

UNITED STATES AID MISSION to BOLIVIA
c/o American Embassy
La Paz, Bolivia

PD-AAZ-663
67300

USAID - BOLIVIA
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Casilla 673
La Paz, Bolivia

June 23, 1989

Mr. Roberto Capriles
President of the Administration Council
Board of Directors PRODEM Foundation
La Paz

Dear Mr. Capriles:-

Subject: Cooperative Agreement No. 511-0596-A-00-9250-00

Pursuant to the authority contained in the Foreign Assistance Act of 1961, as amended, the Agency for International Development (hereinafter referred to as "A.I.D." or "Grantor"), hereby grants to the Foundation for the Promotion Development of Microenterprises (hereby referred to as "PRODEM" or "Recipient"), the sum of US\$689,000 in support of the program in micro and small enterprise development, as described in Attachment 1, entitled "Schedule" and in Attachment 2 entitled "Program Description". Additional funds up to a total of \$2,316,000 may be obligated by A.I.D. during the life of the program subject to the availability of funds.

This Agreement is effective and obligation is made as of the date of this letter and shall apply to commitments made by the Recipient in furtherance of program objectives during the period beginning with the effective date and ending August 15, 1993.

This Agreement is made with PRODEM under the condition that the funds will be administered in accordance with the terms and conditions set forth herewith, in Attachment 1, entitled, "Schedule;" in Attachment 2, entitled, "Program Description;" and in Attachment 3, entitled, "Standard Provisions" which have been agreed to by your organization (Note: Throughout the Standard Provisions, the word "grant" should be replaced with "cooperative agreement.")

a

Please sign the original and six copies of this letter to acknowledge your receipt of the Cooperative Agreement and return the original and all but one copy to USAID/Bolivia.

Sincerely yours,



G. Reginald van Raalte
Director

ACKNOWLEDGED:



By: Roberto Capriles

Title: President of PRODEM

Date:

ATTACHMENTS:

1. Schedule
2. Program Description
3. Standard Provisions

Letter to Mr. Roberto Capriles
dated
Cooperative Agreement
No. 511-0596-A-00-9250-00

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ATTACHMENT 1

COOPERATIVE AGREEMENT
SCHEDULE

I. PURPOSE AND PROGRAM DESCRIPTION

A. Purpose

The purpose of this Agreement is to expand and improve the ongoing micro-enterprise assistance program of PRODEM as more specifically described in Attachment 2 to this Agreement entitled, "Cooperative Agreement Program Description."

B. Program Description

A.I.D. will support the Recipient to expand and improve its operations.

This activity is described in Attachment 2 entitled, "Cooperative Agreement Program Description."

II. AMOUNT OF AGREEMENT, FUNDS OBLIGATED, PAYMENT, ESTIMATED COSTS, AND COST SHARING

A. Amount of Agreement

The total estimated amount of this Agreement for the period shown in IV below is US\$2,316,000. This includes only the A.I.D. Contribution under this Cooperative Agreement.

B. Funds Obligated

A.I.D. hereby obligates the amount of US\$689,000 for program expenditures during the estimated period of May 1989 to June 1990 and as shown in the Financial Plan below (VI).

C. Disbursements

Disbursements shall be made to the Recipient under the procedures set forth in Attachment 3, Cooperative Agreement Standard Provision, entitled "Payment-Periodic Advance." The disbursement schedule is included with the Financial Plan. The following describes the method of disbursements:

1. At the beginning of each calendar year, PRODEM shall prepare and present to A.I.D. an annual budget to cover the estimated expenses during the year. This budget shall be based on the general budget herein approved.

2. Additionally, PRODEM shall prepare and submit to AID a quarterly budget for the expenses to be incurred during the report period. The amount and budget items shall be the same as approved in the yearly budget.

3. At the end of each quarter, PRODEM will present a financial report (Schedule I) to USAID. This report will be on a cash basis and should include mainly the funds received in advance, the balance available, an accounting for any cash disbursement (training expenses, travel expenses, purchase of equipment, credit, etc.) previously approved by USAID and charged to the Cooperative Agreement during the reporting period and the request of funds for next quarter. PRODEM will present also Standard Form 1034, "Public Voucher for Purchase and Services other than Personal," in order to liquidate any earlier advances. PRODEM may, at this time, request a further advance of funds never to exceed three months of estimated and reasonable disbursements under the Standard Form 1034 (original and three copies).

D. Additional Funds

Additional funds up to the total amount of the Agreement shown in 11.A above may be obligated by A.I.D. subject to the availability of funds and to the requirements of the section of the Mandatory Standard Provisions of the Agreement entitled, "Revision of the Grant Budget."

E. Total Project Costs

The total cost of the program is approximately US\$4,045,000. The sources of the resources committed to cover these costs are described as follows:

1. A.I.D. Contribution - \$2,755,000

A.I.D. will contribute US\$2,316,000 under this Cooperative Agreement. A.I.D. will also provide long- and short-term technical assistance to PRODEM costing approximately US\$439,000.

2. PRODEM Contribution - \$640,000

PRODEM will provide operational support for the program costing US\$150,000 as cost sharing and in-kind owners equity at US\$490,000.

3. Government of Bolivia Contribution - \$650,000

The Government of Bolivia committed US\$650,000 of grant funds under the Project Agreement with A.I.D.

III. SUBSTANTIAL INVOLVEMENT UNDERSTANDINGS

A. Staging of Agreement

During the first stage of the Agreement, and prior to any disbursement, or the issuance of any commitment documents under the Cooperative Agreement to finance this program, PRODEM shall furnish the following in form and substance satisfactory to AID:

1. The first year operational plan and four-quarter budget for the program expansion.

2. Evidence that a permanent General Manager for PRODEM has been identified and selected.

3. The name(s) and specimen signature(s) of the person(s) authorized to legally represent PRODEM.

4. Evidence of the installation by PRODEM of a new accounting system, audited and approved by USAID/Bolivia, in addition to a computerized portfolio control.

5. Projections for the expansion of the program that separates operating from establishment costs and non-financial from financial costs.

6. 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 a least 10%.

Having completed these requirements, AID will certify that the first stage has been completed and that PRODEM may proceed to the second stage. The second stage corresponds to the implementation of the program. (see Section VI, Attachment 2.)

