

PL 150

AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT DATA SHEET

1. TRANSACTION CODE
A = Add
C = Change
D = Delete
Amendment Number
DOCUMENT CODE
3

COUNTRY/ENTITY
Dominican Republic

3. PROJECT NUMBER
517-0254

4. BUREAU/OFFICE
Latin America and the Caribbean

5. PROJECT TITLE (maximum 40 characters)
Micro & Small Business Development

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)
MM DD YY
06 30 97

7. ESTIMATED DATE OF OBLIGATION
(Under 'B' below, enter 1, 2, 3, or 4)
A. Initial FY 97
B. Quarter 4
C. Final FY 97

8. COSTS (\$000 OR EQUIVALENT \$)

A. FUNDING SOURCE	FIRST FY 1997			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	973.1	767.9	1,741.0	2,636.6	4,613.4	7,250
(Grant)	(973.1)	(767.9)	(1,741.0)	(2,636.6)	(4,613.4)	(7,250)
(Loan)	()	()	()	()	()	()
Other U.S.						
1. Host Country		1,005.5	1,005.5		20,391.0	20,391
2. Other Donor(s)					10,500.0	10,500
TOTALS	973.1	1,773.4	2,746.5	2,636.6	35,504.4	38,141

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) PSEE	710	790		0		500		5,550	
(2) ARDN	200	220						1,700	
(3)									
(4)									
TOTALS						500		7,250	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

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

A. Code	PVON	BV	BR
B. Amount	2,850	3,350	800

13. PROJECT PURPOSE (maximum 480 characters)
The purpose of the project is to develop FONDOMICRO into a viable financially self-sustaining organization which can efficiently provide the financing and technical assistance needed by NGOs operating credit programs that directly service the informal small and microenterprise sector.

14. SCHEDULED EVALUATIONS

Interim	MM	YY	MM	YY	Final	MM	YY
	11	97				11	97

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.)

Approval of Methods of Implementation and Financing.

Kat
Kathleen LeBlanc, CON

17. APPROVED BY
Signature
Raymond F. Rifenburg
Title Mission Director
Date Signed
MM DD YY
06 28 97

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

PROJECT AUTHORIZATION

NAME OF ENTITY: Fund for the Financing of Microenterprise,
FONDOMICRO

NAME OF COUNTRY: Dominican Republic

NAME OF PROJECT: Micro and Small Business Development

NUMBER OF PROJECT: 517-0254

1. Pursuant to Sections 103 and 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Micro and Small Business Development Project for the Dominican Republic involving planned obligations not to exceed Seven Million Two-hundred Fifty Thousand United States Dollars (US\$7,250,000) in grant funds over seven (7) years 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 the Project is seven (7) years from the date of initial obligation.

2. The project will provide funding needed by the Fund for the Financing of Microenterprise (FONDOMICRO) to establish a credit program, procure needed technical assistance and commodities, and meet its initial operational costs. Resources will also be used to strengthen credit program management capabilities of some of FONDOMICRO's client organizations.

3. The Project Agreement which may be negotiated and executed by the officer to whom such authorization is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following additional 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 Commodities, Nationality Services

Commodities and services financed by A.I.D. under this Project shall have their source and origin in the United States (AID Geographic Code 000) and the Dominican Republic, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have the Dominican Republic 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 only on flag vessels of the United States.

Raymond F. Rifeburg
Raymond F. Rifeburg
Mission Director
USAID/Dominican Republic

July 11, 1990
Date

Clearance:

PED:RBarnes	<u>[Signature]</u>	Date	<u>6/28/90</u>
PDS:RPMathia	<u>[Signature]</u>	Date	<u>6/26/90</u>
PRG:TCornell	<u>[Signature]</u>	Date	<u>7/11/90</u>
CONT:KLeBlanc	<u>[Signature]</u>	Date	<u>7/10/90</u>
PDS/CD:MReynolds	<u>[Signature]</u>	Date	<u>7/2/90</u>
RLA:EDragon	(In Draft)	Date	<u>6/8/90</u>

Doc. 0995F:PWAmato, PDS:rn:6/05/90
6/25/90:md

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ACRONYMS AND ABBREVIATIONS

AID	Agency for International Development.
ADEMI	Association for the Development of Microenterprise (one of the major ISME support organizations in the D.R.)
ADOPEM	The Asociacion para la Promocion de la Mujer, Inc. (an ISME support NGO which focuses on women).
APEDI	The Asociacion para el Desarrollo, Inc. (an ISME support NGO).
D.R.	Dominican Republic.
FONDOMICRO	Fund for the Financing of Microenterprise.
GEMINI	Growth and Equity through Microenterprise Investments and Institutions (and AID/W supported project which is intended to provide general assistance to ISME support around the world).
GODR	Government of the Dominican Republic.
IDB	Interamerican Development Bank.
IDDI	Instituto Dominicano para el Desarrollo Integral, Inc. (an ISME support NGO).
ISME	Informal Small and Microenterprise.
ONAPLAN	National Planning Office (a GODR agency).
PED	Private Enterprise Division (USAID/DR).
PSC	Personal Services Contractor.
STP	Technical Secretariat of the Presidency (the GODR agency with responsibility for, inter alia, donor coordination).
TA	Technical Assistance.

I. SUMMARY AND RECOMMENDATIONS

A. Project Summary

The informal small and microenterprise sector (ISME)* in the Dominican Republic employs approximately 400,000 people in an estimated 145,000 informal small and microenterprises. This is equivalent to about 19% of all those employed throughout the country. Evidence is clear that, through its capacity to generate sizeable amounts of gainful employment opportunities at relatively low cost, the ISME sector is making a major and critical contribution to the well-being of the Dominican people. Importantly, with some assistance, the contribution being made by the ISME sector can be significantly expanded.

The goal of the Micro and Small Business Development Project is to increase productively and employment generation capacity of the ISME sector. The purpose of the project is to develop FONDOMICRO into a viable financially self-sustaining organization which can efficiently provide the financing and technical assistance needed by NGOs operating credit programs that directly service the informal small and microenterprise sector.

The project is premised upon the finding that a principal constraint to the strengthening of the ISME sector, and its employment generating capacity, is the extremely limited availability of financial services -principally credit- in the sector. A major reason why, until now, credit availability has been limited is that institutional capability to deliver credit and operate credit programs for the ISME sector, and do so "profitably", has been weak. This seven year project will be attempt to change and improve the availability of credit in the ISME sector by:

*The term ISME sector refers, essentially, to that sector of the economy characterized by enterprises which:

- are usually operated by their owners,
- are usually unregistered and unlicensed,
- have no access to the formal financial system,
- have less than 50 employees.

The "ISME sector" is also referred to as the "informal sector".

- 1) supporting the establishment of a new financial institution -FONDOMICRO- which will have the continuing function of seeking and obtaining financial resources for use by the ISME sector; and
- 2) making the resources available, on appropriate terms, to qualified NGOs which are operating credit programs for the ISME sector; and
- 3) strengthening the credit management capabilities of NGOs operating credit programs which serve the ISME sector so as to qualify them to obtain resources from FONDOMICRO, and/or to efficiently handle more sizeable programs reaching much larger clienteles than was previously the case.

The initial lending portfolio of FONDOMICRO will be provided by AID through this project. During the life of the project additional inputs of capital for FONDOMICRO are expected from the Interamerican Development Bank, other donors, and the domestic capital markets in the D.R. FONDOMICRO will make this capital available to NGOs servicing the ISME sector at rates calculated to cover its costs and assure the preservation of its capital base. Similarly, NGOs receiving capital from FONDOMICRO will on-lend it to their clients at rates calculated to cover their costs and to assure the preservation of their capital bases. Ultimate borrowers of the credit, the ISME operators, will be charged real, positive interest rates on the funds they borrow.

It is intended that FONDOMICRO become a permanent "second-level" institution, and will serve as a bridge between the formal financial sector and, through "first-level" NGOs, the ISME sector. In addition to the financial resources it will provide, FONDOMICRO will also have the capability, and the responsibility, of providing guidance and assistance when needed by NGOs to qualify for receiving financial resources from FONDOMICRO.

B. Project Recommendation

Authorization of a \$7.25 million grant to finance the Micro and Small Business Development Project is recommended. The Project will be implemented through a Cooperative Agreement with FONDOMICRO. All AID funds provided for the project will be obligated to FONDOMICRO. The GODR will contribute RD\$20,000,000. The GODR contribution, and \$3,500,000 of the AID funding will be used for credit. The balance of AID provided funds will be used to meet costs associated with the establishment and operation of FONDOMICRO, and with the improvement of credit management capabilities of NGOs seeking to become eligible to obtain resources from FONDOMICRO. (See Summary Budget on the following page)

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C. Summary Budget (US\$000)

	YEAR 1		YEAR 2		YEAR 3		YEAR 4		YEAR 5		YEAR 6		YEAR 7		TOTAL	
	AID	OTHER	AID	OTHER	AID	OTHER	AID	OTHER	AID	OTHER	AID	OTHER	AID	OTHER	AID	OTHER
1. TECHNICAL ASSISTANCE																
a. GEMINI	138.4	-	229.8		238.2		247.9		171.8							1026.1
b. PSC	182.2	-	189.5		197.1		102.5		106.6		110.8		115.2			1003.9
2. COMMODITIES	172.8		33.7		70.1		-									276.6
3. TRAINING																
a. Offshore	19.9		20.6		20.6		22.4		23.2							106.7
b. In-Country			22.5		23.3		12.1		12.6		13.2					83.7
4. FONDOMICRO OPERATIONAL COSTS	243.0		252.7		157.6	105.1	109.5	164.0	56.9	230.7		295.6		307.4	819.7	1102.8
5. FONDOMICRO CREDIT PROGRAM	500.0	1005.5	800.0	1825.7	700.0	3012.0	500.0	5425.6	500.0	5628.5	500.0	5778.2		7112.7	3500.0	29768.2
6. EVALUATION AND AUDITS			56.2		102.6		60.7						213.8			433.3
TOTALS	1,256.3	1005.5	1605.0	1825.7	1509.5	3117.1	1055.1	5589.6	871.1	5859.2	624.0	6073.8	329.0	7420.1	7250.0	30891.0

II. BACKGROUND AND PROJECT RATIONALE

A. Background

1. The Problem - Unemployment

The fundamental problem to be addressed by this project is the extremely high unemployment and underemployment problem facing the D.R. Latest data released by the Central Bank indicates that up to 25% of the working-age population is unemployed, and another 27% are underemployed. While some challenge the validity of the surveys upon which these figures are based, pointing out that they seriously underrepresent employment in non-formal sectors of the economy, it remains unchallengeable that a serious employment problem exists.

It is in the context of this urgent need that more employment be available for the D.R.'s population that attention has turned to the ISME sector. An increasing number of studies carried out by AID and other organizations around the world over the past ten years have concluded: a) that the ISME sector is vibrant, sizeable, and of critical importance to the economies of many countries; and b) that it costs less (i.e., requires less investment) to create a job in the ISME sector than in any other sector of the economy. A study financed by USAID/DR of job creation costs in the D.R. ("Evaluation of the Impact of AID on Small Business and Microenterprise in the Dominican Republic", by the International Science and Technology Institute, Inc. (ISTI) - 1987) suggested that average cost of creating a new job in the ISME sector was between \$700-\$1,200. This compares with an average cost of \$42,000 in the industrial free trade zones of the country. The study also concluded that jobs in the ISME sector were not inferior, in terms of compensation, stability, working conditions, or any other relevant measure, to jobs in the formal sector.

2. The Informal Small and Micro Enterprise Sector-Worldwide

In seeking to identify interventions in the ISME sector that promised the greatest long-term return, in terms of employment creation, for each AID dollar invested, the Mission was fortunate in that the timing of our effort coincided with the conduct and release of a major study undertaken by AID of its experience in working with the ISME sector over the past 10 to 15 years. This study, the "A.I.D. Microenterprise Stocktaking", was conducted during 1988 and 1989 under the auspices of the Center for Development Information and Evaluation of the Bureau of Policy and Program Coordination (CDIE/PPC) and looked at AID experiences in 10 countries around the world, including the Dominican Republic.

The stocktaking examined different approaches and techniques that have been used by AID Missions around the world in efforts to assist ISMEs, including alternate institutional delivery mechanisms. It was designed to assess the overall AID experience

with ISMEs and to identify which project intervention patterns had proved to be more successful.

The stocktaking produced a number of findings:

a) Principal Findings

ISME support programs, irrespective of approach, can result in significant benefits for assisted firms.

ISME support programs directly reach the poor. The very poorest usually do not become ISME operators, but they do benefit from jobs generated by ISMEs.

b) Corollary Findings

Most ISME support programs have been successful in bringing women into the development process. Projects that benefit women do as well as other projects.

The more successful ISME support programs focus first and foremost on the development of profitable and sustainable enterprise. Those that target social or community development are less successful.

Assistance to larger ISMEs engaged in manufacturing generates more jobs than assistance to smaller firms in the service or commercial sectors.

ISME support programs that provide a minimum of technical assistance and training, while concentrating on providing loans to ISMEs, have a better record of achievement than do programs providing a range of services to ISMEs. The most successful programs provide simple and quick loan application and disbursement, limited training, repayment terms that correspond to the cash flow of enterprises, and assurances of additional loans upon repayment.

ISME support program clients are less concerned with interest rates than with the simplicity and timeliness of the credit process. ISME operators are able and willing to finance their businesses at positive, real interest rates. Interest rate subsidies are not needed.

Though projects often strive to "graduate" firms to the commercial financial system, they rarely succeed. Formal sector banks are reluctant to deal with small borrowers. Rather than try to "graduate" individual enterprises, it makes more sense to try to "graduate" ISME-support institutions to commercial sources of funds -i.e., to have ISME support institutions raise funds from domestic capital markets and then retail the money to ISMEs.

The conclusions reached by the study, and the guidance in ISME support program design thereby made available, have been carefully considered by the project designers for this effort. The principal conclusions of the study -i.e., that support for the ISME sector can produce significant benefits for poor people, on a cost-effective basis- as well as the other conclusions, are consistent with conclusions USAID/DR has received regarding ISME support programs in the D.R. The program of assistance for the ISME sector described in this project paper reflects the observations and recommendations included in the stocktaking.

3. The ISME Sector in the Dominican Republic

a. Background of Sector in the Dominican Republic

The ISME sector in the Dominican Republic is a vital and growing part of the economy. Estimates of its size and its contribution to the economy vary, but a recent statistical study by two Central Bank economist concludes that it produces the equivalent of 48% of reported GDP. An AID-commissioned study done by Management System International (MSI) in 1989 (entitled "Microenterprises in the Dominican Republic") concluded that some 145,000 ISMEs existed in the country, with an average of 2.7 employees. (SMEs, therefore employed about 400,000 people - or about 19% of the total number of people employed at that time.) The study found that SMEs are concentrated in urban areas and serve as a major source of employment for the urban poor. Fully half of all the 145,000 ISMEs estimated to be operating in the D.R. are located in Santo Domingo, and another 15% are located in Santiago (the D.R.'s "second city"). About one in every three households in Santo Domingo includes members who work in or operate ISMEs.

While the ISME sector has always existed, its greatest growth seems to have occurred since 1980, apparently in response to the general worsening of the overall economic situation of the Dominican Republic during that period.

The MSI study gives some useful information on the types of businesses in the sector. It shows that 31% of ISMEs are in the service sub-sector (cab and bus drivers, money lenders, beauty salon operators, machine and electronic repair people), 51% are in commerce (street vendors of edibles and non-edibles, small shops), and 18% are in production (tailors, seamstresses, furniture makers, construction, metalwork).

The breadth and variety of the ISME sector in the D.R. is wide and clearly visible. During rush hours in Santo Domingo, at every intersection there are "chiriperos" (individual vendors) walking between the cars selling fresh flowers, fruit, pots and pans, cutlery, aquarium fish, and even the President's latest book. The same streets are crowded (and slowed) by a large number of private cars, vans and mini-buses, all in battered condition, that provide public transportation.

Driving through any urban area of the country, one notes that many front rooms of houses or garages have become beauty salons, shoe repair or dressmaker shops. Backyards or interior patios have often been converted into carpentry or welding shops. Garages and front yards have been made into small grocery stores (colmados) which sell staples in small amounts - one cigarette, one cup of oil, etc. - and which are usually willing to provide credit. Sidewalks, driveways and alleys contain a large and growing number of resourceful auto mechanics who can provide (without power tools) services ranging from the simplest tune-up to complete engine and transmission overhauls.

A growing ISME area is the sale of clothes from houses. Enterprising individuals (usually women) travel to New York, Miami, Puerto Rico, Curacao, Panama, and Haiti to buy new or used clothing and bring it back for resale.

