMALL ENTERPRISE SECTOR'S CREDIT NEEDS SHOULD BE ASSESSED IN GREATER DETAIL DURING THE PROJECT DESIGN.

IN ORDER TO FACILITATE THE WORK OF FENACRE AS IT CARRIES OUT POLICY RESEARCH PERTAINING TO THE MICRO AND SMALL ENTERPRISE SECTOR, THE MISSION MAY WISH TO UTILIZE THE TECHNICAL ASSISTANCE SERVICES OF THE S&T-SPONSORED EMPLOYMENT AND ENTERPRISE POLICY ANALYSIS PROJECT:REFER

TO 87 STATE 389104 FOR A DESCRIPTION OF THIS PROJECT

3. PRODEM PROGRAM. ALTHOUGH WE CONCUR THAT PRODEM IS THE MOST APPROPRIATE INSTITUTION TO CARRY OUT THE MICRO-ENTERPRISE COMPONENT, CONCERN WAS EXPRESSED REGARDING THE TREMENDOUS EXPANSION OF CREDIT AND LOAN SIZE FROM THE CURRENT LEVELS (CREDIT FUND IS TO INCREASE FROM DOLS: 125,000 TO DOLS:1.8 MILLION AND THE LOAN SIZE FROM AN AVERAGE OF DOLS 150 TO DOLS: 2,400): TO ENSURE PROPER FINANCIAL AND MANAGEMENT CONTROLS, THE PP MIGHT CONSIDER PROVIDING THE CREDIT FUNDS IN TRANCHES. THE MISSION SHOULD ALSO CONSIDER THE INCLUSION OF A SAVINGS MOBILIZATION COMPONENT AS PART OF THE PRODEM PROGRAM:

4. GRADUATION MECHANISM: THE SUCCESS OF THE PROJECT WILL DEPEND IN LARGE MEASURE ON DEVELOPING MECHANISMS TO QUOTE GRADUATE UNQUOTE BORROWERS FROM PRODEM TO FENACRE AND EVENTUALLY TO THE COMMERCIAL BANKING SECTOR: THE

124

PROJECT DESIGN SHOULD EXPLORE MECHANISMS FOR GRADUATION OF ENTERPRISES FROM THE FENACRE FINANCIAL SYSTEM TO COMMERCIAL LENDING AND SPECIFY THE GRADUATION MECHANISMS FROM PRODEM TO FENACRE

5. MARKET DEMAND: IN ADDITION TO DISCUSSING CREDIT DEMAND, THE PP SHOULD ALSO ADDRESS MARKET DEMAND FOR GOODS AND SERVICES EXPECTED TO BE FINANCED THROUGH THE PROJECT COMPONENTS: ULTIMATELY, THE VIABILITY OF THE CREDIT PROGRAM WILL BE PREDICATED UPON THE EXISTENCE OF MARKETS FOR THE GOODS AND SERVICES IT FINANCES.

6: INSTITUTIONAL SUSTAINABILITY. A MAJOR CONCERN OF THE DAEC WAS THE ABILITY OF PRODEM AND FENACRE TO COVER THEIR NON-CREDIT COSTS, SUCH AS TRAINING, TECHNICAL ASSISTANCE AND LOAN SUPERVISION, ONCE A.I.D: FUNDING HAS ENDED. THE PP SHOULD CONTAIN A THOROUGH AND REALISTIC ANALYSIS OF SUSTAINABILITY, INCLUDING A DISCUSSION OF INTEREST RATES AND COSTS OF LENDING. IN ADDITION, THE MISSION SHOULD DEVELOP SUSTAINABILITY BENCHMARKS IN THE PP AND MONITOR THEM ON AN ONGOING BASIS AS WELL AS ADDRESS THEM DURING THE MID-TERM EVALUATION.

7: LOCAL CONTRIBUTION: WE RECOGNIZE IT MAY BE DIFFICULT FOR PRODEM TO DERIVE THE 25 PERCENT CONTRIBUTION FROM QUOTE BORROWER'S EQUITY UNQUOTE AND QUOTE INSTITUTIONAL OVERHEAD UNQUOTE SINCE IT IS A NEW PROGRAM AND THE MICROENTERPRISE CONTRIBUTION MAY BE MINIMAL AND DIFFICULT TO QUANTIFY. UNLESS OTHER SOURCES ARE IDENTIFIED, THE MISSION SHOULD LOOK AT WHETHER THERE ARE

SUFFICIENT GROUNDS FOR WAIVING THE 25 PERCENT CONTRIBUTION IN THE CASE OF PRODEM.