B. Covenants

Additionally, it is understood that PRODEM will fulfill the following during the life of the project:

1. Provide an annual operating plan and budget to be submitted for approval by A.I.D.

2. Develop a strategic plan and annual updates.

3. Develop a self-sufficiency plan to cover the expenses for credit and technical assistance which must eventually be financed by the micro-entrepreneurs themselves.

4. Develop a monitoring and evaluation plan acceptable to A.I.D. during the first semester of project implementation and establish a scheme for gathering the data required.

5. Provide a quarterly report indicating problems, opportunities, and accomplishments.

6. Obtain A.I.D. approval in advance for all contracts for long-term services and any contract exceeding \$10,000 in value. (This does not refer to loans but rather to purchases which will be made with funds granted under this Cooperative Agreement, e.g. the purchase of furniture).

7. Incorporate women into responsible positions in the management and operations of PRODEM. Aggressively seek out women clients in productive enterprises. Develop and present a plan satisfactory to A.I.D. to accomplish the above.

8. Work for close cooperation with the other institutions participating in the A.I.D. Micro and Small Enterprise Development Project, namely FENACRE and FEBOPI.

9. Keep A.I.D. informed concerning all activities of PRODEM especially concerning any activities with other institutions.

10. Follow the standards specified in the appropriate standard provisions for procurement of goods and services. Contracting procedures (advertising, evaluation, award) will be reviewed and approved by USAID before the contracts are signed.

C. Technical Assistance Agreement

An agreement to provide PRODEM with technical assistance will be entered into by A.I.D.

D. Board Meetings

A.I.D. and the technical assistance providers (AITEC and WOCCU) will be invited to participate in the PRODEM Board of Directors meetings as observers. The Chairperson of the Board will call extraordinary meetings if so requested by A.I.D.

E. Cooperative Agreement (CA) Implementation Letters

To assist PRODEM in the implementation of the Program, A.I.D., from time to time, will issue CA Implementation Letters that will furnish additional information about matters stated in this Agreement. A.I.D. and PRODEM may also use jointly agreed-upon CA Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement. CA Implementation Letters will not be used to amend the text of the Agreement.

Schedule

Cooperative Agreement

No. 511-0596-A-00-9250-00

IV. PERIOD OF AGREEMENT

The effective date of this Agreement is the date of cover letter. The expiration date of this Agreement is August 15, 1993.

V. REPORTS AND EVALUATIONS

A. Financial Reports

PRODEM will present to A.I.D. the financial report described in paragraph II.C. for AID funds. PRODEM will also present to A.I.D. the financial report (Schedule II) for counterpart PRODEM AND GOB contribution.

In addition, PRODEM will report any income (service charges, etc.) collected during the reporting period and all in-kind contributions made by the private sector participants during the same period of time.

B. Occasional Reports

PRODEM will report to A.I.D. on any and all operational matters A.I.D. may request.

C. Monitoring and Evaluation

During the Project, PRODEM and USAID/Bolivia will jointly monitor project progress.

Each month the monitoring system 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.

Additionally, at least one evaluation and a final impact evaluation will be conducted. The two evaluations will utilize the services of a qualified independent evaluator contracted by USAID with project funds. This evaluator will assist with the two internal evaluations (one at the end of the first year of the project, and one at the end of the second year of the project), and will conduct the impact evaluation independently.

The first evaluation will identify major problems and suggested mid-course corrections, and will analyze procedural and administrative implementation problems, as well as document problems made toward achieving expected outputs. The impact evaluation will measure the attainment of the purpose indicators (EOPS) and other quantifiable objective measures, and provide recommendations to PRODEM and A.I.D. concerning the short-, medium-, and long-range future of the Program.

VI. FINANCIAL PLAN FOR AGREEMENT

The following is the Financial Plan for this Agreement, including local cost financing items. Revisions to this Plan shall be made in accordance with the section of the Standard Provisions of this Agreement, entitled "Revision of the Grant Budget." These figures are subject to availability of funds. All figures below are in US\$000.

A. Funds Governed by this Agreement

1. Commodities, Training and Operational Support	516
2. Capitalization of Credit Fund	<u>1,800</u>
Total Funds of this Agreement	2,316

3. Disbursement Schedule

<u>US Fiscal Year</u>	<u>Funds for Credit</u>		<u>Other Funds</u>	
	<u>FX</u>	<u>LC</u>	<u>FX</u>	<u>LC</u>
1989	0	100	105	70
1990		400	12	175
1991	0	400	8	110
1992	0	500	8	15
1993	0	<u>400</u>	<u>8</u>	<u>5</u>
TOTAL	0	1800	141	375
GRANDTOTAL		1800	516	

Note: FX refers to dollar disbursements and LC to Bolivianos disbursements.

B. Funds from Other Sources

Other resources will also be committed to the program by A.I.D. and PRODEM.

1. PRODEM	
- Operational support	150 (LC)
- Owners' equity	490 (LC)
2. A.I.D. (Estimates)	
- Technical assistance	439 (FX)
3. Government of Bolivia	<u>650 (LC)</u>
4. Total of other funds	1,729

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PRODEM Budget (\$000)

	<u>1989</u>		<u>1990</u>		<u>1991</u>		<u>1992</u>		<u>1993</u>		<u>Total</u>		<u>TOTAL</u>
	<u>FX</u>	<u>LC</u>	<u>FX</u>	<u>LC</u>									
<u>Commodities</u>													
Computer system (LPZ extension & SC2)	56										56		56
Office furniture and equipment		40										40	40
Vehicle (1 unit)	20										20		20
Motorcycles (8)	25										25		25
<u>Training</u>													
In-country training (4 ST/LOP)				20		10		10			40		40
Invitational travel (2 RT/yr. x 5)	4		12		8		8		8			40	40
In-country on the job training (15 RT/yrx5)				10		5		5		5		25	25
<u>Operational Support</u>													
Operational Support		30		145		95						270	270
Total without Credit Funds	105	70	12	175	8	110	8	15	8	5	141	375	516
<u>Credit Funds</u>		100		400		400		500		400		1,800	1,800
Total Operating Grant	105	170	12	575	8	510	8	515	8	405	141	2,175	2,316
<u>AID Direct Expenditures</u>													
Technical Assistance	90	2	91	2	96	2	99	2	53	2	429	10	439
Subtotal AID	195	1/2	103	577	104	512	107	517	61	407	570	2,185	2,755
<u>Government of Bolivia Contribution</u>													
Credit Funds				350		300						650	650
<u>Private Sector Contribution</u>													
Operational Support		30		30		40		30		20		150	150
Owners Equity (Borrower contribution)		80		100		120		100		90		490	490
Subtotal Private Sector		110		130		160		130		110		640	640
TOTAL TO PRODEM	195	282	103	1057	104	972	107	647	61	517	570	3,475	4,045