Construction has had the largest growth of any sector in the D.R. over the past several years, and much of the construction has been carried out by ISMEs. It is estimated that over 70% of private, single family dwelling constructions - from single room shacks to mansions - have been done by ISMEs.

b. Need for Credit

The MSI study which documented the existence of a sizeable ISME sector in the D.R. also produced information indicating that a major factor constraining growth of the ISME sector was the limited availability of credit. The MSI study found that fully 60% of all ISME owners in the D.R. indicated they needed, would benefit from, and would take advantage of credit if it were available and reasonably priced. It also found that virtually no ISME owners had access to such credit. None had ever succeeded in obtaining credit from a bank. (A study done in connection with the D.R. stocktaking exercise found that DR banks find transaction costs of dealing with ISME operators unacceptably high.) Credit that was obtainable came from money lenders (at about 20% interest per week), or from family members (frequently interest free, but usually not available when needed). The only ISME operators with access to reliably available, reasonably priced credit, about 6% of the total population of SME operators, were those who had managed to establish relationships with and become clients of one of the several NGOs that had emerged over the years to provide services to ISMEs. Average loan size for these borrowers was about \$500.00. The study found that, were it available, the average amount ISME operators believed they needed and would borrow was about \$1,200.

c. Potential Benefits Resulting from Availability of Credit

The MSI study suggested that availability of credit was a significant factor in the growth of ISMEs. It found that fully 80% of ISME operators who had been able to obtain credit

reported an increase in annual sales. Only 60% of those not receiving credit reported a sales increase. Stronger confirmation of the beneficial impact of credit availability on the growth of the ISME sector comes from the 1987 ISTI study referred to earlier ("Evaluation of the Impact of A.I.D. Small Business and Microenterprises in the Dominican Republic"). This study focused on ISME operators who had received credit from two of the NGOs set up to service microenterprise in the D.R. The study found that almost all borrowers reported increases in sales and profits, with an average increase of about 80%. That study also found that ISMEs receiving credit almost doubled the number of their employees from an average of 5.6 employees per ISME before receiving credit to an average of 10.3 after receiving credit. As mentioned previously, the average cost for each new job created was about \$1,000.

d. Credit Services Available to the ISME Sector

As found in the MSI study, and as mentioned above, the only ISME operators who did have reliable access to reasonably priced credit were those who had managed to become clients of one of the NGOs which were operating credit programs for the ISME sector. While it is true that only a small fraction (6%) of the total number of ISME operators were receiving credit services from these organizations, the number being serviced - some 8,000 to 10,000 individuals - does demonstrate that sizeable and significant programs are being operated by these organizations. Most of the principal organizations involved in providing services to the ISME sector have received support from AID and other donors.

Most commonly support and services have been in training in basic business management techniques, assisting in finding markets for products or services offered by the micro/small businesses, and providing credit needed by micro/small entrepreneurs to establish, operate, and/or expand their operations.

While it is estimated that some 50-200 organizations - including church-based organizations and cooperatives - have programs targeting the ISME sector, at this point, four of the organizations have become particularly significant. These are:

1) Asociacion para el Desarrollo de Microempresas (ADEMI).

ADEMI was established in 1982 as the first development program in the country exclusively devoted to the microenterprise sector. ADEMI initiated operations in 1983, with a program based on financial and technical assistance to micro-entrepreneurs and street vendors integrated in "Solidarity Groups". The design and implementation of their program was assisted by Accion International. ADEMI's program is by far the biggest and most successful of all the NGOs serving the ISME sector in the D.R.

The main objectives of the program were to create employment in the informal sector and increase the income level of those operating in the sector. Other objectives, such as savings mobilization, and increases in productivity were also contemplated in the original conception of the program, but have not received much emphasis.

Although ADEMI's program originally included provision technical assistance to beneficiaries, it has consistently given a clear priority to credit as the tool for development. Its credit methodology consists of structuring loan terms and conditions to the particular needs of its borrowers. The main characteristics of its program are a scaling-up loan system, small initial loans, no collateral requirements, and commercial interest rates. ADEMI sees the problem of the microentrepreneur as one of access to credit rather than of interest rates. The program has been designed to assure the microentrepreneur continuous access to credit through rapid application and disbursement procedures, and automatic reloans.

As of December 1988, ADEMI had provided 20,716 loans to 5,479 microentrepreneurs. The total value of these loans amounts to RD\$32.0 million (US\$6.0 million). Clientele have been 68% male and 32% female. Approximately 87% of their borrowers are involved in production activities, and 13% are involved in trade and commerce.

2) The Asociacion para la Promocion de la Mujer, Inc.
(ADOPEM)

ADOPEM was formally established in 1982 as an affiliated program of the U.S. based NGO Women's World Banking. ADOPEM has similar objectives to those of ADEMI. However, its credit and technical assistance programs are entirely devoted to women.

ADOPEM's credit program has the same characteristics as ADEMI's, including scaling-up loans, automatic reloans, quick disbursement and commercial interest rates. Over the years, however, while ADEMI has focused its program on loans to individuals, ADOPEM has kept group lending as a strong component and continues to offer technical assistance and training programs to its clients.

Since its inception, ADOPEM has provided 2,670 loans to 1,609 women, located in 6 cities, with a total value of RD\$4.6 million. About 47% of its borrowers are involved in production activities, (mainly, food and cloth production, and cottage crafts), another 33% are involved in commerce, (generally selling clothing); and 20% are involved in services, such as hairdressing and nurseries.

3) The Asociacion para el Desarrollo, Inc. (APEDI)

Coincident with the initiation of ADEMI and ADOPEM programs in Santo Lomingo, the Asociacion para el Desarrollo Inc. (APEDI) initiated the Programa para la Asistencia de la Pequeña

y Mediana Empresa (PROAPE) in Santiago, the second largest city in the country. The program was assisted by Appropriate Technology International. The main objectives of PROAPE were employment and income generation. Its target beneficiary was the small, rather than the micro enterprise. The program also targeted street vendors integrated in "associative groups".

PROAPE's main activities are training and technical assistance. Credit is provided through FONDESA (Fondo para el Desarrollo), a second program implemented by APEDI specifically to carry out this function. However, credit is only provided when an enterprise is considered capable of effectively utilizing a loan. In practice, this means mandatory training courses as a precondition for credit.

Since its inception in 1982, PROAPE has provided 1,423 small and micro enterprises with training and technical assistance. Under the FONDESA credit component, the program had disbursed 566 loans to 526 microenterprises and 413 loans to 366 associative groups. Total value of credit disbursed was RD\$7.4 million.

4) Instituto Dominicano para el Desarrollo Integral, Inc. (IDDI)

In 1987 IDDI initiated a microenterprise program in La Zurza, one of the most populous and poorest barrios in Santo Domingo. Prior to this program, IDDI had been operating for about three years, working in such diverse programs as infrastructure development, home improvement, squatter upgrading, family planning, and environmental protection.

IDDI's methodology substantially differs from those of ADEMI, ADOPEM, and APEDI. It promotes an "integrated development approach" based on the provision of an array of programs and services to individuals, groups, and associations, located in poor barrios of Santo Domingo. These programs and services include credit, technical assistance, training, as combined with community organization, consciousness raising, health care, development of leadership, and environmental protection.

IDDI has delivered a total of 1,406 loans to 436 program beneficiaries including: solidarity groups (306 loans); microenterprises (610 loans) and microretailers (490). The total value of the loans disbursed is RD\$6.0 million. Average loan size has been about US\$180. Women comprise only 7% of the program beneficiaries. IDDI serves both micro (85%) and small business. Sixty-five percent of borrowers are engaged in production enterprises, and the balance in commerce and trade.

The evolution of the credit services programs of the above named organizations has been particularly notable.

Starting from a point where they (like many PVOs around the world) believed ISMEs needed subsidized (or even free) credit in order to survive, over time they have all moved to the position that the credit programs that make the most sense are ones that entail having borrowers pay the full cost of the credit provided. This means that real, positive interest rates must be charged for the credit.

To an increasing extent these organizations have been focusing their credit programs on already existing ISMEs to assist them to consolidate or expand, rather than on making credit available to individuals attempting to establish ISMEs. This reflects their judgment, gained from experience, that this approach provides the greatest return in terms of jobs created for each peso invested. Their average loan size is about \$500. All restrict first loans to very small amounts (\$50-\$100), and permit larger loans to borrowers who have repaid initial loans appropriately. Given the small average size of loans made by these organizations, their administrative costs are relatively low, ranging from ADOPEM's RD\$.13 per each peso loaned to APEDI's RD\$.24 per each peso loaned.

ADEMI and ADOPEM generate sufficient income from interest on loans to fully cover all operational expenses. APEDI and IDDI do not operate at a self-sufficiency level, primarily because both programs provide other services (e.g., training and technical assistance) which generate no or little income. Repayment rates on loans range from 78% for ADOPEM to a reported 97% for IDDI.

While the organizations described above, as well as several other NGOs servicing the ISME sector, have reached, or are approaching the point of program self-sustainability (i.e. the point where income from earnings on credit provided is sufficient to allow them to meet costs of operating and continuing the program) they all report an inability to expand their programs at a pace anywhere close to the pace at which the demand for credit through their programs has increased. Responding to a survey conducted by AID's PED in 1989, the four NGOs discussed above indicated that they could easily triple or quadruple the size of their portfolios (numbers of clients and total value of their portfolios) if they had additional funds to lend.

Given the conditions in which they are operating, however, it does not appear likely that funds available to NGOs servicing the ISME sector for on-lending purposes can expand significantly. The reasons for this is that the two sources of their lending capital, donor agencies, and (to a much smaller extent) private banks, are finding it difficult to respond to the increasing demand of these organizations.

In the case of the donor agencies, the problem is that demand for credit by the ISME sector is increasing at the same time that resources available to many of the agencies,

including AID, are becoming more strained. The number of organizations operating successful ISME support programs, and the number of requests from these organizations for program support are outstripping the administrative capabilities of donor agencies to respond. In some cases, the "NGO" nature of the organizations operating the credit programs trigger administrative restrictions on the amount of funds that can be provided to the organizations (i.e. the IDB policy is that a maximum of \$500,000 can be provided to any single NGO).

While some of the NGOs servicing the ISME sector have been able to borrow funds from private banks for on-lending to their clients, the amounts they have been able to borrow have been limited. Most have not been able to borrow at all due to the perceived riskiness of their portfolios. Bankers are not used to lending to NGOs. While the leadership of some NGOs servicing the ISME sector is becoming increasingly sophisticated in credit matters, and can deal comfortably with bankers, most are not perceived as credible. To some extent, lingering problems in record-keeping have damaged the ability of some NGOs to demonstrate the value of their lending portfolios, and thus preclude the use of their portfolios as collateral for loans.

e. Implications of the Present Situation

The situation in regards to the ISME sector, and its need for credit, is as follows:

- 1) An enormous, unmet demand for credit exists. The MSI study found that 60% of the 145,000 ISME operators wanted and would take advantage of reliably available, reasonably priced credit, but that only 6% of them had such access. This means that, while 87,000 ISME operators want credit, only about 9,000 of them have access to credit. The average amount of credit each ISME operator believed necessary was the equivalent of \$1,200. This suggests that total credit demand for the sector is about \$104,400,000, and total unmet demand about \$94,000,000. Even deflating these figures to allow for a) the reduction in demand by those ISME operators who say they would take it, but actually wouldn't, and b) an average loan size equal to the average currently being loaned by NGOs servicing the sector, there still is a demonstrated existence of enormous unmet demand. Even if only half of those who indicated they would seek credit actually did so, and even if the average amount of credit sought was only \$500.00, about 40,000 ISME operators would still be demanding about \$20,000,000 in credit. Actual unmet demand for credit in the ISME sector

is estimated to be at least \$20,000,000 and possibly as high as \$94,000,000.

- 2) If current unmet demand for credit by the ISME sector could be satisfied, the employment generation impact would be substantial. The ISTI study and several other studies conducted and/or commissioned by AID suggest that a new job is created in the ISME sector with each \$1000.00 invested in the sector. Therefore, some 94,000 additional jobs would result if \$94,000,000 in credit was made available to the sector. Satisfying the minimal estimate of credit demand -\$20,000,000 would result in 20,000 additional jobs.
- 3) The NGO community has developed a relatively efficient and effective infrastructure for providing credit to the ISME sector. Significant expansion of the size and impact of their credit programs, however, is constrained by their difficulty in accessing capital for on-lending.

B. Project Rationale

1. The Solution - FONDOMICRO

It was a great need for an institutional infrastructure in place to provide the timely availability of credit that prompted a number of individuals involved in or concerned about the ISME sector to propose the establishment of a new financial institution. FONDOMICRO would be created to act as a bridge between the NGOs operating credit programs that serve the Dominican ISME sector and the various sources of funding for the sector. As FONDOMICRO would operate as a financial institution it would be better able to deal with potential funding sources and to demonstrate that lending to the ISME sector could be done prudently. Greater amounts of funds for the ISME sector would therefore be available. Also, instead of approaching a score of funding agencies, each with different policies and procedures, NGOs could approach a single organization, FONDOMICRO to seek capital for on-lending. Instead of funding sources servicing a score of NGOs, each with differing philosophies, and approaches, they would deal with one organization, FONDOMICRO, whose approaches, policies, and track record would be known to them. FONDOMICRO's principal continuing functions would be 1) to seek and obtain resources for the ISME sector from any and all sources that appeared appropriate, and on any terms that appeared reasonable; and 2) to make those resources available, on appropriate terms, to NGOs operating credit programs for the ISME sector. Appropriate terms fixed by FONDOMICRO on resources it was providing should be sufficient to cover all its

administrative costs, and to assure the preservation of its capital base. Accordingly, it would be making resources available only to those NGOs whose lending policies and program management capabilities were such as to provide high assurance of repayment. A key criterion to be used by FONDOMICRO in assessing suitability of different NGOs to receive resources would be whether the NGO charges real, positive interest rates on funds it is on-lending. Only those NGOs which do, in fact, charge real, positive interest rates would be able to obtain resources from FONDOMICRO.

Reflecting the fact that there is a large number of NGOs attempting to provide services to the ISME sector, and that the lending policies and credit program management capabilities of many of them are not such as would qualify them at present to receive support from FONDOMICRO, an important corollary function of FONDOMICRO would be to provide assistance and training needed by these NGOs in order to qualify to receive resources from FONDOMICRO.

The proposal to establish FONDOMICRO was readily endorsed and accepted by most of the NGOs servicing the ISME sector, by the donor community, and by key figures in the D.R.'s public and private sectors. An eleven person Board of Directors composed of leading figures from the nation's banking, industrial, and trade communities also perceive FONDOMICRO as a potentially crucial force in the economic development of the ISME sector guide the development and operations of the organization. The organization was legally recognized in May, 1989 as a non-profit foundation. FONDOMICRO has approached AID for assistance to become a viable, financially self-sustaining organization which can efficiently provide the financing and related administrative assistance needed by organizations operating credit programs for the informal small and micro enterprise sector, and can also provide the advocacy needed by the ISME sector. AID believes that the emergence of FONDOMICRO presents an opportunity to provide assistance in a cost effective manner to a sector that promises a very substantial developmental payoff for such assistance.

2. Conformity with AID Strategy Worldwide

AID's Policy Determination No. 17, dated October 10, 1988 entitled "Microenterprise Development Program Guidelines", strongly encourages support for the ISME sector. The PD declares that "Microenterprise assistance is an important element of AID's private enterprise development. It is particularly important as it advances the goal of broad-based economic growth and, specifically, increases incomes of the poor, provides opportunities for advancement of entrepreneurs, and encourages indigenous investment".

Key program guidelines specified in the PD are consistent with those to be followed during implementation of this project. These are:

"Interest rates charged on loans to ultimate borrowers should be significantly positive in real terms, i.e., when adjusted for inflation". Interest rates to ultimate borrowers of funds provided through FONDOMICRO will be significantly positive in real terms;

"AID should maximize the use of private sector institutions (i.e., PVOs/NGOs) when such institutions operate as intermediaries in the program. Strong preference should be given to strengthening and working through local, privately-owned and controlled institutions". A basic objective of this project is the strengthening of both FONDOMICRO, a private institution, and a network of locally controlled NGOs servicing the ISME sector.

This project is fully consistent with AID's emphasis on market based growth and the involvement of the private sector in development as these are expressed in other policy documents.

The Financial Markets Development Policy Paper (August 1988), encourages the involvement of representatives of the private banking sector in NGO-managed lending programs. In the case of FONDOMICRO, of its 11 board members, five are private bankers.