8. FUNDING MECHANISM. IN RESPONSE TO CONCERNS EXPRESSED AT THE DAEC PERTAINING TO THE FUNDING MECHANISMS, THE MISSION REPRESENTATIVE MET WITH GC AND LAC/DR TO REVIEW VARIOUS IMPLEMENTATION ARRANGEMENTS. THE BEST OPTION FOR THE MICRO-ENTERPRISE COMPONENT APPEARS TO BE A DIRECT GRANT TO AITEC WITH FUNDING FLOWING TO PRODEM FOR CREDIT AND OPERATING COSTS. IF PRODEM IS THE GRANTEE, THE PP SHOULD ALSO CONSIDER WHETHER IT IS CAPABLE OF MANAGING A LARGE SUBCONTRACT WITH AITEC. SINCE THESE OPTIONS WILL INVOLVE SINGLE-SOURCE OR LIMITED COMPETITION, THE MISSION WILL HAVE TO REQUEST AA/LAC APPROVAL IN ACCORDANCE WITH HANDBOOK 13, CHAPTER 2B2. IMPLEMENTATION ARRANGEMENTS FOR THE TECHNICAL ASSISTANCE TO PRODEM AND FENACRE SHOULD BE DESCRIBED CLEARLY IN THE PP.

9. CONGRESSIONAL EARMARK. THE MICRO-ENTERPRISE COMPONENT OF THIS PROJECT, IF IT PROCEEDS, MAY COUNT AGAINST A
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120

CONGRESSIONAL EARMARK OF DOLS. 50 MILLION FOR FY 1988: IN ORDER TO COUNT PORTIONS OF THIS PROJECT TOWARDS THE EARMARK, WE REQUEST THAT THE MISSION STRUCTURE THE PP DESCRIPTION OF THE MICRO-ENTERPRISE COMPONENT TO FACILITATE THE IDENTIFICATION OF ELIGIBLE FUNDS, BASED ON THE CRITERIA INCLUDED IN THE CONFERENCE REPORT. ED KADUNC HAS A COPY OF THIS REPORT.

10. FUNDING LIMITATION: GIVEN THE LIMITED FUNDS AVAILABLE IN THE SDA ACCOUNT AND THE SDA MORTGAGE, THE MISSION CANNOT PROCEED TO OBLIGATE BOTH THE MICRO AND SMALL ENTERPRISE DEVELOPMENT PROJECT AND THE EXPORT PROMOTION PROJECT IN FY 1988. THE MISSION SHOULD DECIDE WHICH OF THESE PROJECTS IT WISHES TO OBLIGATE THIS YEAR. HOWEVER, THE BUREAU WOULD STRONGLY URGE THAT THIS PROJECT BE DEVELOPED AND OBLIGATED THIS FISCAL YEAR, GIVEN THAT PART OF THE PROJECT IS BASED ON A SUCCESFUL PILOT EFFORT AND THE MISSION APPEARS TO BE MUCH FARTHER ALONG IN DEVELOPMENT OF THIS PROGRAM. SHULTZ

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- 124

ANNEX C-2

MISSION RESPONSE TO A.I.D./WASHINGTON GUIDANCE CABLE

Guidance Cable Issues for Micro and Small Enterprise Project (511-0596)

The Micro and Small Enterprise Project Identification Document was reviewed by the DAEC and approved for final design on January 22, 1988. As a result of the review, a number of specific points of guidance were given to the Mission (State 43959). These points follow, as well as either the PP page number which addresses them or a Mission response.

(1) The PP should assess FENACRE's capability to work with and service the small enterprise sectors needs.

See PP page 76.

(2) In view of the significant proposed expansion of PRODEM's lending activities, credit funds channelled through PRODEM should be provided in tranches to assure proper financial and management controls.

See PP pages 34 and 48 - 59.

(3) A savings mobilization component should be considered as part of PRODEM's program.

See PP page 35.

(4) The project design should explore mechanisms for graduation of enterprises from the FENACRE financial system to commercial lending.

See Technical Analysis (p. 94), Financial Analysis, and Part V.E. Evaluations and Audits.