Schedule

Cooperative Agreement

No. 511-0596-A-00-9250-00

VII. SPECIAL PROVISIONS

The Recipient agrees to the following:

A. Promotion

The Recipient agrees to use its best effort to promote the various services and credit lines made available through this Project.

B. Costs

To keep costs within budget estimates agreed with A.I.D. and make every responsible effort possible to make the expanded program self-financing before the end of the Cooperative Agreement.

C. Records

To maintain statistical records on costs, and make them available for review by A.I.D.

D. Bank Accounts

To maintain separate bank accounts for A.I.D. grant funds and other operating funds.

E. Title to Property

Title to property acquired under the Agreement shall vest in the Recipient, which agrees to transfer all such property to any successor organization that is created to continue the Program.

F. Source and Origin of Commodities, Nationality of Services

Commodities and services financed by A.I.D. under the Program 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 services shall have Bolivia or one of the countries included in A.I.D. Geographic Code 941 as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Program shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States. The suppliers of commodities shall have Bolivia or the United States as their place of nationality, except as A.I.D. may otherwise agree in writing. Source, origin, and nationality of participant training is governed by A.I.D. Handbook 10.

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FINANCIAL REPORT - (SPECIAL ACCOUNT)
A.I.D. CONTRIBUTION
 (in US\$)

PROJECT: _____

FOR THE QUARTER ENDED _____

PROJECT BUDGET ELEMENTS	LIFE OF PROJECT TOTAL APPROVED BUDGET (OBLIGATIONS)	CURRENT YEAR APPROVED BUDGET	FUNDS RECEIVED TO DATE	FUNDS EXPENDED THIS QUARTER	FUNDS EXPENDED THIS YEAR	FUNDS EXPENDED TO DATE	BALANCE AVAILABLE FROM INCEPTION	FUNDS REQUIRED THIS QUARTER	REQUESTED IN THIS VOUCHER
			(AS OF _____) FROM INCEPTION	(d)	(e)	(AS OF _____) FROM INCEPTION	(g)	(h)	(i)
	(a)	(b)	(c)	(d)	(e)	(f)	(c-f)	(h)	(h-i)

Element

TOTAL

0/55C

b-

FINANCIAL REPORT - (SPECIAL ACCOUNT)
COUNTERPART CONTRIBUTION (CASH)
 (in US\$)

PROJECT: _____

FOR THE QUARTER ENDED _____

PROJECT BUDGET ELEMENTS	LIFE OF PROJECT TOTAL APPROVED BUDGET (OBLIGATIONS)	CURRENT YEAR APPROVED BUDGET	FUNDS RECEIVED TO DATE (AS OF _____) FROM INCEPTION	FUNDS EXPENDED THIS QUARTER	FUNDS EXPENDED THIS YEAR	FUNDS EXPENDED TO DATE (AS OF _____) FROM INCEPTION	BALANCE AVAILABLE FROM INCEPTION (g)	FUNDS REQUIRED THIS QUARTER	FUNDS DEPOSITED THRU _____ (i)
	(a)	(b)	(c)	(d)	(e)	(f)	(g-f)	(h)	(h-g)

Element

Counterpart Contribution (In Kind)
 1. Element

ATTACHMENT 2

COOPERATIVE AGREEMENT PROGRAM DESCRIPTION
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ATTACHMENT 2

PROGRAM DESCRIPTION

I. INTRODUCTION

The Micro and Small Enterprise Development (MSED) Project is designed to contribute to three Government of Bolivia and USAID/Bolivia objectives: (1) strengthened private sector institutions, (2) economic development, and (3) more equitable income distribution.

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.

The Project will support programs with three existing Bolivian institutions: Federación Nacional de Cooperativas de Ahorro y Crédito de Bolivia (FENACRE) and its constituent credit unions; Fundación para la Promoción y Desarrollo de la Microempresa (PRODEM); and Federación Boliviana de la Pequeña Industria (FEBOP) and its constituent regional affiliates, the Asociaciones Departamentales de Pequeñas Industrias (ADEPIs). One or more commercial banks may be incorporated at a later stage as part of a client graduation program.

The services which will be institutionalized in one or more of these entities are four: technical assistance, policy formulation, training, and finance. Project activities will involve credit, institutional strengthening and development, and policy research and analysis.

This Attachment describes in detail the PRODEM program. The description includes an overview of the institutions involved, an introduction to the PRODEM system, a declaration of the goals and purposes of the program, a definition of the resources which are available, a definition of the results expected, and descriptions of implementation responsibilities and methods as well as the procedures for program monitoring and evaluation.

II. THE PRODEM SYSTEM

PRODEM focuses exclusively on micro-businesses, family-based small producers or market vendors which tend to have only one or two employees when they first approach the program for credit. This element of the MSED Project recognizes the expertise of PRODEM in working with informal sector micro-enterprises based on its success to date in implementing a pilot program in La Paz.

The methods of PRODEM in outreach, screening, training, and providing credit are based on the experience of similar organizations in other Latin American countries. These methods have proven to be highly successful in the Bolivian context, as evidenced by the high demand for services and low delinquency rates.

Under a separate Cooperative Agreement, AITEC will provide technical assistance to PRODEM so that it may expand its promotion, credit, training, technical assistance, and savings services to micro-enterprises in the La Paz area and so that it may extend its program to El Alto and Santa Cruz. AITEC has been providing technical assistance to PRODEM since September 1986. This technical assistance has been effective establishing a strong although small organization.