The Private Enterprise Development Policy Paper (March 1985), states that a goal of AID's policy is "to foster the growth of productive, self-sustaining income and job producing private enterprises in developing countries". Through this project, efforts will be made to create a financial system capable of providing needed credit to ISME enterprises which need and can pay for the credit so that they can grow and create more jobs.

3. USAID/DR Mission Strategy

The A.I.D. program in the D.R. has three specific objectives:

- to promote expanded and diversified private sector investment and employment;
- to undertake selected interventions to address critical needs of the poor; and
- to promote key sectoral policy reforms which encourage private sector growth.

The activities to be carried out under this project, while touching on the first and second objectives, will focus on the first objective. Through the project an institutional structure is to be developed which will make possible a significant increase in financing in the ISME sector which will produce a sizeable increase in the number of people employed in the sector.

III. PROJECT DESCRIPTION

A. Background

Upon being approached by FONDOMICRO for assistance, Mission staff, along with FONDOMICRO personnel, undertook a series of analyses of various matters related to FONDOMICRO and its prospects. Some of the areas analyzed were:

- credit needs of the ISME sector;
- existing credit management capabilities of NGOs serving the ISME sector;
- potential/possible availability of support for FONDOMICRO and its program from other donors, and from the commercial banking sector;
- estimated time and costs associated with developing all administrative, organizational, and programmatic capabilities FONDOMICRO will require in order to function with maximum effectiveness; and
- estimated time and costs associated with assisting NGOs to upgrade their administrative and programmatic capabilities to levels necessary.

Based upon these analyses, it was determined that a project entailing a 7-year period of assistance to FONDOMICRO, and a grant of \$7,250,000, would be required if the proposed project objectives were to be attained. Funds and other assistance to be provided by AID will catalyze the availability of additional financial resources for the ISME sector from other sources, both public and private. The emergence of FONDOMICRO as a strong and capable organization will provide the means through which concerted and continuing efforts can be made to secure credit funds needed by the ISME sector, as well as the means for helping to assure that funds are used to optimum effect.

During the life of the project, in addition to funds provided through the AID grant, it is anticipated that FONDOMICRO will be able to raise the US dollar equivalent of between \$20-25 million in additional credit resources for the ISME sector, and that by the end of the project, total availability of "formal" credit for the ISME sector will have increased from the present \$5 million to a

new level of \$30 million. Total number of ISME operators having access to realiaibly available, reasonably priced credit will have increased from the present 10,000 to approximately 36,000. The credit will be being channelled through loans FONDOMICRO will be making to some six to ten NGOs which are operating sizeable and effective credit programs.

B. Project Goal and Purpose

The project's goal is to increase the productivity and employment generation of the informal small and micro enterprise sector in the Dominican Republic. It is expected that through this project, 30,000 new permanent jobs will be generated by the ISME sector.

The purpose of the project is to develop FONDOMICRO into a viable, financially self-sustaining organization which can efficiently provide the financing and related credit program management assistance needed by NGOs operating credit programs for the ISME sector. FONDOMICRO is to be a permanent organization. During the life of this project, it is anticipated that it may be able to generate up to about \$30,000,000 in new credit resources for the ISME sector. FONDOMICRO will be sufficiently well established by the end of the project that its portfolio, and the portion of the ISME sector being covered by its credit will continue to grow independently of any assistance from AID.

C. Project Components and Outputs

Project outputs are broken down into the following three components:

- development and strengthening of FONDOMICRO's internal institutional capability;
- development and implementation of FONDOMICRO's credit program; and
- development and implementation of FONDOMICRO's capability to provide credit management assistance to NGOs servicing the ISME sector.

Detailed information on activities to be carried out, and outputs produced, under each of these component follows.

1. Strengthening FONDOMICRO

FONDOMICRO is a new organization which is charged with carrying out a program that will lead to very substantial benefits for the ISME sector. Being able to competently and effectively carry out all activities called for under the project will require the development of new capabilities within the organization, as well as the strengthening of existing capabilities.

Principal institutional strengthening activities to be undertaken include:

a. Development of Adequate and Appropriate Office Facilities

FONDOMICRO at present is functioning in borrowed office space with extremely limited resources. Its ability to carry out the range the functions with which it is charged will require that the organization possess appropriate office facilities, with a complete range of office equipment (computer, fax machine, copiers, etc.). An early task to be accomplished under the project will be the acquisition of appropriate office facilities and equipment. It is anticipated that this task will be completed well before the end of the first year of the project.

b. Development and adoption of all necessary administrative systems and procedures

The administrative systems and procedures (i.e., personnel, travel, filing, document control, property, procurement and maintenance, services procurement, accounting and financial control, etc.) currently being employed by FONDOMICRO, while basically adequate for the level and range of activity heretofore carried out by the organization, will require modification and strengthening in order to accommodate the expanded range of activities FONDOMICRO will carry out under this project. A review of the adequacy of all existing systems and procedures governing FONDOMICRO's administrative operations and financial control systems has been undertaken, and necessary modifications to existing systems will be made. Standard operating procedures will be developed for each of the systems and included in an Administration Manual.

c. Development of Appropriate Staff Capability

In order to carry out its full range of project functions FONDOMICRO will require a staff of seven to ten individuals, and that key staff members will have to be on board and functioning shortly after the project commences. Staff positions which are needed to carry out the project include:

Executive Director
Director of Financial Support Services
Director of Client Services and Research
Chief of Administration and Information
Accountant
Administrative Assistant/Office Manager
Secretary/Receptionist
Driver/Messenger

Staffing composition may vary as operations get underway depending on the qualifications and experience of each staff member. In initial years of operation, FONDOMICRO may require

fewer staff members than those listed. As the project proceeds over the years, depending upon workload, it may be appropriate to expand staff slightly (i.e., hire an assistant to the Director of Financial Support Services, etc.). FONDOMICRO will endeavor, however, to keep its staff as small as possible.

Salaries and other compensation offered to FONDOMICRO staff will be adequate to assure that FONDOMICRO is able to attract and retain the services of the exceptionally capable people that will be required for the project to be successful. While staff members, generally, will have all of the qualifications necessary to carry out their functions at the time they are hired, it is anticipated that they will benefit from periodic attendance at short training courses in various areas relevant to FONDOMICRO's program. Therefore, short training courses in such areas as administration, finance and credit control will be provided.

d. Development of an Adequate Management Information System (MIS).

Effective operation of FONDOMICRO's program will both generate sizable amounts of information and require an MIS capable of rapidly processing, storing and retrieving such amounts of data. For example, FONDOMICRO will require readily available information on: the size, nature, and functioning of NGOs operating in the ISME sector; the policies, objectives, resource levels, gender of borrowers, and access modalities of ten to twenty donor agencies and commercial banks; past and existing grants and loans from various sources; and the performance of past and outstanding loans in the portfolio, with information on the gender of borrowers, etc. Being able to reliably and quickly retrieve and analyze this information will require the availability of a well-designed and well-functioning computer-based MIS. During the first year of project implementation, FONDOMICRO will arrange for the design and implementation of its MIS, and for the training of its staff in the use and maintenance of its MIS.

2. FONDOMICRO's Credit Program

FONDOMICRO, essentially, is a finance institution. Like all such institutions, its function is to mobilize financial resources and make those resources available to others. Activities carried out under this component, in accord with FONDOMICRO's principal role as a finance institution, are the most significant under the project. Activities to be carried out include:

a. Development and adoption of detailed guidelines governing the operation of the Credit Program. FONDOMICRO will develop a manual which will contain detailed information on, and codify:

- criteria to be used in assessing NGOs' eligibility to borrow from FONDOMICRO. Criteria adopted will be aimed at helping assure that loans are provided only to NGOs which are acceptable credit risks, and which will use borrowed funds appropriately and efficiently.
- procedures to be followed in reviewing and making decisions on loan requests. Specific information will be provided on: establishment and composition of review committees, steps to be followed to avoid conflicts of interest, or appearances of same, when making decisions (i.e., procedures to be followed in the event FONDOMICRO Board Members are also affiliated with NGOs seeking loans or Board Members associated with banks lending to FONDOMICRO), scheduling of reviews, etc. These procedures will also assure consideration of environmental issues for proposed loans in order to minimize negative impacts on the environment.
- determining amounts that may be borrowed by different NGOs, the maximum amount of the total portfolio that may be borrowed by any individual NGO, terms and durations of loans, security/collateral requirements, etc.
- procedures to be followed in determining interest rates and other charges FONDOMICRO will impose on funds it lends, frequency with which rate structures will be reviewed, special circumstances which may allow "instant" adjustments to interest rates, etc.
- procedures to be used in establishing and maintaining a delinquent debt reserve.
- procedures to be employed in following up on problem loans,
- procedures to be followed in providing "guarantees" on loans made by private banks (or other institutions) directly to NGOs.
- procedures which will govern use of loan re-flows to FONDOMICRO (i.e., determining amounts of re-flows that can be used for purposes other than re-lending such as using some interest earned for operating expenses).
- procedures to be followed in disposing of FONDOMICRO's assets (especially its loan portfolio) in the event of the dissolution of the organization.

This manual will be developed and endorsed by FONDOMICRO's Board of Directors during the early months of project implementation. In addition, AID's acceptance and endorsement of the document will be a Condition Precedent in the Cooperative Agreement to disbursement of funds for the credit program. The document will serve as a basic guide governing all aspects of FONDOMICRO's lending program. It will be subject to modification as experience dictates.

b. Providing loans to NGOs for on-lending to ISME Operators. The number of loans FONDOMICRO makes and the amount of the loans will depend on the level of resources available to FONDOMICRO, the number of NGOs eligible to borrow from FONDOMICRO, the amount of funds those NGOs require to meet the needs of their clients, and the terms under which FONDOMICRO will be providing loans (versus terms from competing sources that may be available to the NGOs). It should be noted that FONDOMICRO will compete in the market for funds and its lending terms to the NGOs will necessarily reflect market conditions.

At this point, however, based upon analyses of each of the factors just mentioned, FONDOMICRO's plans for numbers of loans, numbers of clients, and total amount loaned, by year, is as follows:

	No. of Loans	No. of NGOs	Total Amount
Year 1	2	2	\$ 1.5 million
Year 2	4	4	\$ 4.0 million
Year 3	8	6	\$ 7.5 million
Year 4	10	8	\$13.0 million
Year 5	10	9	\$18.5 million
Year 6	12	10	\$24.0 million
Year 7	12	10	\$30.0 million

Because these estimates are subject to the vagaries of many outside economic variables, they will be reviewed and updated annually in accordance with prevailing conditions. In addition to straightforward loans, it is also possible that FONDOMICRO will provide credit assistance in the form of "guarantees" of loans directly negotiated between NGO's and commercial banks. This is discussed briefly in the "Technical Analysis" Annex (Annex D).

3. FONDOMICRO's Credit Management Assistance Program

This component addresses the needs of FONDOMICRO's proposed clientele (i.e., the "market" for its loans). That market is the NGOs currently operating credit programs for the ISME sector. However, very few of them can, currently, be considered credit-worthy by FONDOMICRO because of problems associated with: their approach to credit, the control of their programs, and their administration. As a result, the credit programs operated by many of those NGOs are suffering significant losses due to inflation, non-repayment and inadequate lending policies.

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Under this component, FONDOMICRO will provide assistance needed by those NGOs whose loan requests are initially turned down, to improve their capacity for administering credit programs to the point where they are eligible to borrow funds from FONDOMICRO. Assistance will be provided only to those NGOs who request the assistance. In addition, such assistance will be provided only to NGOs whose philosophy and approach to the operation of credit programs are such that assistance in the design and administration of their credit programs will be likely to result in successful, useful, and sustainable programs (i.e., only those NGOs whose programs are based upon the recovery of the full costs of credit will be eligible to receive assistance). Under this component technical experts will work with the individual NGOs to improve areas where performance is weak and/or where the credit program structure is inconsistent with FONDOMICRO's criteria for providing credit. Areas of an NGO's credit program requiring assistance will be determined by FONDOMICRO through a "diagnostic" that will be conducted following refusal of the NGO's first loan request to FONDOMICRO. It is estimated that up to ten person-months of assistance will be necessary to attain the operational capability required to qualify an NGO for borrowing funds from FONDOMICRO. It should be noted, however, that an NGO's acceptance and utilization of such assistance will not automatically qualify that NGO to borrow from FONDOMICRO. It must still demonstrate credit-worthiness because loan approval decisions will be made strictly on the basis of the NGO's ability to satisfy financial/credit criteria established by FONDOMICRO for this purpose.

FONDOMICRO will attempt to recover some of the costs it incurs in providing assistance to NGOs by charging fees or through imposition of supplementary charges on loans made to NGOs receiving such assistance. Due to the costs involved, it is anticipated that FONDOMICRO will not carry out the program beyond the life of the project unless other outside sources of donor financing are found. The process for planning and implementing an assistance effort for an NGO's credit program is described below.

a. Planning assessments of NGO credit program operations. Following rejection of a loan request an NGO can request assistance to improve the operation of its credit program. Before providing assistance and in order to respond most usefully, FONDOMICRO will first conduct a diagnostic on the NGO's program. The findings of the diagnostic, including recommendations for improvement and suggestions regarding assistance requirements will be drawn up and presented to the NGO. In most cases this diagnostic will be conducted by experts contracted by FONDOMICRO. If the NGO agrees with the conclusions and recommendations of the diagnostic, a memorandum of understanding (MOU) between the NGO and FONDOMICRO regarding the assistance will be prepared and signed. The MOU will commit FONDOMICRO to provide a certain package of assistance and will commit the NGO to work collaboratively to implement the recommendations made.

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b. Implementing Credit Management Assistance Programs for NGOs. The assistance programs to NGOs will consist principally of the services of technical experts who will work with the NGOs to improve areas where need for such improvement has been identified in the diagnostic. The technical experts will be contracted as the needs arise through the AID/Washington-managed "GEMINI project." See Section VI.A.1. for more detailed discussion. It is anticipated that assistance will be provided in such areas as credit policy, interest rate structure and accounting. FONDOMICRO may choose also to provide some limited commodity assistance (i.e., a computer) to some NGOs to assist them to improve operations and/or may sponsor participation of some staff of some NGOs at selected training courses. It is anticipated that FONDOMICRO will conduct credit management assistance programs for approximately 12 NGOs during the life of the project, in accordance with the following schedule:

Year 1	-	2 programs
Year 2	-	3 programs
Year 3	-	3 programs
Year 4	-	2 programs
Year 5	-	1 program
Year 6	-	1 program

For planning purposes it is assumed that not all of the credit assistance programs will result in loan request ultimately being approved by FONDOMICRO and not all NGO's will require a program. For further discussion see the Administrative Analysis in Annex C.

D. Project Inputs

The project will be implemented through a Cooperative Agreement with FONDOMICRO. Under the Cooperative Agreement, AID will provide a grant of \$7,500,000 to FONDOMICRO. The funds will be used as follows:

- a total of \$3,500,000 will be used by FONDOMICRO for on-lending. It is anticipated that these funds will be drawn down and disbursed by FONDOMICRO over the entire life of the project;

- a total of \$2,029,000 will be used for procuring technical assistance for the project. The two principal sources of TA will be: a) the AID/Washington-managed "GEMINI Project"; and b) a PSC Project Advisor. Of the \$2,029,000 for TA, about \$1,025,000 will be for cost of assistance provided by GEMINI and \$1,004,000 will be for the services of the PSC Project Advisor;

- a total of \$276,000 will be used for procuring commodities. Approximately \$170,000 will be for commodities to be used directly by FONDOMICRO. These include: two vehicles (\$46,000), two computers and related hardware and software (\$30,000), two motorcycles (\$5,000), office equipment and furnishings (\$69,000), generator and Uninterruptable Power Supply (\$20,000). Also, \$106,000 will be used for procuring computer hardware and software to be distributed by FONDOMICRO to selected NGOs which are operating credit programs for the ISME sector to improve their financial management systems;

- a total of \$190,000 will be used for short-term training of FONDOMICRO staff and staff members of FONDOMICRO's client NGOs.

- a total of \$820,000 will be used for meeting some of FONDOMICRO's operational costs. FONDOMICRO's dependence on the grant to meet its operational costs is expected to decline as the project proceeds and FONDOMICRO's ability to generate revenue from its lending portfolio increases.

In addition to the resources provided by AID, the equivalent of US\$2,000,000 will be provided to FONDOMICRO by the GODR (from local currency resources generated from AID contributions). It is also expected that the equivalent of some US\$8,000,000 will be made available through an IBD loan, and that some US\$2,500,000 in grant funds will be provided from other bilateral donors. FONDOMICRO will borrow up to the equivalent of US\$14,000,000 from domestic capital markets. All of these funds will be used for on-lending. FONDOMICRO also expects to generate an operating surplus from its lending operations of about \$2,500,000 over the life of the project which will also be used for on-lending.