(5) The PP should discuss, in addition to credit demand, market demand for goods and services expected to be financed through the Project.

See PP page 40.

(6) An analysis of sustainability, including a discussion of interest rates and lending costs should be included in the PP.

See the Financial Analysis Section VIII Section E pages 104 through 114.

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5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to: (A) FAA funds generally; (B)(1) Development Assistance funds only; or (B)(2) the Economic Support Fund only.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FY 1988 Continuing Resolution Sec. 526. Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully? — No.

2. FAA Sec. 481(h). (This provision applies to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government), has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without — Yes.

Congressional enactment, within 30 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, and to prevent and punish drug profit laundering in the country, or that (b) the vital national interests of the United States require the provision of such assistance? — Yes.

3. Drug Act Sec. 2013. (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to Congress listing such country as one (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country? — No.

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4. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government? — No.

5. FAA Sec. 620(e)(1). If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? — No.

6. FAA Secs. 620(a), 620(f), 620D; FY 1988 Continuing Resolution Sec. 512. Is recipient country a Communist country? If so, has the President determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism? Will assistance be provided directly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, South Yemen, Iran or Syria? Will assistance be provided to Afghanistan without a certification? — No.

7. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property? — No.

8. FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC? — No.

9. FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made?

   No.

10. FAA Sec. 620(q); FY 1988 Continuing Resolution Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1988 Continuing Resolution appropriates funds?

   a) Yes (waived)

   b) No.

11. FAA Sec. 620(s). If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

   Yes, taken into account by the Administrator at time of approval of Agency OYB.

12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

   No.

131

13. FAA Sec. 620(u). What is the payment status of the country's U.N obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)

Taken into consideration by the Administrator at the time of approval of Agency OYB.

14. FAA Sec. 620A. Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism?

No.

15. FY 1988 Continuing Resolution Sec. 576. Has the country been placed on the list provided for in Section 6(j) of the Export Administration Act of 1979 (currently Libya, Iran, South Yemen, Syria, Cuba, or North Korea)?

No.

16. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?

No.

17. FAA Sec. 666(b). Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

No.

18. FAA Secs. 669, 670. Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)

No.

132

19. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device?

No.

20. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)

Taken into consideration by the Administrator at the time of approval of the Agency OYB.

21. FY 1988 Continuing Resolution Sec. 528. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States?

No.

22. FY 1988 Continuing Resolution Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance?

No.

23. FY 1988 Continuing Resolution Sec. 543. Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin?

Yes.

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?	No.
FY 1988 Continuing Resolution Sec. 538. Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performace of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?	No.

2. Economic Support Fund Country Criteria

FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest?	No.
FY 1988 Continuing Resolution Sec. 549. Has this country met its drug eradication targets or otherwise taken significant steps to halt illicit drug production or trafficking?	Yes.

, 134

5C(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A includes criteria applicable to all projects. Part B applies to projects funded from specific sources only: B(1) applies to all projects funded with Development Assistance; B(2) applies to projects funded with Development Assistance loans; and B(3) applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT

1. FY 1988 Continuing Resolution Sec. 523; FAA Sec. 634A. If money is sought to obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified? — Yes.

2. FAA Sec. 611(a)(1). Prior to an obligation in excess of $500,000, 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. Yes.

3. FAA Sec. 611(a)(2). If legislative action is required within recipient country, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance? — N/A

17

4. FAA Sec. 611(b); FY 1980 Continuing Resolution Sec. 501. If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

N/A

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

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.,
N/A

7. FAA Sec. 601(a). Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, 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.

(a) The Project may increase the availability of goods for export by the private sector and may promote the import of productive goods.
(b) Yes. The Project will be carried out through the private sector.
(c) Yes. These organizations will be major participants.
(d) Yes.
(e) Yes.
(f) Yes, although indirectly.

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).

Productive inputs from the US will be imported. The Project will be carried out through the private sector.

9. FAA Secs. 612(b), 636(h). 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.

Such are steps included in the Project Grant Agreement.

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. FY 1988 Continuing Resolution Sec. 521. 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? — No.