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

The PRODEM system consists of the board of directors, the staff in two offices, its clients and the bank that services their account. PRODEM has the responsibility of gathering sufficient information on beneficiaries to meet loan appraisal and program monitoring objectives. It has the responsibility of disbursing loans to the beneficiaries and collecting those loans. The beneficiaries join together into "Solidarity Groups" and 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 system have been reasonably well developed, though PRODEM needs to improve program monitoring, including its statistics on clients, and plan training and support services.

III. GOAL, PURPOSE, AND STRATEGY OF THE PROGRAM WITH PRODEM

A. The Goal. The MSED Project and the Program with PRODEM 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.

B. The Purpose. The Purpose of the Project and of the Program with PRODEM 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, technical assistance, and opportunities to save--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 improvement of small-scale enterprises benefiting from the Project.

C. The Strategy. The Program will support the achievement of the Project purpose through AITEC's technical assistance to PRODEM: strengthening PRODEM's ability to support micro-enterprises; and establishing and/or strengthening selected programs. A description of the strategy follows.

1. Strengthen PRODEM's ability to support micro-enterprises

Jointly, PRODEM, AITEC, and AID will accomplish the following tasks:

a. Strategic Planning. Review the strategic planning process, substance, and implementation; develop mechanisms for evaluating proposals from other donors which would add programs to PRODEM in conformity with strategic plans and develop a mechanism for integrating and managing programs which are accepted. Finally, ensure that strategic planning within PRODEM incorporates a framework conducive to achieving financial self-sufficiency in all managed activities.

b. Services/marketing. Within the context of the strategic plan, define which services PRODEM can successfully market on a self-sustaining basis, making required distinctions by micro-enterprise size/strength and by market characteristics. Furthermore, coordinate with the other institutions involved in this project to avoid a duplication of efforts in the services to be marketed. Finally, proceed to market chosen services in a cost-effective manner.

c. Control and supervision. Establish better control and security systems for loan portfolio management, develop improved fund management procedures, and train personnel in proper control and supervision activities involving micro-business borrowers.

d. Administration. Review the organic structure of PRODEM and prescribe improvements. Review financial and administrative manuals and procedures and develop improved systems where appropriate. Develop a personnel training and development system (utilizing the services of the Instituto para el Desarrollo de Empresarios y Administradores (IDEA), if required) and assist in its implementation. Develop a financial intermediation system which coordinates savings activities with lending activities.

e. Information and communications. Develop an institution-wide information and communication system. The core of the system will be a computerized accounting program, which will provide quick and easy access to the information required for financial management. The system will also provide the information required for the proper management of each subprogram including savings mobilization and lending to small enterprises. Considering the Project-wide monitoring and reporting activities, as described in Section VII of this Cooperative Agreement, efforts will be made to ensure proper compatibility with the information and communication system to be implemented in the other institutions involved in this MSED Project.

2. Establish/strengthen Specific Programs

Jointly, AID, AITEC and PRODEM will accomplish the following tasks:

a. Lending to Micro-Enterprises.

Incorporate micro-business lending into strategic and organizational planning. Establish eligibility criteria for the participation of potential clients. Establish procedures for credit applications, credit supervision, delinquency control, and bad loans. Establish a separate accounting for AID funds. Develop and implement a marketing/communications plan which promotes micro-business lending. Fully utilize AID funds and utilize savings captured by the system as additional funds for lending to micro businesses. Maintain a delinquency rate of less than 5 percent. Develop a close relationship with FENACRE and its affiliated Credit Unions, as well as other financial intermediaries, both to avoid duplication of efforts by offering credit to micro-entrepreneurs in the same geographical locations, as well as to promote the graduation of PRODEM clients to formal financial institutions.

b. Training Micro-Entrepreneurs in Management Techniques

The micro-business sector has a variety of training needs, and many strategies have been developed to satisfy such needs. Accordingly, PRODEM will develop a flexible strategy incorporating a multiplicity of responses to the demands of the sector:

- * Provide elementary business training courses to entrance-level micro-enterprise beneficiaries, with at least 5,000 new clients receiving this basic orientation. The focus of this orientation is on the activities of PRODEM as well as the functioning and responsibilities of the solidarity groups.
- * Offer special fellowships to IDEA courses and/or bring specialized services from abroad to provide courses of interest to particular sectors. This activity corresponds more closely to the technical assistance needs of this business sector, and will be coordinated closely with FEBOP1 and the ADEP1s which will also be interested in such courses.
- * Provide specialized and voluntary training courses to micro-entrepreneurs who may or may not have received loans through PRODEM. The courses would focus on business management and administration, accounting, marketing, inventory management, and other similar topics of interest to micro-scale enterprises, and would have the goal of developing a capacity among PRODEM clients to manage a modern business enterprise and to set the foundation for future dealings with formal financial institutions. The cost of providing these courses will be covered by a training fee charged to course participants. Given the training initiatives of FEBOP1 and the ADEP1s, efforts will be made to ensure that these courses will complement, both in content and in methodology, those to be designed for small industries.
- * Support the implementation of 5 special seminars or lectures designed to disseminate information gained from the Program's research activities, with approximately 200 micro-entrepreneurs assisting in each set of seminars.
- * Offer longer term business and leadership training for micro-entrepreneurs.
- * Provide individualized technical assistance to micro-entrepreneurs in need of such advice. Given the costlier nature of one-on-one technical assistance, efforts will be made to ensure that the group educational activities as described above, will be as practical as possible, thereby reducing the demand of expensive direct technical assistance.

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c. Savings Mobilization

Incorporate savings mobilization into strategic and organizational planning. Develop improved methods for savings mobilization by analyzing informal financial markets and the more successful credit union and bank efforts. Incorporate in the communications program the importance of the concept of financial services to micro enterprises being based on local resources. Increase the savings of the micro-entrepreneurs deposited with PRODEM or other financial institutions.

IV. PROGRAM RESOURCES

AI TEC, PRODEM and AID will contribute resources to accomplish the purpose established in Section III-B. They will include technical assistance, training, funds for credit, commodities, and operational support.