IV. PROJECT IMPLEMENTATION

A. Project Initiation

This project will be implemented through a Cooperative Agreement (CA) with FONDOMICRO. It is anticipated that the CA will be executed within 30 days of the authorization of this project. The CA will call for AID to incrementally fund the project and for FONDOMICRO to carry out all activities discussed in this project paper.

The terms of the CA will allow FONDOMICRO to immediately obtain funds for technical assistance, and upon its satisfaction of certain basic requirements having to do with its legal status, the authority of its officers, financial controls for grant funds, etc., for operational costs. Funds needed for operation of its credit program will be available upon its satisfaction of additional requirements. (See section on "Conditions and Covenants" for further information on these requirements.)

B. Project Administration and Management

FONDOMICRO will be responsible for establishing needed office facilities, hiring needed staff, establishing necessary administrative and financial control systems, precisely defining terms and conditions under which it will offer credit, seeking and obtaining credit funds from various sources, assessing credit-worthiness of various NGOs seeking to borrow funds, designing and providing credit program management assistance packages for various NGOs, making loans and collecting repayments. In carrying out these activities, it will be assisted by experts whose services will be procured through a buy-in from the (AID/W) GEMINI Project, and through a Direct AID contract (the ISME Program Manager). AID will directly arrange for these two procurements using funds provided through the Cooperative Agreement.

Implementation of the project will be monitored, and assisted, principally by the Private Enterprise Division (PED) of USAID/DR. PED will identify and arrange for contracting of an ISME Program Manager to serve as the AID Micro and Small Business Program Manager for the project, and to provide technical input on all significant project matters. Support in project implementation will also be provided by the Mission's Contracts Office, which will give advice on procurement matters, by the Controller's Office, which will arrange for periodic audits, and the Project Development and Implementation Support Office.

C. Procurement Plans

1. Technical Assistance

Principal sources of technical assistance required by FONDOMICRO will be: a) the worldwide GEMINI Project being implemented by the Science and Technology Bureau, AID/W, and b) an ISME Program Manager.

Approximately half of the TA person-months will be provided by Dominican nationals whose services will be arranged by a Dominican organization under a sub-contract from the GEMINI Project.

The buy-in will call for provision of services from the GEMINI Project over a four-year period. It is hoped that assistance from the GEMINI Project can start within thirty days of the execution of the CA. (See Annex L, Statement of Work, Technical Assistance to FONDOMICRO And Its Clients)

Assistance of the ISME Program Manager will be procured on a personal services basis, directly by AID. In addition to providing technical advice and assistance to FONDOMICRO on all matters relating to attainment of project objectives, this individual will also serve as the AID Project Manager for the project. He/she will work out of offices in AID's Private Enterprise Division. It is planned that this individual's services will be available for the entire life of the project. Initially, the individual will be contracted for a two-year period, which will be executed within sixty days of the execution of the CA. The proposed scope of work describing in detail the duties and responsibilities of this individual is contained in Annex C Administrative (Institutional) Analysis, Scope of Work, Micro and Small Business Program Manager.

Additional information on both the GEMINI Project and the ISME Program Manager can be found in Annex C Administrative (Institutional) Analysis.

2. Commodities

Commodity procurement will not constitute a major activity under the project. Essentially, the only items required will be vehicles and office equipment required by FONDOMICRO to become fully operational, and some computers and accessories required by FONDOMICRO's clients. Total value of these commodities comes to about \$276,000.

The procurement of many commodities required under the project will be undertaken by the GEMINI Project. However, vehicles and office furnishings will be procured directly by FONDOMICRO. All office equipment required by FONDOMICRO, and one of the vehicles it requires, will be procured within six months of the execution of the CA. Computers and accessories required by FONDOMICRO's clients will be procured by the end of year three of the project by GEMINI.

3. Training

FONDOMICRO will sponsor the participation of both its own staff and selected staff members of client NGOs in short-term courses, seminars and workshops to be held in the U.S. and in-country. Over the life of the project, it is anticipated that up to 250 individuals will have benefitted from about 280

person-months of short-term training in a number of areas relevant to the operation of successful credit programs.

All offshore training (about twenty individuals/ten person-months) will be arranged by the GEMINI Project, and financed through the buy-in with that organization.

In the case of in-country training, several options will be used:

- FONDOMICRO will organize and conduct training, and will directly pay some or all of the costs associated with the training (i.e., rental of training facilities, payments to instructors, allowances for participants, etc.),
- FONDOMICRO may contract or provide a sub-grant to a training program;
- FONDOMICRO may merely sponsor the participation of particular individuals in training programs organized and conducted by other organizations.

Most off-shore training will occur before the end of year three of the project. In-country training will occur throughout the life of the project.

4. Evaluations and Audits

Evaluations of the project are to be carried out at the end of years three and six of the project period. The former evaluation will be largely a "process" type evaluation, while the latter will attempt to measure impact of the project. The evaluations will be carried out by selected and contracted directly by AID entities. It is estimated that the evaluations will cost about \$90,000 each.

The project will be audited at least three times during implementation; at the end of year two, at the end of year four, and mid-way during the final year of implementation. Firms to carry out the audits will be selected and contracted directly by AID. Each audit is expected to cost approximately \$50,000.

D. Key Implementation Events by Date

- | | | |
|---------------|---|--|
| 30 June 90 | - | Project Authorization Signed. |
| 12 July 90 | - | Cooperative Agreement Signed. |
| 20 July 90 | - | PIL No. 1 sent to Grantee |
| 30 July 90 | - | Initial CPs satisfied. |
| 15 August 90 | - | PIO/T providing funds for buy-in with GEMINI Project executed. |
| 30 August 90 | - | ISME Credit Specialist/Project Manager selected and contract executed. |
| 30 October 90 | - | CPs relating to operation of credit program satisfied. |

- 9 November 90 - Documentation required to obtain disbursement from STP submitted.
- 30 November 90 - First "diagnostic" of NGO applicant conducted and MOU signed for provision of assistance in Credit Program Management.
- 31 December 90 - All basic staff for the project hired and in place.
- 28 February 91 - FONDOMICRO makes first loan to NGO.
- 30 March 91 - FONDOMICRO obtains first loan from commercial bank.
- 30 March 91 - Second loan to NGO made.
- 30 May 91 - First CPM assistance program completed.
- 30 June 91 - FONDOMICRO's MIS system fully installed and operational.
- 01 July 91 - Second MOU signed with NGO and CPM assistance program initiated.
- 30 November 91 - 3 loans made to 3 different NGOs
- 30 November 91 - MOU with third NGO signed and CPM assistance program initiated.
- 28 February 92 - Agreements formally signed with IBD for \$8,000,000 loan.
- 30 April 92 - Loan made to fourth NGO
- 30 June 92 - FONDOMICRO audit conducted.
- 30 July 92 - First evaluation of FONDOMICRO conducted.
- 30 November 92 - FONDOMICRO receives grant from GTZ.
- 30 October 92 - MOUs with three additional NGOs signed and CPM assistance program initiated.
- 30 November 92 - Four loans made to 4 NGOs.
- 30 June 93 - Loans made to 2 "new" NGOs.
- 30 October 93 - MOUs with three additional NGOs signed and CPM assistance programs initiated.
- 30 May 94 - TA Agreement with "successor" Project to GEMINI signed.
- 30 June 94 - Audit of FONDOMICRO.
- 30 June 95 - Evaluation of FONDOMICRO.
- 30 March 97 - Final evaluation of FONDOMICRO.
- 30 June 97 - Project ends.

E. Gray Amendment

It is expected that for all goods and services procured under the project, AIDs Gray Amendment Officer will review the procuring process to determine that sufficient attention has been given to the hiring of women and other minorities. Specifically, every attempt will be made in the selection of the ISME Program Manager and for firms in carrying out evaluations and audits to meet Gray Amendment goals.

V. EVALUATION, AUDITS, AND MONITORING

A. Evaluation

Evaluations and audits will serve as an integral part of project implementation. They will be scheduled and structured in accordance with AID policy. A mid-term evaluation, conducted by an outside contractor, will be held during the third year of project implementation. This evaluation, which will focus on "process", will attempt to: a) ascertain the progress of the project in meeting project objectives; b) identify significant problems areas or constraints which may inhibit such attainment; c) assess FONDOMICRO's management effectiveness; and d) assess the utility of the technical assistance contractor's role and the contribution it is providing in meeting project objectives. Corrective actions, as necessary, will be recommended by the evaluators.

Some specific questions and issues which the evaluators will address are as follows:

a) Have the credit management capabilities of NGOs serving the ISME sector improved due to project activities? How effectively have the NGO's utilized their loan funds? What are their loan default rates? Have they taken into account potential negative environmental impacts in their loan approvals?

b) Are the administrative, organizational, and programmatic capabilities of FONDOMICRO adequate? What areas need further improvement? Is the project as currently designed and implemented effective in assisting FONDOMICRO in these areas?

c) Has FONDOMICRO been successful in obtaining funds from other donors and from domestic capital markets? Is this support at the level contemplated for this point of project implementation?

d) Is FONDOMICRO generating enough revenue from its lending program to allow it to meet planned share of costs incurred in the operation of its program?

A second and final evaluation will be held during the sixth year of the project implementation. The evaluation will attempt to ascertain the overall impact of FONDOMICRO on the ISME sector - i.e. have credit resources made available by FONDOMICRO resulted in expanded employment?

B. Audits

The project will undergo at least three audits during the implementation period. These will occur at the end of year two, the end of year four, and mid-way during year seven.

C. Monitoring

Project implementation will be monitored principally by the Private Enterprise Division (PED) of USAID/DR. PED will identify and arrange for contracting of an ISME Credit Specialist to serve as the AID Project Manager for the project, and to provide technical input on all significant project matters. A description of this individual's principal functions is included in the section on "Technical Assistance" included in the Administrative Analysis Annex. Support in project monitoring will also be provided by the Controller's Office, which will arrange for periodic audits, and the Project Support Office, which will assist in arranging and implementing evaluations of the project.

VI. COST ESTIMATES AND FINANCIAL PLAN

A. Cost Estimates

Funds provided for this project will be used, essentially, for two purposes:

- 1) to meet costs associated with enhancing the capacity of FONDOMICRO and its client NGOs to operate sizeable and effective credit programs;
- 2) to meet the credit the needs of the ISME sector.

Most of the costs associated with No. 1, above, will be met by AID with resources provided through this project. FONDOMICRO itself, will also contribute some of the funds required.

AID project funds will also be used for meeting the credit needs of the ISME sector (No. 2, above). Funds for this purpose will also be obtained from the GODR, the Interamerican Development Bank, other bilateral donors, and the commercial banking sector in the Dominican Republic. Funds provided by AID and by other bilateral donors will be on a grant basis, while funds provided from other sources will be on a loan basis.

The following chart summarizes anticipated sources and uses of all funds to be expended during the project.

	<u>Development</u>	<u>Organizational Credit</u>	<u>ISME Total</u>
AID Grant	\$3,750,000	\$ 3,500,000	\$ 7,250,000
GODR (STP)		\$ 2,000,000	\$ 2,000,000
IBD		\$ 8,000,000	\$ 8,000,000
Bilateral Donors		\$ 2,500,000	\$ 2,500,000
Commercial Banks		\$14,000,000	\$14,000,000
FONDOMICRO	\$1,102,800	\$ 3,288,200	\$ 4,391,000
Total	\$4,852,800	\$33,288,200	\$38,141,000

With the exception of funds provided through the AID Grant, figures indicated above reflect US\$ equivalent. Actual contributions will be in Dominican pesos.

As shown in the chart, it is anticipated that \$3,750,000 of AID-provided funds will be used for meeting organizational development expenses, and \$3,500,000 for credit purposes. While it is possible that, as specific needs of the project become more clear over time, the amounts allocated for the two broad purposes may vary from what is presented above, currently AID Grant funds are expected to be expended as follows:

1. Technical Assistance.

Approximately \$1,026,100 will be used to finance technical assistance from a "buy-in" with the GEMINI Project (AID/W). Approximately 100 person-months of TA will be obtained through GEMINI, of which 30 person-months will be used for strengthening various aspects of FONDOMICRO's internal operations, and 70 person-months will be used for strengthening the credit management capabilities of FONDOMICRO's NGO clients. Of the 100 person-months, approximately 30 months will be long-term (resident) TA, and the balance short-term TA. The GEMINI Technical Assistance Team Leader will report to the Executive Director of FONDOMICRO.

Approximately \$1,003,900 will be used for financing the services of an ISME-Credit Specialist who will be contracted directly by AID to provide advice and assistance to FONDOMICRO, and function as the AID Project Manager over the life of the project. It is anticipated that this individual's services will be required on a full-time basis over the first three years of the project's life, and on a half-time basis for the subsequent four years. During that latter portion, the individual's services will be shared with another project such as Industrial Linkages (517-0252).

2. Commodities.

A total of approximately \$276,600 will be expended for procurement of commodities. Of this, \$172,800 will be used for upgrading FONDOMICRO's office facilities and to procure vehicles needed by FONDOMICRO. \$103,800 will be used by FONDOMICRO to procure computers and related equipment which will be provided to selected NGOs to assist them in upgrading their credit program management capability. It is anticipated that some commodity procurement under this project will be accomplished by the TA contractor. Following is a listing of commodities which will be procured for the project:

To be used by FONDOMICRO:

<u>Item</u>	<u>Estimated Cost</u>
- 2 vehicles	\$ 46,000
- 2 motorcycles	5,000
- 2 computers with accessories	30,000
- Office equipment and furnishings	71,800
- Generator and UPS	20,000
Sub-total	\$172,800

<u>Item</u>	<u>Estimated Cost</u>
- 6 computers and accessories	\$103,800
Total	\$276,600

3. Training

Approximately \$190,400 will be used for training FONDOMICRO staff and the staffs of FONDOMICRO's NGO clients in short courses, seminars, study tours, etc. over the life of the project. These funds will cover costs of travel, tuition, etc. Most offshore training (estimated cost \$106,700) will be arranged by and funded through FONDOMICRO's buy-in with the GEMINI Project. In-country training (estimated cost \$83,700) will be arranged either by the GEMINI Project, or directly by FONDOMICRO.

4. FONDOMICRO Operational Costs

FONDOMICRO's operational costs include: staff salaries and benefits, staff travel, office rent and maintenance, utilities, telephone and communications, vehicle operation and maintenance, office supplies, etc. It is anticipated that these costs will range from about \$240,000 annually in the first 1-2 years of the project, and go up to about \$307,000 annually by the end of the project. The total amount expended for FONDOMICRO's operational costs over the life of the project is expected to be \$1,922,500. Of this amount, the AID Grant will cover \$819,700. The balance of \$1,102,800 will be met by FONDOMICRO itself using funds it generates through the operation of its credit program. The percentage of FONDOMICRO's operational costs met by AID funds will decline each year over the life of the project, while FONDOMICRO's share increases.

5. FONDOMICRO Credit Program

A total of \$3,500,000 in AID Grant funds will be used by FONDOMICRO for on-lending to its clients. The Grant funds to be used for credit will be drawn down and disbursed by FONDOMICRO as they are required to meet credit demands of its clients. In drawing down the funds, FONDOMICRO will consider availability and cost of funds from other sources which it may use for on-lending and the desirability that rates it imposes upon its lending funds be as stable as possible over time. At this point, plans are that AID-provided credit funds will be drawn down by FONDOMICRO throughout the life of the project.

6. Evaluations and Audits

A total of \$433,300 will be used for evaluations and audits over the life of the project. AID will directly contract for these services.