12. FY 1988 Continuing Resolution Sec. 553. Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel? — No.

13. FAA Sec. 119(g)(4)-(6). Will the assistance (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas? — N/A

14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)? N/A

15. FY 1988 Continuing Resolution. If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government? N/A

16. FY Continuing Resolution Sec. 541. If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.? N/A

17. FY 1988 Continuing Resolution Sec. 514. If funds are being obligated under an appropriation account to which they were not appropriated, has prior approval of the Appropriations Committees of Congress been obtained? N/A

18. FY Continuing Resolution Sec. 515. If deob/reob authority is sought to be exercised in the provision of assistance, are the funds being obligated for the same general purpose, and for countries within the same general region as originally obligated, and have the Appropriations Committees of both Houses of Congress been properly notified? N/A

19. State Authorization Sec. 139 (as interpreted by conference report). Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision). Yes.

130

FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FY 1988 Continuing Resolution Sec. 552 (as interpreted by conference report). If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities (a) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (b) in support of research that is intended primarily to benefit U.S. producers?

N/A

b. FAA Secs. 102(b), 111, 113, 281(a). Describe 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, dispersing investment from cities to small towns and rural areas, and

(a) The Project will reach Bolivia's micro entrepreneurs, who are among the poorest members of the popupation. One of the purposes is to create employment and raise the level of income of these people.

128

insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a 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.

(b) Yes, through training and TA.

(c) Yes.

(d) Yes, women will be active participatns in the Project.

(e) Complements efforts of other donors.

c. FAA Secs. 103, 103A, 104, 105, 106, 120-21. Does the project fit the criteria for the source of funds (functional account) being used?

Yes.

d. FAA Sec. 107. Is emphasis placed 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)?

Yes.

e. FAA Secs. 110, 124(d). Will the recipient country provide at least 25 percent 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.

f. FAA Sec. 128(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.

The Project design is based in the specific needs of micro and small entrepreneurs and will be carried out through local private sector organizations.

h. FY 1988 Continuing Resolution Sec. 538. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

No.

Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?

No.

Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

No.

i. FY 1988 Continuing Resolution. Is the assistance being made available to any organization or program which has been determined to support or participate in the management of a program of coercive abortion or involuntary sterilization?

No.

If assistance is from the population functional account, are any of the funds to be made available to voluntary family planning projects which do not offer, either directly or through referral to or information about access to, a broad range of family planning methods and services?

N/A

j. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes.

k. FY 1988 Continuing Resolution. What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 20 percent of the students are Hispanic Americans, and private and 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)?

Procurement of most T.A. services will be competed following Federal Acquisition regulations.

l. FAA Sec. 118(c). Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (a) stress the importance of conserving and sustainably managing forest resources; (b) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (c) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (d) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (e) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared

Yes.

(a) - (k): N/A

or degraded; (f) conserve forested watersheds and rehabilitate those which have been deforested; (g) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (h) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (i) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (j) seek to increase the awareness of U.S. government agencies and other donors of the immediate and long-term value of tropical forests; and (k)/utilize the resources and abilities of all relevant U.S. government agencies?

m. <u>FAA Sec. 118(c)(13)</u>. If the assistance will support a program or project significantly affecting tropical forests (including projects involving the planting of exotic plant species), will the program or project (a) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land, and (b)/take full account of the environmental impacts of the proposed activities on biological diversity? N/A

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n. FAA Sec. 118(c)(14). Will assistance be used for (a) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; or (b) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas? N/A

o. FAA Sec. 118(c)(15). Will assistance be used for (a) activities which would result in the conversion of forest lands to the rearing of livestock; (b) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undegraded forest lands; (c) the colonization of forest lands; or (d) the construction of dams or other water control structures which flood relatively undegraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development? N/A

p. FY 1988 Continuing Resolution If assistance will come from the Sub-Saharan Africa DA account, is it (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) being provided in N/A accordance with the policies contained in section 102 of the FAA; (c) being provided, when consistent with the objectives of such assistance, through African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (d) being used to help overcome shorter-term constraints to long-term development, to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development, and to take into account, in assisted policy reforms, the need to protect vulnerable groups; (e) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks, to maintain and restore the natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal educational system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?