A. Technical Assistance

The Cooperative Agreement with ACCION International/AI TEC provides for technical assistance to be offered to PRODEM. AI TEC will place a micro-enterprise Specialist in PRODEM for a period of four and a half years. This person will be located in La Paz and will possess considerable experience in micro-business lending and training. He/she will work with PRODEM in reviewing, and if necessary revising, the strategic plan for the system. He/she will then work with PRODEM to prepare specific operational plans for the implementation of the separate Cooperative Agreement between AID and PRODEM. Subsequently, he will be in charge of providing the technical assistance specified in the operation plans.

Furthermore, specific short-term technical assistance provided by AI TEC to 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.

The information system design activity is project-wide and will be handled as a single consultancy for the Project under the WOCCU Agreement. Other short-term technical assistance needs will be identified and scheduled during the start-up phases of the Project.

Finally, a separate Cooperative Agreement will be negotiated with the World Council of Credit Unions (WOCCU), which will place a specialist in La Paz to coordinate all activities concerning the objectives of this Program. This individual will also be available to provide technical assistance to PRODEM. None of this assistance is financed under the Cooperative Agreement between FENACRE and AID.

B. Training

Training and technical assistance will be provided by AITEC to PRODEM's staff participating in the Program. Training will be provided in the mobilization of savings. Special attention will also be focused on developing an adequate staff and operating procedures in the new offices that will channel credit funds and train micro-business people in El Alto and Santa Cruz. This initial intensive training for the managers and staff of the new program offices will include training in computer-based accounting programs, as well as business loan appraisal. AITEC will also be responsible for providing regular supervision of PRODEM's implementation of the credit program to be sure that proper procedures for loan approval, accounting, loan supervision, collections and delinquency control are exercised.

To carry out this training and technical assistance, AITEC will rely primarily on its existing experience and field staff. Computer training will be provided by the supplier of the data processing system.

All managers and loan officers of the program offices will be given specialized courses in small-enterprise lending and savings mobilization. With an estimated 25 participants per course, between three and six courses will be required.

In addition to formal training for personnel of the offices involved, the Program will fund travel to expose staff members similar experiences in other countries.

Travel for PRODEM staff will have two purposes: to examine micro-enterprise lending and savings mobilization operations (whether credit union or bank oriented) in other countries; and, to learn about guarantee programs, client graduation mechanisms and other strategic credit efforts. Two round trips per year are programmed.

C. Credit

AID will capitalize a special fund to be owned and managed by PRODEM which will be used exclusively to finance operations and investments of micro-enterprises. Approximately \$1.8 million will be given to PRODEM for this purpose. Details of the management of this fund are provided in Section VI-E-3.

D. Commodities

USAID will provide funds to PRODEM for commodities which 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, photocopying machine, etc.) for the La Paz office and the new offices in El Alto and Santa Cruz. One vehicle for Santa Cruz and 8 motorcycles (3 for La Paz and 5 for Santa Cruz) will also be acquired.

E. Operational support

1. USAID

USAID will provide funds to finance a general manager for PRODEM and office managers and assistants for the La Paz, El Alto and Santa Cruz offices. Support for additional personnel will be considered only in the context of a business plan. AID support will decline over the life of the project so that when the project ends, all personnel costs will be fully paid by PRODEM.

2. PRODEM

Regular supervision, auditing, training, and technical support of the participating borrowers will be handled by PRODEM existing field staff. PRODEM will need to install a computerized funds-based accounting and management information system. PRODEM will provide office space for the AITEC specialist and temporary office space for any short-term technical assistance. PRODEM also will allow limited official use of PRODEM vehicles by the long- and short-term advisors.

V. PROGRAM RESULTS

A. Program Benefits

The proposed Program is expected to contribute significantly to the development, expansion, and stability of micro-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-enterprise employment.
- * Contribution to the growth of the private sector.
- * Increase in private sector investment.
- * Increase in the number of micro-enterprises.

- * Decrease in the number of poor, unemployed urban Bolivians.
- * Increased stability of the small-scale enterprise sector.

2. Micro-economic Benefits

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

B. Program Results

The Program is expected to contribute both to economic development and to employment and incomes in the following ways:

* Expanded sales of participating businesses. Since most of the credit disbursed by PRODEM 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 number of jobs (both full- and part-time) in participating businesses. It is estimated that activities supported by this Agreement will establish some 6,700 full-time job equivalents in the micro-enterprise sector.

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

The Program is expected to have additional impacts that cannot easily be measured. These include: increased contribution of micro-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.

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C. End of Program Status Indicators

The purpose of this Agreement with PRODEM is to stimulate the long-term, stable growth and development of Bolivia's micro-enterprise sector. This will be attained by improving the support services -- specifically credit, training, technical assistance and savings opportunities -- provided to the sector by PRODEM. Successful accomplishment of this Agreement's purpose, therefore, is measured both in terms of the establishment of improved and self-sustaining services in PRODEM and in the improvements of micro-enterprises benefiting from activities supported by this Agreement.

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

1. Strengthened Private-Sector, Micro-Enterprises

* Increased number of micro-enterprises with effective borrower relationships with formal financial institutions. An estimated 2,000 additional micro-entrepreneurs will have developed commercial savings and borrowing relationships with the national credit union system or other formal financial institutions.

* Increased fixed asset investments (equipment and other fixed assets) in participating enterprises. Financial records from the beneficiary enterprises are expected to show a 25% increase in permanent business investments during the life of this program.

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

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

2. Strengthened Private-Sector Support Services

* Increased, self-sustaining institutional support for micro-enterprises in the areas of business planning, business plan analysis, credit and risk management, technical support, training and technical assistance. PRODEM is expected to have a financially self-sufficient section 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.

* 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 centers in both Santa Cruz and El Alto, providing services to an estimated 2,000 clients in each of these new offices.

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

VI. PROGRAM IMPLEMENTATION

A. Responsibilities

The umbrella agreement under USAID's Small and Micro-Enterprise Development Project signed with the GOB Ministry of Planning and Coordination provides the basis for this Cooperative Agreement with AITEC through which technical assistance will be channelled to PRODEM.