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TABLE I SUMMARY COST ESTIMATE AND FINANCIAL PLAN (US\$000)

BUDGET ELEMENT	-----USAID-----			-GOOD-	FONDOMICRO	-LOC MKT-	OTHER	SOURCES	PROJECT TOTAL
	LC	FX	TOTAL						

GEMINI BUY-IN									
TA TO FONDOMICRO	0.0	263.5	263.5	0.0	0.0	0.0	0.0	0.0	263.5
TA TO NGO'S	0.0	762.6	762.6	0.0	0.0	0.0	0.0	0.0	762.6
OFFSHORE TRAINING	0.0	106.7	106.7	0.0	0.0	0.0	0.0	0.0	106.7
COMMODITIES/FONDOMICRO	0.0	101.8	101.8	0.0	0.0	0.0	0.0	0.0	101.8
COMMODITIES/NGO'S	0.0	103.8	103.8	0.0	0.0	0.0	0.0	0.0	103.8
IN-COUNTRY TRAINING	83.7	0.0	83.7	0.0	0.0	0.0	0.0	0.0	83.7
COMMODITIES									
VEHICLES	0.0	46.0	46.0	0.0	0.0	0.0	0.0	0.0	46.0
FURNITURE/MOTORCYCLE	25.0	0.0	25.0	0.0	0.0	0.0	0.0	0.0	25.0
FONDOMICRO OPER. COSTS									
SALARIES	553.7	0.0	553.7	0.0	746.2	0.0	0.0	0.0	1,299.9
OFFICE	90.5	0.0	90.5	0.0	121.3	0.0	0.0	0.0	211.8
TRAVEL	108.6	0.0	108.6	0.0	145.5	0.0	0.0	0.0	254.1
OTHER	66.9	0.0	66.9	0.0	89.8	0.0	0.0	0.0	156.7
AID/FONDOMICRO ADVISOR	0.0	1,003.9	1,003.9	0.0	0.0	0.0	0.0	0.0	1,003.9
CREDIT	3,500.0	0.0	3,500.0	2,000.0	3,288.2	14,000.0	10,500.0	0.0	33,288.2
EVALUATION/AUDIT	185.2	248.1	433.3	0.0	0.0	0.0	0.0	0.0	433.3

TOTAL PROJECT COSTS	4,613.6	2,636.4	7,250.0	2,000.0	4,391.0	14,000.0	10,500.0	0.0	38,141.0
=====									
% OF PROJECT COSTS	12.1%	6.9%	19.0%	5.2%	11.5%	36.7%	27.5%	0.0%	100.0%
=====									

USAID LC = US DOLLARS USED TO PURCHASE PESOS
 FX = OFFSHORE EXPENDITURES IN US\$
 LC = LOCAL CURRENCY (RD\$) FROM LOCAL SOURCES

FY1991 DOLLARS AND PESOS USED AS BASIS OF BUDGET.
 THEREFORE INFLATION FACTOR BEGINS IN YEAR 2

TABLE II ESTIMATED EXPENDITURES BY ELEMENT BY PROJECT YEAR (US\$000)

BUDGET ELEMENT	YEAR 1							YEAR 2						
	USAID		GOOR	FONDOMICRO	LOC MKT	OTHER SOURCES	TOTAL	USAID		GOOR	FONDOMICRO	LOC MKT	OTHER SOURCES	TOTAL
	LC	FX	LC	LC	LC	LC		LC	FX	LC	LC	LC	LC	
GEMINI BUY-IN														
TECHNICAL ASSISTANCE														
TO FONDOMICRO	0.0	129.2	0.0	0.0	0.0	0.0	129.2	0.0	134.3	0.0	0.0	0.0	0.0	134.3
TO NGO'S	0.0	9.2	0.0	0.0	0.0	0.0	9.2	0.0	95.5	0.0	0.0	0.0	0.0	95.5
OFFSHORE TRAINING	0.0	19.9	0.0	0.0	0.0	0.0	19.9	0.0	20.6	0.0	0.0	0.0	0.0	20.6
COMMODITIES														
TO FONDOMICRO	0.0	101.8	0.0	0.0	0.0	0.0	101.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TO NGO'S	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	33.7	0.0	0.0	0.0	0.0	33.7
TOTAL FOR BUY-IN	0.0	260.1	0.0	0.0	0.0	0.0	260.1	0.0	284.1	0.0	0.0	0.0	0.0	284.1
IN-COUNTRY TRAINING	0.0	0.0	0.0	0.0	0.0	0.0	0.0	22.5	0.0	0.0	0.0	0.0	0.0	22.5
COMMODITIES														
VEHICLES	0.0	46.0	0.0	0.0	0.0	0.0	46.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FURNITURE/MOTORCYCLES	25.0	0.0	0.0	0.0	0.0	0.0	25.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FONDOMICRO OPER. COSTS														
SALARIES	164.2	0.0	0.0	0.0	0.0	0.0	164.2	170.7	0.0	0.0	0.0	0.0	0.0	170.7
OFFICE	26.8	0.0	0.0	0.0	0.0	0.0	26.8	27.9	0.0	0.0	0.0	0.0	0.0	27.9
TRAVEL	32.2	0.0	0.0	0.0	0.0	0.0	32.2	33.5	0.0	0.0	0.0	0.0	0.0	33.5
OTHER	19.8	0.0	0.0	0.0	0.0	0.0	19.8	20.6	0.0	0.0	0.0	0.0	0.0	20.6
TOTAL	243.0	0.0	0.0	0.0	0.0	0.0	243.0	252.7	0.0	0.0	0.0	0.0	0.0	252.7
AID/FONDOMICRO ADVISOR	0.0	182.2	0.0	0.0	0.0	0.0	182.2	0.0	189.5	0.0	0.0	0.0	0.0	189.5
CREDIT	500.0	0.0	1,000.0	5.5	0.0	0.0	1505.5	800.0	0.0	1,000.0	125.7	700.0	0.0	2625.7
EVALUATION/AUDIT	0.0	0.0	0.0	0.0	0.0	0.0	0.0	56.2	0.0	0.0	0.0	0.0	0.0	56.2
TOTAL PROJECT COSTS	768.0	488.3	1,000.0	5.5	0.0	0.0	2261.8	1,131.4	473.6	1,000.0	125.7	700.0	0.0	3430.7

AID LC = US DOLLARS USED TO PURCHASE PESOS

FX = OFFSHORE EXPENDITURES IN US\$

LC = LOCAL CURRENCY (RDS) FROM LOCAL SOURCES

FY 1991 DOLLARS AND PESOS USED AS BASIS OF BUDGET. THEREFORE INFLATION FACTOR BEGINS IN YEAR 2

TABLE II ESTIMATED EXPENDITURES BY ELEMENT BY PROJECT YEAR (US\$000)

BUDGET ELEMENT	YEAR 3							YEAR 4						
	USAID		GOOR	FONDOMICRO	LOC MKT	OTHER SOURCES	TOTAL	USAID		GOOR	FONDOMICRO	LOC MKT	OTHER SOURCES	TOTAL
	LC	FX	LC	LC	LC	LC	LC	LC	FX	LC	LC	LC	LC	LC
GEMINI BUY-IN														
TECHNICAL ASSISTANCE														
TO FONDOMICRO	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TO NGO'S	0.0	238.2	0.0	0.0	0.0	0.0	238.2	0.0	247.9	0.0	0.0	0.0	0.0	247.9
OFFSHORE TRAINING	0.0	20.6	0.0	0.0	0.0	0.0	20.6	0.0	22.4	0.0	0.0	0.0	0.0	22.4
COMMODITIES														
TO FONDOMICRO	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TO NGO'S	0.0	70.1	0.0	0.0	0.0	0.0	70.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL FOR BUY-IN	0.0	328.9	0.0	0.0	0.0	0.0	328.9	0.0	270.3	0.0	0.0	0.0	0.0	270.3
IN-COUNTRY TRAINING	23.3	0.0	0.0	0.0	0.0	0.0	23.3	12.1	0.0	0.0	0.0	0.0	0.0	12.1
COMMODITIES														
VEHICLES	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FURNITURE/MOTORCYCLE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FONDOMICRO OPER. COSTS														
SALARIES	106.5	0.0	0.0	71.1	0.0	0.0	177.6	73.9	0.0	0.0	110.8	0.0	0.0	184.7
OFFICE	17.4	0.0	0.0	11.6	0.0	0.0	29.0	12.1	0.0	0.0	18.1	0.0	0.0	30.2
TRAVEL	20.8	0.0	0.0	13.9	0.0	0.0	34.7	14.5	0.0	0.0	21.7	0.0	0.0	36.2
OTHER	12.9	0.0	0.0	8.5	0.0	0.0	21.4	9.0	0.0	0.0	13.4	0.0	0.0	22.4
TOTAL	157.6	0.0	0.0	105.1	0.0	0.0	262.7	109.5	0.0	0.0	164.0	0.0	0.0	273.5
AID/FONDOMICRO ADVISOR	0.0	197.1	0.0	0.0	0.0	0.0	197.1	0.0	102.5	0.0	0.0	0.0	0.0	102.5
CREDIT	700.0	0.0	0.0	212.0	800.0	2000.0	3712.0	500.0	0.0	0.0	425.6	2,000.0	3000.0	5925.6
EVALUATION/AUDIT	0.0	102.6	0.0	0.0	0.0		102.6	60.7	0.0	0.0	0.0	0.0		60.7
TOTAL PROJECT COSTS	880.9	628.6	0.0	317.1	800.0	2000.0	4626.6	682.3	372.8	0.0	589.6	2,000.0	3000.0	6644.7

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TABLE II EXPENDITURES BY ELEMENT BY PROJECT YEAR (US\$000)

BUDGET ELEMENT	YEAR 5							YEAR 6						
	USAID		GODR	FONDOMICRO	LOC MKT	OTHER SOURCES	TOTAL	USAID		GODR	FONDOMICRO	LOC MKT	OTHER SOURCES	TOTAL
	LC	FX	LC	LC	LC	LC	LC	LC	FX	LC	LC	LC	LC	LC
GEMINI BUY-IN														
TECHNICAL ASSISTANCE														
TO FONDOMICRO	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TO NGO'S	0.0	171.8	0.0	0.0	0.0	0.0	171.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
OFFSHORE TRAINING	0.0	23.2	0.0	0.0	0.0	0.0	23.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
COMMODITIES														
TO FONDOMICRO	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TO NGO'S	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL FOR BUY-IN	0.0	195.0	0.0	0.0	0.0	0.0	195.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IN-COUNTRY TRAINING	12.6	0.0	0.0	0.0	0.0	0.0	12.6	13.2	0.0	0.0	0.0	0.0	0.0	13.2
COMMODITIES														
VEHICLES	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FURNITURE/MOTORCYCLE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FONDOMICRO OPER. COSTS														
SALARIES	38.4	0.0	0.0	156.9	0.0	0.0	195.3	0.0	0.0	0.0	199.7	0.0	0.0	199.7
OFFICE	6.3	0.0	0.0	25.1	0.0	0.0	31.4	0.0	0.0	0.0	32.6	0.0	0.0	32.6
TRAVEL	7.6	0.0	0.0	30.1	0.0	0.0	37.7	0.0	0.0	0.0	39.1	0.0	0.0	39.1
OTHER	4.6	0.0	0.0	18.6	0.0	0.0	23.2	0.0	0.0	0.0	24.2	0.0	0.0	24.2
TOTAL	56.9	0.0	0.0	230.7	0.0	0.0	287.6	0.0	0.0	0.0	295.6	0.0	0.0	295.6
AID/FONDOMICRO ADVISOR	0.0	106.6	0.0	0.0	0.0	0.0	106.6	0.0	110.8	0.0	0.0	0.0	0.0	110.8
CREDIT	500.0	0.0	0.0	628.5	2,500.0	2,500.0	6128.5	500.0	0.0	0.0	778.2	2,500.0	2,500.0	6278.2
EVALUATION/AUDIT	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL PROJECT COSTS	569.5	301.6	0.0	859.2	2,500.0	2,500.0	6730.3	513.2	110.8	0.0	1,073.8	2,500.0	2,500.0	6697.8

for

TABLE II ESTIMATED EXPENDITURES BY ELEMENT BY PROJECT YEAR (US\$000)

BUDGET ELEMENT	YEAR 7													PROJECT GRAND TOTALS		
	--USAID--		--GOOR--	FONDOMICRO	--LOC MKT--	OTHER SOURCES		TOTAL	--USAID--		--GOOR--	FONDOMICRO	--LOC MKT--		OTHER SOURCES	
	LC	FX	LC	LC	LC	LC	LC	LC	LC	FX	LC	LC	LC		LC	LC
GEMINI BUY-IN																
TECHNICAL ASSISTANCE																
TO FONDOMICRO	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	263.5	0.0	0.0	0.0	0.0	0.0	263.5
TO NGO'S	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	762.6	0.0	0.0	0.0	0.0	0.0	762.6
OFFSHORE TRAINING	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	106.7	0.0	0.0	0.0	0.0	0.0	106.7
COMMODITIES																
TO FONDOMICRO	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	101.8	0.0	0.0	0.0	0.0	0.0	101.8
TO NGO'S	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	103.8	0.0	0.0	0.0	0.0	0.0	103.8
TOTAL FOR BUY-IN	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,338.4	0.0	0.0	0.0	0.0	0.0	1,338.4
IN-COUNTRY TRAINING	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	83.7	0.0	0.0	0.0	0.0	0.0	0.0	83.7
COMMODITIES																
VEHICLES	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	46.0	0.0	0.0	0.0	0.0	0.0	46.0
FURNITURE/MOTORCYCLE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	25.0	0.0	0.0	0.0	0.0	0.0	0.0	25.0
FONDOMICRO OPER. COSTS																
SALARIES	0.0	0.0	0.0	207.7	0.0	0.0	207.7	553.7	0.0	0.0	746.2	0.0	0.0	0.0	0.0	1,299.9
OFFICE	0.0	0.0	0.0	33.9	0.0	0.0	33.9	90.5	0.0	0.0	121.3	0.0	0.0	0.0	0.0	211.8
TRAVEL	0.0	0.0	0.0	40.7	0.0	0.0	40.7	108.6	0.0	0.0	145.5	0.0	0.0	0.0	0.0	254.1
OTHER	0.0	0.0	0.0	25.1	0.0	0.0	25.1	66.9	0.0	0.0	89.8	0.0	0.0	0.0	0.0	156.7
TOTAL	0.0	0.0	0.0	307.4	0.0	0.0	307.4	819.7	0.0	0.0	1,102.8	0.0	0.0	0.0	0.0	1,922.5
AID/FONDOMICRO ADVISOR	0.0	115.2	0.0	0.0	0.0	0.0	115.2	0.0	1,003.9	0.0	0.0	0.0	0.0	0.0	0.0	1,003.9
CREDIT	0.0	0.0	0.0	1,112.7	5,500.0	500.0	7112.7	3,500.0	0.0	2,000.0	3,288.2	14,000.0	10,500.0			33,288.2
EVALUATION/AUDIT	68.3	145.5	0.0	0.0	0.0		213.8	185.2	248.1	0.0	0.0	0.0	0.0	0.0	0.0	433.3
TOTAL PROJECT COSTS	68.3	260.7	0.0	1,420.1	5,500.0	500.0	7749.1	4,613.6	2,636.4	2,000.0	4,391.0	14,000.0	10,500.0			38,141.0

B. Financial Plan

The following chart shows anticipated uses of funds from all sources over the seven-year life of the project.

C. Methods of Implementation and Financing

<u>Project Elements</u>	<u>Methods of Imp.</u>	<u>Methods of Financing</u>	<u>Approx. Amt.</u>
1. Technical Assistance			
a. GEMINI Project	-Buy-in	Direct Pay	\$ 1,026,100
b. AID Advisor	-AID Direct Contr.	Direct Pay	\$ 1,003,900
2. Commodities			
a. Computer & Office Equip.	-Buy-in	Direct Pay	\$ 205,600
b. Furniture/Motorcycles	-Cooperat. Agreem.	Direct Reimbur.	\$ 25,000
c. Vehicles	-AID Direct Contr.	Direct Pay	\$ 46,000
3. Training			
a. Offshore	-Buy-in	Direct Pay	\$ 106,700
b. In-country	-Cooperat. Agreem. or buy-in	Direct Reimbur.	\$ 83,700
4. FONDOMICRO operation	-Cooperat. Agreem.	Direct Reimbur.	\$ 819,700
5. FONDOMICRO credit	-Cooperat. Agreem.	Direct Reimbur.	\$ 3,500,000
6. Evaluation Audits	-AID Direct Contr.	Direct Pay	\$ 433,300
Total			\$ 7,250,000

The proposed methods of financing are the preferred methods of financing under the Administrator's Payment Verification Policy Statement, and represent no deviation from the Mission's general assessment of financing policy and procedures.

VII. SUMMARIES OF ANALYSES

A. Administrative (Institutional) Analysis Summary

As indicated in the purpose statement, this project is largely an institutional development one. Under the project, AID will develop the continuing capability of FONDOMICRO to serve as a reliable and effective source of funding for NGOs operating credit programs for the ISME sector. By the end of the project we expect FONDOMICRO to have the capability to readily seek out and obtain lending capital from various sources, and to efficiently on-lend this capital to six to ten NGOs who are operating credit programs, and who are operating them in such a manner as to allow them to regularly repay all loans to FONDOMICRO in full and on schedule. During the life of the project, FONDOMICRO will also provide and/or arrange for assistance to several NGOs to help them improve the management of their credit programs. This assistance will be necessary if the NGOs are to qualify for receiving loans from FONDOMICRO. The assistance should also help assure that FONDOMICRO makes mostly "good" loans.