Development Assistance Project Criteria (Loans Only)	(Project is 100% Grant)
a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest.	N/A
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 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?	N/A
c. FY 1988 Continuing Resolution. If for a loan to a private sector institution from funds made available to carry out the provisions of FAA Sections 103 through 106, will loan be provided, to the maximum extent practicable, at or near the prevailing interest rate paid on Treasury obligations of similar maturity at the time of obligating such funds?	N/A
d. FAA Sec. 122(b). Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?	N/A

conomic Support Fund Project Criteria

FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? — N/A

FAA Sec. 531(e). Will this assistance be used for military or paramilitary purposes? — N/A

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

ANNEX F -1

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

LAC-IEE-88-05

ENVIRONMENTAL THRESHOLD DECISION

Project Location	:	Bolivia
Project Title	:	Micro and Small Enterprise Project
Project Number	:	511-0596
Funding	:	$10 million
Life of Project	:	Five years FY 88-FY 93
IEE Prepared by	:	Angel M. Diaz USAID/La Paz
Recommended Threshold Decision	:	Categorical Exclusion
Bureau Threshold Decision	:	Concur with Recommendation
Comments	:	None
Copy to	:	G. Reginald van Raalte, Director USAID/La Paz
Copy to	:	Angel M. Diaz, Chief, PS, USAID/La Paz
Copy to	:	Howard Clark, REMS/SA
Copy to	:	Robert Jordan, LAC/DR
Copy to	:	IEE File

James S. Hester Date JAN 28 1988

James S. Hester
Chief Environmental Officer
Bureau for Latin America
and the Caribbean

ENVIRONMENTAL DETERMINATION

Project Location: Bolivia
Project Title: Micro and Small Enterprise Project
Project Number: 511-0596

Project Description: The goal of the Project is to increase employment and income among Bolivia's low-income urban residents by assisting in the development of the small-scale enterprise Sector. The Project purpose is to stimulate the growth and development of Bolivia's micro and small enterprises.

The Project will finance an integrated package of technical, training, and financial assistance to help in addressing the key constraints which impede the full development and growth of Bolivia's small-scale enterprise sector. Specific assistance will be provided in the areas of institutional development; credit; and policy research.

Statement of Categorical Exclusion: It is the opinion of USAID/Bolivia that the Project does not require an Initial Environmental Examination, because its activities are within the class of actions described in Section 216.2 paragraph (c) (1) (i) and 216.2 (c) (2) (i) of 22 CFR part 216 on "Categorical Exclusions", which read as follows:

> "Section 216.2 (C) (1) (i)"
>
> "The action does not have an effect on the natural or physical environment", and
>
> "Section 216.2 (C) (") (i)"
>
> "Education, technical assistance, or training programs except to the extent such programs include activities directly affecting the environment (such as construction of facilities, etc.). "

Concurrence of Mission Director

I have reviewed the above statement and concur in the determination that the Micro and Small Enterprise Project does not require an Initial Environmental Examination.

G. Reginald van Raalte
Mission Director

Date: [illegible]

ENVIRONMENTAL THRESHOLD DECISION

Project Location:	Bolivia
Project Title:	Micro and Small Enterprise Project
Project Number:	511-0596
Funding:	$10 million
Life of Project:	Five Years—FY 88-FY 93
IEE Prepared by:	Angel M. Diaz
Recommended Threshold Decision:	Categorical Exclusion
Bureau Threshold Decision:	Concur with Recommendation
Comments:	(To be provided by LAC/DR)
Copy to	G. Reginald van Raalte, Director USAID/La Paz
Copy to	Angel M. Diaz, Chief, PS
Copy to	Howard Clark, REMS
Copy to	IEE File

_________________ date _______
Environmental Officer
Bureau for Latin America
and the Caribbean

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150

ANNEX E

Section 611 (E) Determination

CERTIFICATION PURSUANT TO SECTION 611 (E) OF THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, G. Reginald van Raalte, as Mission Director of the Agency for International Development Mission to Bolivia, having taken into account, among other things, the maintenance and utilization of projects previously financed by USAID/Bolivia, do hereby certify that in my judgement the Government of Bolivia and the participating Bolivian private sector institutions (the Federación Nacional de Cooperativa de Ahorro y Crédito (FENACRE), Fundación para la Promoción y Desarrollo de la Microempresa (PRODEM), and the Federación Boliviana de Pequeñas Industrias (FEBOPI)) have the financial capacity and human resources capability to effectively utilize and maintain the proposed Micro and Small Enterprise Development Project.

H. Robert Kramer for

G. Reginald van Raalte
Mission Director
USAID/Bolivia

Date:

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151