Management and coordination of the technical assistance activities under the Project as a whole must be carefully managed because technical assistance is being provided to three different types of institutions by two separate institutional contracts: one with AITEC to cover the PRODEM expansion and the other with the World Council of Credit Unions (WOCCU) to cover all other activities under the Project. Other USAID projects contain activities which must be closely coordinated. These factors have been considered in the design of the management and coordination plan, discussed below.

Technical assistance under the Project will be coordinated by the Overall Project Advisor/Coordinator employed by WOCCU, who will have responsibility to USAID for coordinating technical, financial and operational support assistance to all institutions participating in the Project. The Overall Project Advisor/Coordinator will have direct responsibility for the technical assistance provided to FENACRE and FEBOPI/ADEPIS and will work through the Project Coordination Committee to promote adequate coordination with the technical assistance provided to PRODEM by AITEC. He/she will 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 Strengthening Financial Markets (SFM) Project. He/she will be responsible for implementing the project monitoring system within FENACRE and the FEBOPI/ADEPIS and providing regular reports to the USAID on all project activities. This advisor will be located in La Paz, in the FEBOPI office.

PRODEM, utilizing its own resources and other resources donated by AID will be responsible for achieving the purposes described in Section III-B of this Attachment, as well as implementing the strategy as described in Section III-C of this Attachment. AITEC will provide a long-term advisor and short-term consultants for PRODEM who will assist in developing and implementing expansion plans, training a general manager and implementing the development program of PRODEM.

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

B. Coordination with other elements of the MSED Project.

1. Coordination Committee

A Project Coordinating Committee will be formed and will be composed of representatives of FENACRE, PRODEM, FEBOPI, the Overall Project Coordinator, the Credit Union Specialist, the AITEC Advisor and the USAID Project Manager. This Committee will address issues of overall project implementation, coordinate the delivery and use of technical assistance, provide an exchange of ideas, and to ensure the approaches taken in each component are consistent and compatible.

2. Policy, Marketing and other Studies

Although the MSED Project will help establish a capability to undertake policy, marketing and other studies within FEBOPI, it is the intention of the Project that FENACRE and PRODEM actively participate in this activity.

The planned research activities fall into two types: (1) policy research and analysis, and (2) market-related and practical business studies.

a) Policy Research and Analysis

A primary focus for policy research related to the problems and constraints of small enterprise development will be on 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). The policy research component will attempt to determine rational alternatives to address this situation.

Because the Policy Research Component of the Strengthening Financial Markets (SFM) Project focuses on the formal financial sector and the equivalent component of the Micro and Small enterprises (MSED) Project focuses on the informal sector, special care

will be taken to assure complementarity of efforts. Although policy analysis seminars will be directed by personnel of the SFM Project, policy research related to identified MSED policy constraints will be carried out by technical assistance provided to FEBOPI, with the participation of FENACRE and PRODEM. Policy research contracts may also be awarded to Bolivian research centers, such as Sistema de Información Industrial Privado or other qualified organizations.

Policy research and analysis will examine the constraints to growth on the micro and small-scale enterprise sector, identify actions that would mitigate these negative impacts, and develop policy recommendations reflecting the interests of this subsector.

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 types of regulations pertaining to small-scale enterprises;
- * import and export policies, including duties on 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 topics are expected to be developed in close coordination with the SFM Project before any individual research effort gets under way.

b) Market Related Studies

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. 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 of women-owned enterprises in the program.

3. Use of Existing Research Institutions

Sistema de Información Industrial Privado, Instituto de Asistencia Social y Económica Tecnológica, Catholic University or others will be used to carry out research, thus eliminating the need to develop a duplicate capacity in a new or existing institution. Specific studies will be contracted as necessary from these existing institutions.

C. Implementation Schedule

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.

<u>Step</u>	<u>Action</u>
Step 1	Develop work plans and schedules for the first phase of activities.
Step 2	Hire staff, develop regulations and procedures, equip facilities.
Step 3	Plan and procure commodities for the program.
Step 4	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 5	Develop eligibility criteria, monitoring system design, disbursement procedures, interest rate, capitalization and fee structures.
Step 6	Arrange in-depth training for extension agents in training program.

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- Step 7 Approve PRODEM's accounting system, internal procedures, graduation plan and expansion plan.
- Step 8 Develop and approve work plan and short-term technical assistance plan.
- Step 9 Initiate lending activities.
- Step 10 Develop and submit to USAID a realistic, feasible graduation plan of the Program's credit beneficiaries. This plan will be prepared within one year from the date of signing of the Cooperative Agreements with PRODEM. (See Section on evaluation and audits).

Subsequent activities are dependent upon the work plans developed in Step 8, with the exception of scheduled evaluations and audits.

D. Technical Assistance

1. Description

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 El Alto and 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 primary objectives of the technical assistance activity are to:

- * Recruit and train a permanent general manager for PRODEM.
- * Recruit and train office managers and assistants for La Paz, El Alto, and Santa Cruz.
- * 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.

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- * Plan and implement the expansion of PRODEM activities to El Alto, Santa Cruz and possibly other cities.
- * Recruit and train staff for the new PRODEM offices.
- * Improve PRODEM's capacity to provide technical assistance to borrowers. (Technical assistance from PRODEM consists of both loan supervision and business analysis services. These costs will gradually be covered by income from the loan portfolio.)

2. Level of Effort

a. 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. This Cooperative Agreement will support the advisor for four and a half years.

b. Short-term Consultants

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.

The information system design activity is project-wide and will be handled as a single consultancy for the Project under the WOCCU Agreement. Other short-term technical assistance needs will be identified and scheduled during the start-up phases of the Project.

The length, scope and type of short-term technical assistance may change based on implementation experience. Such changes will be expressed as technical directions from USAID/Bolivia to AITEC. Initially, eight person months of short-term technical assistance are contemplated.

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E. Credit

1. General Description

The credit fund for the MSED Project will be channeled through two separate institutional mechanisms--PRODEM for micro-enterprise clients and FENACRE 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 \$1.8 million is scheduled to be channeled through PRODEM. Program evaluations will determine if adjustments are required.

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 program. 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. Although private commercial bank participation in the Program is a desirable goal, especially from the standpoint of leveraging funds, no bank in the country has indicated an interest in attracting low-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.

PRODEM will identify, screen, and orient potential candidates for loans. 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 market vendors. 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.

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.