The principal actor in the effort to develop FONDOMICRO's capabilities will be, of course, FONDOMICRO itself. Under terms of a Cooperative Agreement between AID and FONDOMICRO, FONDOMICRO will be charged with carrying out all activities called for under the project, and will be provided with the necessary resources to do so.

At present FONDOMICRO does not have the capabilities required to effectively carry out all activities called for under the project. It does, however, have the basic administrative capabilities needed to embark upon the effort. FONDOMICRO Board of Directors, consisting of leading figures from the Dominican Republic's banking, industrial and trade communities, should play a major and very valuable role in assuring the sound management of FONDOMICRO, and the attainment of project objectives. A significant share of project resources will be directed to assisting FONDOMICRO to develop the full range of capabilities it will require to implement the project, and to operate its program on a continuing basis.

Given that FONDOMICRO will be interacting with only a limited number of organizations, rather than "retailing" credit directly to the ISME sector, its staffing needs will be modest. As presently seen, a staff of only seven to ten individuals will be required to carry out all activities called for under the project.

It is intended that, by the end of the project, FONDOMICRO will be generating sufficient revenue from the operation of its lending program to cover almost all costs of its entire program. The exception will be in connection with costs associated with the operation of the credit program assistance activity for NGOs attempting to qualify to borrow from FONDOMICRO. If, at the end of the project, it is determined that there is still a need for FONDOMICRO to provide that service, intentions are that support will

be sought from donors to meet the costs FONDOMICRO incurs in providing such assistance.

It is estimated that FONDOMICRO's annual operational costs will be about \$307,000 by the end of the project. If FONDOMICRO's portfolio reaches the targetted US\$30,000,000 by that point, it will be able to meet all operational costs through the imposition of a charge of a little more than 1% per annum on loans it makes.

B. Technical Analysis Summary

As discussed in the project description, an organization will be created which, by the end of the project, is able to increase the amount of "formal" credit available to the ISME sector from the present estimated equivalent of US\$5,000,000 to a new level of the equivalent of US\$30,000,000-US\$35,000,000. The total number of ISME operators having access to "formal" credit will have increased from the present 10,000 to a new level of 36,000. The credit will be administered by a network of some six to ten NGOs which are charging real, positive interest rates on the loans they make.

The project design is based on several key assessments as follows:

-- unmet credit demand in the ISME sector is at least the equivalent of US\$25,000,000-US\$30,000,000 on the part of 26,000 ISME owners;

-- NGOs are able to expand the size of their clientele, and their lending portfolios, at a rate of approximately 20% per year.

-- FONDOMICRO is able to obtain the equivalent of US\$30,000,000 for on-lending;

-- the cost of funds to a) FONDOMICRO, and b) FONDOMICRO's client NGOs will be such that, even after both add their administration costs, and costs of establishing bad debt reserves to the cost of funds, the cost of the credit to the ultimate borrower will still be less than the cost of their alternative sources of credit.

-- current sources of credit for the ISME sector will not be reduced over the project's life.

1. Existence of Unsatisfied Demand

The MSI study reported the existence of about 145,000 ISME operators in the Dominican Republic, of which 60% (or about 87,000) indicated they needed and would take advantage of reasonably priced credit if it were available. The study reported, however, that less than 6% (or about 8,700 ISME operators) had access to credit. The available credit was from NGOs operating credit programs for the ISME sector. Because NGO reports now indicate that their client base has increased to about 10,000, it

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appears that there is unsatisfied demand for credit on the part of about 77,000 ISME operators.

MSI and ISTI studies found that the average amount of credit desired by ISME operators was the equivalent of US\$1,200. The average size of loans being made by NGOs at present is the equivalent of US\$500. If one assumes that the amount of credit that could actually be serviced by ISME operators was midway between those two figures, i.e., the equivalent of US\$850 total unmet credit demand of the sector is about the equivalent of US\$65,450,000.

2. NGOs' ability to expand their clientele and their credit portfolio

At present approximately 12 NGOs are operating ISME sector credit programs of significant size. Of these, two appear eligible to borrow funds from FONDOMICRO at this point. It is anticipated that between four and eight additional ones will become eligible to borrow funds from FONDOMICRO during the first one to three years of the project's life. All NGOs operating credit programs at present report the existence of sizeable and growing backlogs of credit applicants who they would lend to were funds available.

USAID's observations of NGOs operating credit programs in the Dominican Republic suggest that the principal constraint to the growth of their clienteles has been the non-availability of lending funds. As and when the amount of funds they have available for lending increases, the number of their clients increases accordingly. The NGO operating the largest program, ADEMI, has seen successive annual increases in the number of clients greater than 30%.

Given the sizeable demand that exists within the ISME sector for credit, and the demonstrated ability of the NGOs in the sector to expand their portfolios commensurate with the availability of credit resources, a 20% annual expansion of the number of ISME operators receiving credit appears feasible.

3. Availability of Funds to FONDOMICRO

Attaining FONDOMICRO's target portfolio of the equivalent of US\$30,000,000 will be accomplished by its obtaining credit funds from the following sources:

AID Grant	-	\$ 3,500,000
GODR	-	\$ 2,000,000
Other donors	-	\$ 2,500,000
IBD	-	\$ 8,000,000
Local Financial Markets	-	\$14,000,000

Funds from AID and the GODR will be provided through this project. The total anticipated from "other donors" is derived from an analysis of amounts they have been contributing to the ISME sector over the past several years, and from discussions which have

occurred during project design. Interamerican Development Bank representatives both in the Dominican Republic and in Washington have frequently reiterated their intent and desire to make \$8,000,000 available to FONDOMICRO. The \$14,000,000 indicated as coming from domestic capital markets will be available, the Dominican banks assert, if FONDOMICRO can demonstrate that the funds will be secure. FONDOMICRO may also attempt to raise funds for its credit program through issuing bonds. This is discussed briefly in the «Technical Analysis Annex (Annex D).

In addition to the amounts indicated above to come from the various sources, FONDOMICRO itself expects to generate some \$3,000,000 from the operation of its credit program that will also be made available for on-lending.

Project plans call for the NGOs directly serving the ISME sector, rather than FONDOMICRO itself, to establish and/or expand pools of lending capital that can be loaned to ISME operators, repaid, and loaned again. FONDOMICRO's function is to seek funds from various sources, and lend these funds to NGOs so that the NGOs can on-lend them to the ISME sector. FONDOMICRO's capital base will be only sufficient to serve as an incentive for acquiring funds in the domestic capital market. In making decisions regarding the allocation of funds to NGOs, FONDOMICRO will have two principal concerns:

- to assure that utilization of its funds produces maximum benefit in terms of establishment/expansion of the lending capital bases of its client NGOs; and

- to assure that it receives a return on its funds adequate to allow it to a) meet all its obligations; b) cover all its costs; and c) develop an equity base large enough to allow it to borrow from commercial banks and the domestic capital market in amounts it will require to meet the credit needs of its clients. It is estimated that banks will require that FONDOMICRO's own capital be equal to 10-15% of the funds it seeks to borrow.

In determining the interest rates it will charge on its funds during a particular lending period, FONDOMICRO will consider: a) the "blended costs of all borrowed funds it will have available for lending during the period in question; b) the share of funds it will have available for lending which derive from borrowed funds vs. the share derived from grant derived funds; c) the costs it incurs in operating its program; d) the costs associated with establishing and maintaining a delinquent debt reserve; and e) its need to develop an equity base large enough to allow it to borrow in the local financial markets in the amounts it will require to meet the needs of its NGO clients.

Given the variability of the factors to be considered in determining the interest rate it charges its clients, it is clear that FONDOMICRO must have a flexible interest rate policy with rates being reviewed and modified in annual intervals as

a minimum. The Financial Analysis Annex provides examples of the calculations involved in determining interest rates in specified scenarios.

Because FONDOMICRO will be: a) borrowing at below market rates from the IBD and the GODR, and b) receiving grant funds which will be available for on-lending, it is possible that, under some scenarios, the rates on which it could lend funds to NGOs would be significantly below commercial bank "market" rates. In order to avoid the potentially distortionary effect such a situation might have on the efficiency with which NGOs operate their programs, FONDOMICRO will never lend its funds at rates lower than 80% of the "prime" commercial bank rate (the rate major commercial banks charge their preferred clients). In those situations where this "floor" on interest rates results in a return to FONDOMICRO on its funds greater than required to meet its objectives, pay its operational costs, build its needed equity, etc., the additional return will become part of FONDOMICRO's equity.

While NGOs will frequently be receiving funds from FONDOMICRO at below "market" rates, the concessionary element in these rates will not be passed on to the NGOs' clients. The project is premised upon the principle that ISME operators can and should pay real, positive rates for credit, and are willing to do so if the credit is available. Accordingly, minimum interest rates to be charged by NGOs to ISME operators will be determined by adding the NGO's costs of administration and cost of establishing/maintaining a delinquent debt reserve to the annual inflation rate for the period in question. It should be noted that even in those situations where inflation rates are falling and the cost of funds to the NGOs may be higher than the annual inflation rate calls for due to a lag in the commercial banks' downward adjustment of interest rates (this situation is possible in the final years of the project, and thereafter), rates chargeable to ISME operators by the NGOs would reflect the higher costs.

Notwithstanding the sizeable interest rates to ultimate borrowers suggested by the above, it is clear that the rates will be significantly lower than the principal alternatives available to ISME operators.

C. Social Soundness Analysis Summary

The Dominican Republic's present population is estimated at 7,200,000. Some 38% of the population is classified as being within the available labor pool. Although the country's annual population growth rate appears to be about 2.2%, because of the country's relatively young population, the labor pool has been growing at an annual rate of 3.3%. This rate of growth means that an additional 90,000 people enter the labor market each year. Because of the high proportion of young people in the population (52% are below the age of 19), the high rate of growth of the labor pool will continue into the future.

The majority of the labor force has traditionally found employment in the agricultural sector. This situation, however, has been changing dramatically over the past two decades. Because of

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population growth, and the changing patterns of agricultural production, the agricultural sector has been able to absorb only an increasingly smaller portion of the emerging work force each year. The displaced labor force, for the most part, has had little option than to migrate to the country's urban areas. The heavy migration to urban areas has been a principal factor in the growth of the Dominican Republic's ISME sector. In the absence of employment opportunities in the "formal" manufacturing sector (where growth has also been sluggish over the past decade) many of the urban migrants have been in a situation where, if they were to work, they would have to create their own employment.

The MSI study estimates that 145,000 ISME operators are operating in the country. Thirty-one percent operate in services (repair shops, beauty parlors, transportation), 51% in commerce (street vendors, shops, food vendors), and 18% in production (food and cloth production). These ISME operations average 2.7 workers in size, including owners and part-time employees; however, 50% of them have only one employee. Women have a significant presence in the ISME sector, with a heavy representation in commerce. Forty percent of the establishments identified by the MSI study were owned by women.

The typical ISME owner operates a business from his/her own home, has less than six employees, and makes less than US\$500 in monthly sales. He/she usually has no access to commercial credit, or any formal marketing mechanism. For the majority of these ISME operators the only source of credit are moneylenders (prestamistas). The value of the prestamistas is that they will lend small amounts on a short term basis. They are local, accessible, available day or night, and flexible about repayment. Their collateral requirements depend primarily on the level of personal acquaintance with the borrower. The trade-off for the ISME operator is the prestamista's very high interest rates (e.g., 10% daily, 20% per week, 75% per month). The interest paid to the moneylender frequently absorbs all of the ISME operator's profit and traps the ISME operators in a circle that he/she can rarely break. The reliable availability of less expensive credit is perceived as a significant part of the solution to this situation.

The typical female ISME operator has three to five children and a husband who earns a low and erratic income. She has little education, and is almost illiterate. In general, however, her children all attend school, even up to university level. She learned how to sew in a local school or social program, bought a sewing machine, and established a business. Typically this woman borrows money from a moneylender to buy material. She is usually incapable of producing more than the minimum needed to keep up with the payments to the moneylender.

Principal Anticipated Impacts

a. Employment generation

The project should have a significant impact on

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employment generation. In a country where unemployment affects 25% of the economically active population, employment generation becomes a critical issue. The informal nature of the ISME sector allows for much greater ease and speed in creation of jobs. Most ISME operators are based in poor communities and the jobs ISME enterprises create are located in those communities. The jobs generally do not require sophisticated skills and can be filled by people from those communities.

b. Increases in income

The resources to be channeled through FONDOMICRO should result in significant increases in income to the ISME operators. ADEMI's statistics on beneficiaries' performance show over 100% increases in income as a result of access to credit. Income increases seem to be directly translated into better nutrition and education of the children of the ISME operator, and into improved housing and living conditions for the entire family. Indirectly, ISME income increases are translated into benefits to input suppliers as demand on the part of the beneficiary enterprises increases.

c. Improved management skills

Flexible repayment schedules and small loans on an escalating basis will allow clients to gradually introduce new capital into their business while learning how to manage increased operations and deal with larger administrative problems. For the inexperienced client this will be a very effective way to introduce concepts of efficiency and economies of scale. Furthermore, through participation in the FONDOMICRO program, ISME operators, who have never used a bank account or been exposed to an office setting, will learn a number of new skills. For instance, ADEMI staff introduce ADEMI clients personally to banks and take them step-by-step through check-cashing and depositing procedures. When necessary they even teach their clients how to sign their names. For the many ISME operators who are illiterate or unfamiliar with procedures like these, credit programs of the kind to be supported through this project help integrate them into a different sociocultural world and a new level of economic participation.

d. Gender Analysis

Women entrepreneurs will benefit substantially from the FONDOMICRO project as terms and conditions of credit to be provided through the project appear to be well suited to their needs. Also, women are very active in the type of businesses that the project will reach. The MSI study indicates that 40% of the existing ISME enterprises are owned by women. Although not originally intended to specifically address women's needs, the outreach efforts of most of the NGO clients of FONDOMICRO have concentrated on the largest and poorest settlements, where there is a high percentage of female heads of households, working women, and women entrepreneurs. Women comprise 34% of ADEMI's beneficiaries,

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and 31% of ADEMI's. Other NGOs like ADOPEM and MUDE concentrate exclusively on women.

Women's access to and benefit from microenterprise programs will be particularly important given the growing number of Dominican households which depend on the earnings of female heads of households, and the increasing importance of secondary earnings of women in poor households headed by males. Women's access to the programs funded by FONDOMICRO will not only translate into increased income earning opportunities, but also will increase the influence and the autonomy of women both within their communities and within their families.

Given the importance of the project to women, FONDOMICRO, in its MIS program under a special heading called "Gender Analysis" will collect information as to the gender of the beneficiaries of its lending programs.

D. Financial Analysis

The Mission has given full consideration to all cost options and determined that the approach outlined for this project is the most logical and most effective mechanism. The costs associated with this approach, detailed in the Costs Estimates and Financial Plan section, have been thoroughly researched and are reasonable and consistent with Mission experience in this field and this country.

The financial analyses conducted in connection with this project followed those prescribed in AID Handbook 3 (Chapter 3, Appendix 3D, Paragraph 6.0) for Intermediate Credit Institutions. As required, the analyses were concerned with FONDOMICRO's financial operations, rather than with the operations of the projects or activities to be funded by resources provided through FONDOMICRO. Principal factors looked at were as follows: interest rate spread, cash flow, bad debts, debt to equity ratio, liquidity ratio, and net worth to total assets ratio. Two financial scenarios were used. The first scenario utilized a peso to dollar exchange rate of 7.25 to 1 (the official rate at the time of this writing) during year 1 of the project, an annual inflation rate of 24% per year throughout the life of the project, and the exchange rate increasing proportionally with inflation over the life of the project. The second scenario utilized a (more realistic) market average exchange rate of 13.65 pesos to the dollar for year 1 of the project, and then used the same assumptions regarding inflation and exchange rate changes as were used in the first scenario. Under both scenarios FONDOMICRO became a viable, self-sustaining organization, capable of meeting its financial obligations and covering its operational costs by the end of the project.

E. Economic Analysis

As part of the process of attempting to reach a conclusion as to the social profitability (i.e., the relationship of the costs incurred to carry out the project vs. the benefit to be obtained by society as a whole from the project), analyses were conducted of the following:

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- total demand for credit by the ISME sector;
- growth of the ISME sector with and without credit generated through the project;
- employment generation due to the project;
- impact of project-generated credit on ISME sector sales and value added.

Calculations were based upon project costs, credit flows, interest rates, etc. as these were presented in the Financial and Technical Analyses, under both the scenarios (i.e., official exchange rates and market exchange rates) considered in those Analyses. Impact was assessed over a 20 year period.