2. General Credit Considerations

a. Credit Uses. The greatest credit demand among micro-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.

Most of the credit extended through this program, in the short term at least, will be for working capital since most micro-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.

b. Loan Values. Loans to small enterprises are expected to range in size from \$100 to \$1,000. Actual loan amounts will be determined by good financial practices and PRODEM's demonstrated experience of successfully managing a micro-enterprise loan portfolio. The program will extend approximately 15,000 individual loans during the life of the program.

c. Repayment Period. In keeping with the experience of other micro-enterprise credit programs, working capital loans will be extended for relatively short time periods months. The lending period must be long enough to reflect the cash cycles of the borrowers, while being short enough to allow PRODEM to receive repayments and relend the credit funds. PRODEM will follow its traditional program of gradually extending the period of credits for established members, with the average term expected to be four to six months when the program reaches maturity.

d. 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 of the fund and provide some revenue to PRODEM.

At a minimum, interest rates will be pegged to the market interest rates charged by the Bolivian banking and savings and loan systems. The rates charged will, however, remain well below the interest rates currently charged to micro-enterprises by informal sector moneylenders, and will thus have the effect of lowering capital costs to program beneficiaries. The exact rate will be the subject of an implementation letter, based on the actual situation prevailing at the time of implementation.

e. Client Graduation. Working capital loans disbursed through PRODEM may be renewed for a maximum period of four years, at which time the micro-entrepreneur is expected to graduate from PRODEM to other financial intermediaries better positioned to satisfy his or her increased credit demand. 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.

3. Management of the Credit Fund

USAID/Bolivia will make funds available to PRODEM to provide credit to micro-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 micro-enterprise sector to grow and prosper, and will provide the impetus for long-term relationships between the enterprises and formal financial institutions. Approximately \$1.8 million in credit will be channeled to the small-scale enterprise sector through PRODEM.

Because of liquidity constraints, funds will be disbursed to PRODEM on the basis of a projected schedule of disbursements. This schedule will be determined on the basis of demand forecasting from expected loan applications and internal loan approval cycles.

PRODEM will manage the program as a separate fund, with reflows used exclusively for additional micro-enterprise credits. PRODEM will be responsible for providing financial orientation, training to the micro-business people receiving loans, as well as supervision and auditing support to the offices implementing the program. In addition, PRODEM will maintain adequate monitoring of the program's progress and will coordinate its statistical data base with the other institutions participating in the Project.

Credit approval and disbursement procedures need to be as streamlined as possible. Specific guidelines on eligibility, loan application requirements, operating procedures, delinquency control and record keeping will be established.

Credit funds disbursed to PRODEM will be in the form of grants. Since the monies will be disbursed gradually over the five-year term of the program, it will be possible to make adjustments in the amount of funds disbursed. After the first disbursement, funds will be granted to PRODEM on the basis of performance. The mid-term evaluation will determine the continued effectiveness of PRODEM's credit activities.

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 by USAID to ensure that excess funds do not accumulate in the bank account. The disbursement and repayment process will work as follows:

The bank will hold the credit funds on deposit; PRODEM will disburse the loan funds by check to its borrowers; loan recipients will go to the bank to make their payments; and payments will be documented by the bank, which will forward copies of all documentation to PRODEM.

4. Operational Results

The operational results expected from the technical assistance to the credit activity are the following:

* Stronger system for providing credit to micro-enterprises established and effectively channeling credits to the sector.

* A permanent capital base of at least \$1.8 million in the PRODEM program for micro-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.

F. Training Activities of PRODEM

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.

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.

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.

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 program implementation.

The Agreement with PRODEM 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. 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 Agreement 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 Agreement with PRODEM, with some 200 beneficiaries participating in each set of seminars.

In the second case, the Agreement with PRODEM 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.

G. Accounting and Disbursement

The disbursement system includes measures to ensure the systematic and timely flow of program funds. The system will provide for advances of AID funds to be deposited as they are generated into special program bank accounts to be maintained by PRODEM. PRODEM will be responsible for disbursing funds from the special accounts in accordance with quarterly budget approvals by USAID. PRODEM will submit a 12 month implementation plan setting forth administrative costs including salaries, office equipment and materials, etc. AID will approve the plan through a Cooperative Agreement Implementation Letter. This Plan should contain all information necessary to implement the Program. As a minimum it should include: (1) monthly schedule of salaries and other recurrent costs and (2) a procurement schedule for the purchases of office equipment, supplies, etc.

VII. PROGRAM MONITORING, EVALUATION, AND REPORTING

A. Program Monitoring

This section sets forth the procedures for monitoring and reporting program performance under this Cooperative Agreement. The program monitoring plan is designed to assure the timely progress and accomplishment of the Program, collect the data necessary for the evaluation of the Program and to ensure appropriate implementation of the Program.

1. Management of the Monitoring Function

The recipient shall monitor the performance under this Cooperative Agreement and ensure that time schedules are being met, projected work objectives by time periods are being accomplished, and other performance goals are being achieved. Such a review shall be made for each program, function, or activity of this Cooperative Agreement as set forth elsewhere in this document. The Program monitoring function will be coordinated by the USAID/Bolivia Private Sector Office.

Direct responsibility for developing, installing and administering the Program monitoring system will be with the Overall Program Coordinator (Chief of Party, WOCCU). Implementing the Program monitoring system will be the responsibility of PRODEM, providing the accurate and complete collection and processing of the information. PRODEM will need to hire new staff members to manage the funds. It will also need new office equipment, including a new computer system, to handle the accounts and reporting requirements of the Program. Efforts should be made to use existing staff to meet the regular technical assistance needs of the new offices to be established.

2. Design and Development

The Program monitoring system will be designed as an integrated information system. Its implementation will be spread out among the participating institutions, while overall management and analysis will be centralized in the office of the Overall Program Coordinator and the USAID/Bolivia Program Manager. Information used by cooperating institutions--FENACRE for the credit unions, FEBOP1 for the ADEPIs, PRODEM for the micro-enterprises, and USAID/Bolivia--will be derived from the institutions that have primary responsibilities for interacting with the clients.

Short-term consultants will help design and develop the specifications for the monitoring system, plan the content 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.