Key conclusions of the analyses were: that an unmet demand exists for at least the equivalent of US\$35,000,000 in credit by the ISME sector; that, without the project, only about 9% of that demand would be met during the project period, while between 25% and 40% will be met if the project proceeds appropriately; and that about 30,000 new jobs will be created as a result of the project.

The overall conclusion is that the project is economically viable and will yield benefits substantially greater than would result from alternative uses of the inputs employed.

F. Environmental Considerations

The LAC Deputy Environmental Officer has approved the Mission's request for a categorical exclusion for the subject project in accordance with 22 CFR Section 216.2(c)(2)(x) which relates to "support for intermediate credit institutions when the objective is to assist in the capitalization of the institution or part thereof...". Due to the large number of loans contemplated, AID will not review or approve individual loans FONDOMICRO makes to its clients, and more importantly, the subloans its clients make to ISME operators. Further, the environmental impact is expected to be minimal under the proposed project. The majority of ISME operators targetted under the project are in the service and commercial subsectors and include beauty shop owners, street vendors, cabinet makers, small storeowners, tailors and taxi owners. The Mission will ensure that guidelines to assure consideration environmental impact will be incorporated into the written manual to be followed by FONDOMICRO in the implementation of its credit support program and, in particular, the procedures it utilizes for receiving, reviewing, processing and making decisions on loan requests. In addition, the planned project evaluations will include examination of the impact of the NGO's subblending activities on the environment as part of their scope of activities.

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VIII. NEGOTIATING STATUS, CONDITIONS, AND SPECIAL PROVISION

A. Negotiating Status

During the period of this Agreement, FONDOMICRO will retain ultimate responsibility for the management and support of project activities. In consideration of A.I.D.'s long range interest in increasing the productive employment generating capability of the informal small and micro enterprise (ISME) sector in the Dominican Republic, it is agreed that there will be substantial involvement by A.I.D. in certain aspects of FONDOMICRO's operations during the period of this Agreement. The following "Conditions Precedent to Disbursement" and "Special Provisions" are intended to facilitate useful and effective A.I.D. collaboration in project matters.

B. Conditions Precedent

1. First Disbursement

Except for technical assistance, prior to the first disbursement under the Cooperative Agreement, or the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee 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. an opinion of the Legal Advisor to the Grantee acceptable to A.I.D., that this Agreement has been duly authorized 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;

b. a statement of the name of the person who will represent the Grantee, and of any additional representatives, together with a specimen signature of each person specified in such statement;

2. Disbursements for Credit Support Program

Prior to disbursement under the Cooperative Agreement, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, for funds to be used by FONDOMICRO for on-lending to NGOs, or for guaranteeing loans NGOs may seek to obtain from banks or other organizations, the Recipient will furnish A.I.D., in form and substance satisfactory to A.I.D., a copy of the written guidelines to be followed by FONDOMICRO in the implementation of its credit support program. These guidelines, which shall have been formally endorsed by FONDOMICRO's Board of Directors, shall cover, and codify the following subjects:

- criteria to be used in assessing NGO's eligibility to borrow from FONDOMICRO. Criteria adopted will be aimed at helping assure that loans are provided only to NGOs which are acceptable credit risks, and which will use

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borrowed funds appropriately and efficiently.

- procedures to be followed in reviewing and making decisions on loan requests. Specific on: establishment and composition of review committees, steps to be followed to avoid conflicts of interest, or appearances, of same, when making decisions (i.e., procedures to be followed in the event FONDOMICRO Board Members are also affiliated with NGOs seeking loans, or with banks being approached for loans), scheduling of reviews, etc.
- procedures which will govern use of loan re-flows to FONDOMICRO (i.e., determining amounts of reflows that can be used for purposes other than relending).
- procedures to be followed in disposing of FONDOMICRO's assets (especially its loan portfolio) in the event of the dissolution of the organization.
- determining amount that may be borrowed by different NGOs, the maximum amount of the total portfolio that may be borrowed by any individual NGO, terms and durations of loans, security/collateral requirements, etc.
- procedures to be followed in determining interest rates and other charges FONDOMICRO will impose on funds it lends, frequency with which rate structures will be reviewed, special circumstances which may allow "instant" adjustments to interest rates, etc.
- procedures to be used in establishing and maintaining a delinquent debt reserve.
- procedures to be followed in providing "guarantees" on loans made by banks (or other institutions) directly to NGOs.

This document will serve as a basic guide governing all aspects of FONDOMICRO's lending program. It will, of course, be subject to modification as the project proceeds, and as experience dictates.

3. Disbursement After 180 Days from the Execution of the Cooperative Agreement

Except for disbursements to meet costs associated with technical assistance (both through the GEMINI Program, and from the PSC Project Advisor), prior to disbursement under the Agreement to finance any activities or procurements after 180 days from the execution of this Agreement, or to the issuance by A.I.D. of documentation under which disbursement will be made, the Recipient will, except as A.I.D. may otherwise agree in writing, submit to A.I.D. a copy of the "by-laws" which have been formally adopted by FONDOMICRO which shall, among other matters, explain and prescribe FONDOMICRO's policy and practice with respect to: becoming a member of FONDOMICRO, voting and other rights of FONDOMICRO members,

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procedures for conducting board elections, authorities of the Executive Director, etc. The document should also make clear how the views and opinions on significant project issues of major donors to FONDOMICRO -including A.I.D.- are to be regularly represented (i.e., through membership in certain FONDOMICRO committees, through participation in Board meetings, etc.).

4. Disbursement for 1991 and Beyond

Except for disbursements to meet costs associated with technical assistance, prior to disbursement under the Agreement to finance any activities or procurements after December 31, 1990, or after the end of each following calendar year, or to issuance by A.I.D. of documentation pursuant which disbursement will be made, the Recipient will, except as A.I.D. may otherwise agree in writing, submit in form and substance satisfactory to A.I.D. an Annual Implementation Plan with detailed information on planned commitments and expenditures for the period January through December.

C. Special Provisions

1. It is recognized that FONDOMICRO's ability to solicit and attain support from other organizations to allow it to carry out programs and activities in furtherance of its mandated objectives is a key measure of its development as an effective organization. FONDOMICRO is encouraged actively to seek such support. It is agreed, however, that in order to help assure that programs supported by other organizations do not detract from FONDOMICRO's ability to carry out the program of activities to be supported with funds provided through this Agreement that FONDOMICRO shall consult with A.I.D. prior to executing any agreement or contract with a bilateral or multilateral donor agency which calls upon FONDOMICRO to carry out specified programs or activities, if it is anticipated that FONDOMICRO will receive financial support or payment from the donor organization in excess of US\$1000,000.

2. Recognizing the extremely important role the Executive Director will play in the overall success of the project, FONDOMICRO agrees that it will make every effort to assure that the position of Executive Director is filled at all times, and that it is filled by an appropriately qualified individual.

FONDOMICRO agrees to consult with A.I.D. before removing any Executive Director. FONDOMICRO further agree that it will receive prior written approval from A.I.D. before appointing any individual to the position of Executive Director.

3. FONDOMICRO agree that A.I.D. shall have the right to concur with any loan to be made by FONDOMICRO which will be financed using A.I.D.-provided funds.

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PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Total Project \$34.4 Million
Total U.S. Funding \$7.25 Million
Total Other Funding \$30.9 Mil. equivalent
Date Prepared May 15, 1990

Project Title & Numbers: Micro and Small Business Development Project (517-0254)

Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
<p>A.1 Goal</p> <p>To increase productivity and employment generation capacity of the ISME sector.</p>	<p>A.2</p> <ul style="list-style-type: none"> - Productive, gainful employment in ISME sector increases by 30,000 (over "naturally occurring" growth) 	<p>A.3</p> <ul style="list-style-type: none"> - GEHINI Study - Project Evaluation 	<p>A.4</p> <ul style="list-style-type: none"> - Cost per job created figure in MSI and ISTI studies (i.e., \$1,000 per job) remains largely accurate.
<p>B.1 Purpose</p> <p>To develop FONDOMICRO into a viable, self-sustaining organization which can, on a continuing basis, obtain and provide the financing (and related credit program management assistance) needed by NGOs operating credit programs in the ISME sector.</p>	<p>B.2 End of Project Status</p> <ol style="list-style-type: none"> 1. FONDOMICRO will be a well functioning institution with a permanent staff of appropriately trained individuals, an active and involved Board of Directors, and adequately equipped office facilities. 2. FONDOMICRO will have an established client base of between 6-12 NGOs, each operating a credit program reaching between 2,000-10,000 borrowers, and each operating their program in such a manner as to assure full and prompt repayment to FONDOMICRO of all funds they borrow. 3. FONDOMICRO's total outstanding portfolio (including funds for which it may be providing guarantees) will have reached approximately the equivalent of US\$30,000,000. 4. FONDOMICRO will be generating sufficient revenue from its lending program to allow it to meet all costs it incurs in the operation of its program. 5. FONDOMICRO will be meeting all its obligations in full and on schedule. 6. The number of ISME operators having access to reliably available, reasonably priced credit will have increased from about 10,000 to about 36,000. 7. FONDOMICRO will have developed appropriate business relationships with, and be able to obtain and/or access lending capital from at least two commercial banks on appropriate terms. 	<p>B.3</p> <ol style="list-style-type: none"> 1. Project evaluations 2. FONDOMICRO Records <ul style="list-style-type: none"> -Project evaluations -Special studies 3. FONDOMICRO Records <ul style="list-style-type: none"> -Project audits -Project evaluations 4. FONDOMICRO Records <ul style="list-style-type: none"> -Project audits 5. FONDOMICRO Records 6. NGO Records <ul style="list-style-type: none"> -Project evaluations 7. FONDOMICRO Records <ul style="list-style-type: none"> -Project evaluation 	<p>B.4</p> <ul style="list-style-type: none"> - Continuation of existing GOODR policy on credit operations of organizations like FONDOMICRO. - Continued availability of anticipated resource levels of IDB and GTZ. - NGOs can reach "ADEMI-level" operational efficiency with relatively limited amounts of assistance.

C.1 Outputs	C.2 Targets	C.3	C.4																																
<p><u>Component 1 - Strengthening FONDMICRO.</u></p> <p>a. FONDMICRO offices fully established, equipped and functioning.</p> <p>b. Development and adoption of all necessary administration systems and procedures.</p> <p>c. Development of appropriate staff capability.</p> <p>d. MIS fully developed, installed, and functioning.</p>	<p>1.</p> <p>a. To be completed within 6 months of execution of CA.</p> <p>b. To be completed within 6 months of execution of CA.</p> <p>c. All key staff members appointed by end of year 1 of the project.</p> <p>d. To be completed by end of year 1.</p>	<p>1.</p> <p>a. USAID Monitoring.</p> <p>b. USAID Monitoring -existence of manuals</p> <p>c. USAID Monitoring -FONDMICRO records</p> <p>d. USAID Monitoring</p>	<p>Buy-in with GENINI concludes end of July 1990.</p>																																
<p><u>Component 2 - Financial Support Program.</u></p> <p>a. Development and adoption of credit guidelines.</p> <p>b. Loans made to NGOs.</p>	<p>2.</p> <p>a. To be completed within 6 months of execution of CA.</p> <p>b. No. of No. of</p> <table border="1"> <thead> <tr> <th></th> <th>Loans</th> <th>Clients</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>Year 1</td> <td>2</td> <td>2</td> <td>\$ 1.5 mil.</td> </tr> <tr> <td>Year 2</td> <td>4</td> <td>4</td> <td>\$ 4.0 mil.</td> </tr> <tr> <td>Year 3</td> <td>8</td> <td>6</td> <td>\$ 7.5 mil.</td> </tr> <tr> <td>Year 4</td> <td>10</td> <td>8</td> <td>\$13.0 mil.</td> </tr> <tr> <td>Year 5</td> <td>10</td> <td>9</td> <td>\$18.5 mil.</td> </tr> <tr> <td>Year 6</td> <td>12</td> <td>10</td> <td>\$26.0 mil.</td> </tr> <tr> <td>Year 7</td> <td>12</td> <td>10</td> <td>\$30.0 mil.</td> </tr> </tbody> </table>		Loans	Clients	Amount	Year 1	2	2	\$ 1.5 mil.	Year 2	4	4	\$ 4.0 mil.	Year 3	8	6	\$ 7.5 mil.	Year 4	10	8	\$13.0 mil.	Year 5	10	9	\$18.5 mil.	Year 6	12	10	\$26.0 mil.	Year 7	12	10	\$30.0 mil.	<p>a. Existence of documents</p> <p>b. FONDMICRO records</p>	
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Year 1	2	2	\$ 1.5 mil.																																
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Year 6	12	10	\$26.0 mil.																																
Year 7	12	10	\$30.0 mil.																																
<p><u>Component 3 - CPM Assistance to NGOs.</u></p> <p>a. "Diagnostics" of NGO CPM capability conducted.</p> <p>b. CPM assistance programs initiated and completed for different NGOs.</p> <p>c. NGOs becoming eligible for FONDMICRO loans.</p>	<p>3.</p> <p>a. 3-4 per year during life of project.</p> <p>b. Year 1-2 Year 2-3 Year 3-3 Year 4-2 Year 5-1 Year 6-1</p> <p>c. Year 1-2 Year 2-2 Year 3-2 Year 4-1 Year 5-1 Year 6-1</p>	<p>3.</p> <p>a. FONDMICRO records -Project evaluation</p> <p>b. USAID Monitoring -FONDMICRO records</p> <p>c. FONDMICRO Records</p>																																	

D. Inputs	D.2 (US\$000) over life of project	D.	D.4												
<p>1. <u>AID Grant - \$7,250,000</u></p> <p>A. Technical Assistance</p> <p>B. Commodities</p> <p>C. Training</p> <p>D. Credit Operations</p> <p>E. Operational Costs</p> <p>F. Evaluation/Audits</p> <p>2. <u>GOB</u> RD\$20,000,000 for credit</p> <p>3. <u>IBZ</u> US\$8,000,000 for credit</p> <p>4. <u>Other Donors</u> \$2,500,000 for credit</p> <p>5. <u>Commercial Banks</u> \$14,000,000 for credit</p>	<p>AID</p> <table border="1"> <tbody> <tr> <td>A.</td> <td>\$2,030,000</td> </tr> <tr> <td>B.</td> <td>\$ 276,600</td> </tr> <tr> <td>C.</td> <td>\$ 190,400</td> </tr> <tr> <td>D.</td> <td>\$3,500,000</td> </tr> <tr> <td>E.</td> <td>\$ 819,700</td> </tr> <tr> <td>F.</td> <td>\$ 433,300</td> </tr> </tbody> </table> <p>Year 1 and 2</p> <p>Year 3 - 7</p> <p>Year 4</p> <p>Year 2-7</p>	A.	\$2,030,000	B.	\$ 276,600	C.	\$ 190,400	D.	\$3,500,000	E.	\$ 819,700	F.	\$ 433,300	<p>1. Project records -Project audits</p> <p>2. Project Records Audits</p> <p>3. Project Records</p> <p>4. Project Records</p> <p>5. Project Records</p>	
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Fondo para el Financiamiento de la Microempresa, Inc.
(FONDOMICRO)



17 de julio de 1989

Señor
Thomas W. Stukel
Director de la
Agencia para el Desarrollo
Internacional (AID)
Santo Domingo, D. N.

Estimado señor Director:

En fecha 2 de mayo de 1989, los señores Luis Molina Achécar, Luis Augusto Hernández, Luis Taveras Andújar, Praxedes Castillo, Frank R. Rainieri, Pedro A. Rodríguez, José Vicienes, Felipe Auffant Najri, Camilo Lluberes, Víctor Espaillat Luna y el que suscribe dejaron formalmente constituida una institución privada sin fines de lucro denominada Fondo para el Financiamiento de la Microempresa (FONDOMICRO) la cual tendrá por objeto:

- (1) Mejorar la interrelación existente entre los diversos estratos empresariales que motivan el desarrollo y crecimiento de la economía del país y promueven la iniciativa privada;
- (2) fortalecer el sistema de libre empresa en la República Dominicana; y
- (3) captar recursos financieros de fuentes externas e internas mediante donaciones, préstamos, emisión de bonos y cualquier otra forma lícita, para canalizar los mismos al sector de la microempresa.

Estamos en proceso de lograr la incorporación de esta institución no gubernamental sin fines de lucro, de conformidad con la Ley No. 420 del 26 de julio de 1920.

El Fondo para el Financiamiento de la Microempresa (FONDOMICRO) será una institución de 2do. piso que prestará los recursos captados de organismos internacionales y del Sector Privado Nacional a aquellas instituciones, fundaciones, organizaciones y asociaciones que acogiéndose a criterios estrictamente de mercado, canalicen recursos a los microempresarios dominicanos. Fondomicro actuará como institución intermediaria entre los organismos internacionales de financiamiento y aquellas organizaciones que prestan recursos a los microempresarios a las tasas de interés del mercado.