3. Data Requirements

The Monitoring System requires the regular and systematic collection of data on the following key indicators for the Program:

a. Participating Businesses

- * Identification data (including name, address, RUC or Carnet No., type of business, etc.)

- * Assets (including total assets, fixed assets and equipment.)
 - * Income and expenses (including gross sales, salaries and wages, taxes and net income)
 - * Number of employees, full-time and projected
 - * Personal data (sex of owner, role of spouse and other family members in business)
- b. Financial Operations of the Intermediaries
- * Number and amount of loans granted
 - * Number, amount and aging 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
 - * 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 or managed 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 Program 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.

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

B. Program Evaluation

There will be at least two independent evaluations of the Program. 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 Program. It will take place at mid-term.

Data required for the evaluation will be planned during the first semester of the Program. Standard record keeping forms will be designed, and relevant evaluation data will be collected and maintained by PRODEM concerning their respective elements of the program.

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

- * Performance of the institutions implementing the Program;
- * Progress toward accomplishment of outputs and purpose;
- * Possibility of leveraging the funds with major banks;
- * Terms and conditions of sub-loans, 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 Program.

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

C. Program Audits

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

D. Program Reports

1. Special Reports and Plans--PRODEM

The development of a reporting and planning system will be critical to the monitoring of Program progress. AITEC's role will be limited to assistance in design, training, and analysis.

a. Strategic Plan

A critical first step in building institutional capacity will be to develop a strategic plan, addressing such essential issues as institutional role, goals, objectives, and priorities; operating strategies; development and allocation of resources; formulation of institutional performance measures; setting of time frames and milestones for agreed upon tasks.

b. Operating Plan

A second set of planning tasks will focus on formulation of yearly operating plans, both establishing a planning system and actually assisting staff to develop plans, explicating linkages as well as differences between strategic and operating planning.

The Strategic and Operating Plans shall be the means by which PRODEM communicates for USAID approval the results of its planning and market research for expansion to El Alto and Santa Cruz.

AITEC will exercise special care that management and staff of all assisted organizations clearly understand the uses and limitations of operating and strategic planning, the need to be flexible and the fact that more than anything else planning is a process rather than a rigid document or set of documents.

AITEC will work with the staff in setting up a strategic--and operating--planning system. He/she would also ensure that strategic and operating plans carefully differentiate between AID-funded activities and those supported by other sources.

c. Self-sufficiency Plan

The activities under this program must eventually establish that small loans can be profitable. Therefore, the Cooperative Agreement signed with PRODEM prior to their receiving any assistance under this program will make reference to the need to develop a marketing strategy/plan which will be designed to contain the following elements:

- 1) A total phase-out of USAID operational support within five years.
- 2) A reporting system tracking progress toward these goals and trends in loan profitability.

d. Loan analysis

Required quarterly. This report should categorize loans by purpose, calculate the breakeven interest rate, and analyze the aging of the loan portfolio.

2. Special Reports and Plans--PRODEM activities

a. Progress reports

PRODEM will submit a brief monthly report to USAID on progress toward the accomplishment of the goals of this Cooperative Agreement. These reports will summarize all program activities and make recommendations to improve performance or modify activities. This report should track the number of jobs created by the contractor's activities. PRODEM will propose a standard format, to be approved by the Project Manager, for the Monthly Progress Report. On a quarterly basis the Progress Report shall contain commercial format financial statements for PRODEM with analysis and recommendations regarding further funding of PRODEM by USAID.

b. Monitoring Reports

Each month the monitoring system will produce a standard set of reports summarizing the progress and problems encountered by the program.

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

c. Consultant reports

In addition to the required monthly progress reports, each short-term consultant assigned by AITEC to work in the program for a cumulative month or more should present a final report, detailing work completed, at the end of his/her period of service to USAID/Bolivia.

d. Training report

A report on training activities, required quarterly. Since the goal is to make training self-sufficient the analysis should reflect that goal.

e. Technical assistance work plan

The technical assistance work plan will be prepared annually and submitted to USAID for its approval.

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f. Graduation plan

A special study will be conducted within the 12-month period after the signing of the Cooperative Agreement with PRODEM. This study will focus on the impact of the credit component of the program as a basis for developing a feasible graduation plan for micro-entrepreneurs participating in the program. Among other things, the study will assess the trade-off between reaching a large number of beneficiaries during relatively short periods of time (such as 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 beneficiaries once they reach a certain level of self-development and/or qualify for alternative financing mechanisms.

g. Private bank feasibility/profit-loss analysis

A determination and analysis of the feasibility of involving private banks in small lending activities. Due in the mid-term of this agreement and as a section of the Final Report. Must include a profit/loss analysis.

In addition to the above PRODEM will deliver yearly updates for the Strategic Plan, Operating Plan, and the Self-sufficiency Plan.

h. Final report

At the end of the agreement, PRODEM will issue a final report on the progress made through the entire program containing an overall evaluation of its participation in the Project, as well as recommendations regarding future activities. This report should emphasize the capabilities developed in the implementing organizations. The report may contain photos and glossy presentations suitable for distribution to a wide audience so that it would be useful as part of the process of promoting small scale lending.

3. Technical Reports

AITEC will submit a technical report that briefly presents the following information for each function, or activity involved:

* A comparison of actual accomplishments with the goals established for the period.

* Reasons why established goals were not met.

* Other pertinent information including, when appropriate, analysis and explanation of cost overruns or high unit costs.

Recipient shall submit the technical report and the Financial Status Report quarterly and to cover the same period.

A final technical report after completion of the program is also required.

Between the technical reports events may occur that have significant impact upon the program. In such instances, the recipients shall inform USAID as soon as the following types of conditions become known:

* Problems, delays, or adverse conditions that will materially affect the ability to attain program objectives, prevent the meeting of time schedules and goals, or preclude the attainment of work objectives by established time periods. This disclosure shall be accompanied by a statement of the action taken, or contemplated, and any USAID assistance needed to resolve the situation.

* Favorable developments or events that enable time schedules to be met sooner than originally projected.

If any performance review conducted by the recipients discloses the need for change in the budget estimates, the recipients shall submit a request for budget revision.

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ATTACHMENT 3

STANDARD PROVISIONS

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