ANNEX B

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Colle Anocoona No. 4, Edificio Erika IV, Apto. 104-A, El Vergel
Santo Domingo, D.N. Tel. 687-2208

Thomas W. Stukel
17 de julio de 1989
Página No. 2

Los fundadores y la Junta de Directores de Fondomicro están plenamente convencidos que la microempresa dominicana puede absorber sin problemas los créditos que se le concedan a las tasas de interés del mercado. En la actualidad, la mayoría de los microempresarios dominicanos están pagando tasas de interés superiores al 10% mensual. Para ellos sería un alivio el poder obtener créditos a un costo equivalente a la mitad de lo que están pagando actualmente.

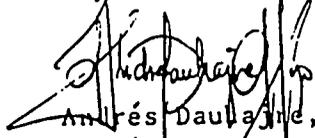
En adición a que los recursos que canalice Fondomicro sean prestados a los microempresarios a la tasa de interés de mercado, se exigirá a esas organizaciones la provisión simultánea de asistencia técnica a los microempresarios a fin de hacerlos más eficientes y estimular, en consecuencia, la autosuficiencia en el mediano y largo plazo.

Entendemos, sin embargo, que el éxito y la viabilidad financiera de esta institución, dependerá de los procedimientos y mecanismos de financiamiento que se sigan y de la calidad y preparación técnica del personal que labore para la misma.

Solicitamos formalmente a ese organismo apoyo financiero para cubrir los gastos operacionales de esta institución, así como para cubrir los costos de contratación de una asistencia técnica de largo plazo. De esta manera, Fondomicro podría iniciar sus actividades con pasos firmes y bien orientados.

Esperando recibir su pronta y positiva respuesta, le saluda,

Muy atentamente,


Andrés Daulagne, hijo
Presidente
Junta de Directores

ADH/rmm

MICRO AND SMALL BUSINESS DEVELOPMENT PROJECT

Administrative (Institutional) Analysis

The principal actor in this effort to develop FONDOMICRO's capability to serve as an effective and reliable financing source for NGOs operating credit programs for the ISME sector will be, of course, FONDOMICRO itself. Lesser, but still significant roles will be played by the NGO community in the D.R., by the "Gemini Project" being implemented by the Office of Rural Development of the Science and Technology Bureau (AID/W), and the USAID Mission in Santo Domingo. A description of the anticipated functions of each of these participants, some information on their existing capability to carry out those functions, and a description of planned actions to develop capabilities to carry out the functions follows.

A. FONDOMICRO

As indicated, the purpose of this project is to develop FONDOMICRO's capability to serve as a reliable and effective source of funding for NGOs operating credit programs for the ISME sector. It is also anticipated that FONDOMICRO will have the responsibility of providing assistance needed by many NGOs to qualify to receive funding from FONDOMICRO. FONDOMICRO is to seek funding for the ISME sector from various sources -bilateral donors, the GODR, multilateral development banks, commercial banks,

and (through issuance of bonds) the public at large. Through levying appropriate interest rates and other charges on funds it provides, it is anticipated that FONDOMICRO will eventually be able to cover all costs associated with its credit services program, and most of its general operation costs. Costs FONDOMICRO incurs in providing assistance in credit program management to NGOs which might need this assistance, however, are to be met by grants FONDOMICRO receives from external sources. By the end of the project it is anticipated that FONDOMICRO will be managing a portfolio of about \$30,000,000, consisting of loans or lines of credit to some 10-15 NGOs. It will be negotiating and making some 6-12 new loans each year. It will be responding to requests for administrative assistance from 2-4 new NGOs per year.

Principal areas of expertise FONDOMICRO must possess in order to fulfill the role envisioned for it are as follows:

- Ability to seek and obtain funding support from donor agencies and multilateral development banks. FONDOMICRO staff must be familiar with the range of funding agencies active in the D.R., their objectives, procedures associated with obtaining funding support from the organizations, terms under which support is usually available, time frames associated with provision of support, etc.

Ability to seek and obtain loans, and other types of financial

support from the commercial banking sector. FONDOMICRO staff must be familiar with criteria and procedures banks employ in assessing loan requests, establishing requirements for collateral, administering lines of credit; issuing commercial paper; etc.

- Ability to operate a successful lending program. FONDOMICRO staff must know how to determine and fix appropriate rates and charges on funds it lends out; how to draw up appropriate lending agreements; how to operate guarantee programs; how to assess creditworthiness of prospective borrowers; etc.

- Ability to operate a successful and effective administration assistance program for NGOs seeking to obtain resources from FONDOMICRO. FONDOMICRO must be aware of the range and the capabilities of NGOs providing services to the ISME sector; be able to identify weaknesses (technical, organizational, or philosophical) in the organizations' actual or proposed credit programs; be able to identify steps the organizations must take themselves to improve their credit programs; and be able to design and implement assistance programs to help NGOs improve their credit management capability, etc.

- Ability to act as advocate and spokesman for the ISME Sector. While, not seen as a primary activity of FONDOMICRO, it is apparent that a need exists for some organization to play this role, and that FONDOMICRO is

well placed to do so. FONDOMICRO leadership and staff must have the capability correctly to analyze public policy as it affects the well-being of the ISME sector and the capacity to design and implement programs intended to bring about desirable modifications to inappropriate policy.

- Ability to effectively administer a sizeable credit and services program. This project will entail FONDOMICRO's utilization and disbursement of several millions of dollars, the hiring and development of a staff of 8-12 individuals, the procurement of substantial levels of goods and services from various vendors, etc. The organization must have the capability adequately account for and control expenditures, loan disbursements, recovery rates, etc.

At this point, of course, as it is a relatively new organization, FONDOMICRO does not yet have the capability to carry out all functions with which it is to be charged. FONDOMICRO does have, however, the basic administrative capabilities needed to embark on the effort.

Its accounting and internal control procedures, personnel policies, etc., have been determined to be appropriate by the Regional Inspector General. The organization's charter, basic structure, and operational policies all appear conducive to the effective operation of the organization. Its Board of Directors, consisting as it does of leading figures from the Dominican Republic's banking, industrial, and trade communities, should play a

major and very valuable role in assuring the sound management of FONDOMICRO, and the attainment of project objectives.

A significant share of project resources will be directed to assisting FONDOMICRO to develop the full range of capabilities it will require to operate its program on a continuing basis.

Some of the significant points regarding FONDOMICRO and its anticipated functioning are as follows:

Organizational Objectives

In accordance with its charter*, the objectives of FONDOMICRO are:

- to improve the existing interrelationship between the various levels of the business community which contribute to the development and growth of the economy, and promote private initiative;
- to strengthen the free enterprise system of the country;
- to obtain financial resources from internal and external sources through grants, loans, bond issues, and any other legal means, in order to channel those resources to the microenterprise sector.

*A copy of FONDOMICRO's charter is attached.

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Organizational Leadership

In accordance with its charter, all authority for the governing FONDOMICRO rate with its Board of Directors. Board members at present are:

- Dr. Andres Dauhajre. President

(Dr. Dauhajre is a leading Dominican economist and is the Executive Director of the Fundacion Economia y Desarrollo, Inc. He is also a key figure in a major retail/merchandising business, and teacher economics at the Universidad Catolica Madre y Maestra.)

- Mr. Luis Molina Achecar. First Vice President

(Mr. Molina is President of the Association of Mortgage Banks, and is Vice President of the Financial Group of the Banco Hipotecario Dominicano, (BHD).)

- Mr. Luis Augusto Ginebra Hernandez

(Mr. Ginebra is the President of the National Council of Businessmen.)

- Mr. Praxedes Castillo. Second Vice President

(Mr. Castillo is a Senior Partner in the law firm, Castillo y Castillo, which specializes in banking law.)

- Mr. Luis Taveras Andujar Treasurer

(Mr. Taveras is General Manager of IBM and a member of the Monetary Board of the Central Bank.)

- Mr. Pedro A. Rodriguez Secretary

(Mr. Rodriguez is past President of the Banco Popular, the largest bank in the Dominican Republic, and is currently the Vice President of the Banco Popular Financial Group.)

- Mr. Camilo Lluberes Director

(Mr. Lluberes is owner of Lineas Maritimas, a shipping company, is the Dominican Republic representative for Cargill International, is a Deputy in the National Congress, is President of ADEMI, and sits on the Board of the Banco Popular Financial Group.)

- Mr. Victor Espaillat Luna Director

(Mr. Espaillat is Chief Executive Officer of Compañia

Industrial Confitera Dominicana, is ex-President of the Santiago Development Association and is a member of the Board of the Banco Popular Financial Group.)

- Mr. Jose Vitienes Director

(Mr. Vitienes is President of Industria Lavador, a major food products groups, and past President of the American Chamber of Commerce.)

- Mr. Frank Rainieri Director

(Mr. Rainieri a leading tourism developer, and is past President of the American Chamber of Commerce.)

- Mr. Felipe Auffant Najri Director

(Mr. Auffant is President of the Federation of Chambers of Commerce and Production.)

Organizational Size and Structure

Given that FONDOMICRO will be interacting with only a limited range of organizations (rather than "retailing" credit directly to the ISME sector), its staffing needs will be modest. As presently seen, a total of 7 to 10 individuals will be required to carry out all activities under the project.

The activities called for under the project will be carried out by and through the following organizational units:

Office of the Executive Director

This office will have responsibility for overall management of the FONDOMICRO effort. It will be the principal liaison office between FONDOMICRO and the donor community.

Financial Support Services Department

This office will have principal responsibility for seeking funding from commercial sources, and for operating FONDOMICRO's lending program. Principal functions will include determining terms under which FONDOMICRO's resources will be provided, conducting credit analyses of NGOs, negotiating lending agreements, monitoring repayments, arranging guarantees, issuing bonds, etc. The Director of Finance Support Service manages the department.

Client Services and Research Department

This office will have principal responsibility for the design and conduct of assistance programs in credit program management for NGOs which require such assistance to help them qualify to receive financial support from FONDOMICRO, and request such assistance. In most cases these assistance

programs will be designed and carried out by organizations contracted by the Client Services and Research Department to perform these tasks. The Department will also have responsibility for the design and conduct of studies and analyses on various matter relevant to the well-being of the/SME sector, or to the effectiveness of the FONDOMICRO program. The Director of Client Services and Research heads the department.

Administration and Information Department

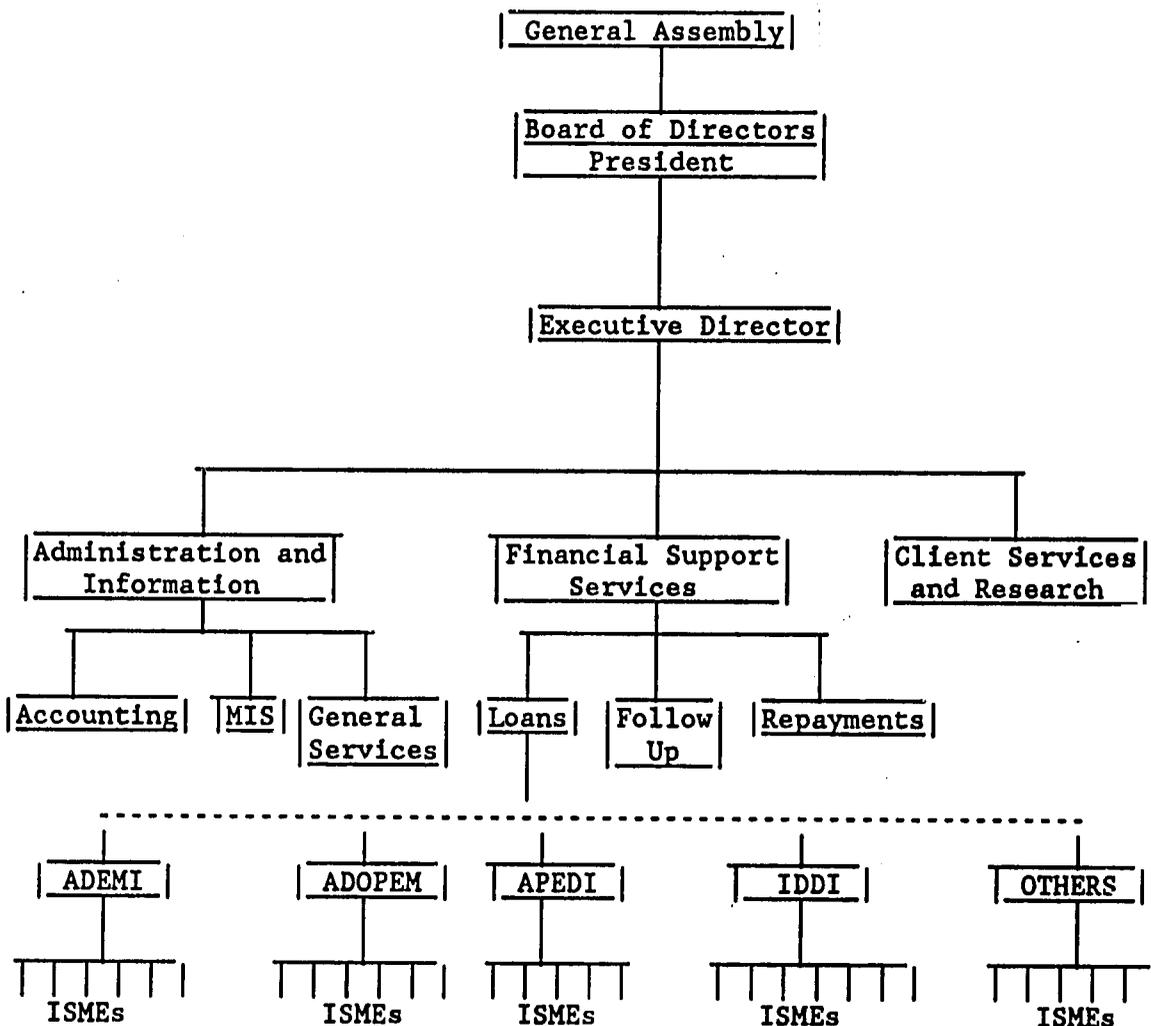
This office will have responsibility for provision of all administrative services (i.e., accounting, procurement, personnel services, etc.), required by FONDOMICRO, and for the development and operation of its computer-based management information system. The Chief of Administration heads the department.

Copies of job descriptions of key FONDOMICRO staff members are attached to this document.

The following chart depicts FONDOMICRO's organizational structure.

FONDO PAR EL FINANCIAMIENTO DE LA MICROEMPRESA, INC.
(FONDOMICRO)

ORGANIGRAMA GENERAL



FONDOMICRO's Financial Self-Sustainability

It is intended that, by the end of the project period, FONDOMICRO will be generating sufficient revenue from the operation of its lending program to cover almost all costs of its entire program. The only exception will be in connection with costs associated with the operation of its credit program management (CPM) assistance program for NGOs attempting to qualify to receive financial resources from FONDOMICRO. If, at the end of this project it is determined that there is still a need for FONDOMICRO to provide that service, intentions are that support will be sought from donors to meet the costs FONDOMICRO incurs in doing so. (As indicated above, plans are that those services will be provided by organizations contracted by FONDOMICRO to provide the services.)

At the end of the project it is anticipated that IPC's recurring operational costs will be those associated with office rent and utilities, staff salaries and benefits, vehicle operation, staff travel, office supplies and equipment, etc. Total amount required annually to meet these costs is estimated to be \$225,000.

As indicated elsewhere in the project paper, it is intended that FONDOMICRO's outstanding loan portfolio by year 7 of the project will be about \$30,000,000. If this portfolio size is reached, FONDOMICRO will be able to meet all operational costs through imposing a charge of less than 1% per annum on loans it makes.

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Given the anticipated very wide spread between the (well below market) cost of funds to FONDOMICRO, and the (market level) interest rates and other charges to be paid by ultimate borrowers, FONDOMICRO's loan portfolio should be able to accommodate this cost quite easily.

B. Technical Assistance

As FONDOMICRO is a relatively new organization and will be undertaking an extremely ambitious program, with a relatively inexperienced staff, the organization will require a substantial level of technical assistance if project objectives are to be fully attained. As presently anticipated, technical assistance may be needed in the following task areas:

- preparation of "business plans", operating budgets, annual implementation plans, and related documents related to project implementation;
- design and development of computerized databases containing relevant information regarding the ISME sector in the D.R., NGOs serving the sector, etc.;
- design and development of a computerized management information system which will contain readily retrievable data on outstanding loans, (including data on terms, repayment schedules, etc.); outstanding obligations of FONDOMICRO; FONDOMICRO's income and expenditures, etc.;

- preparation of promotional literature describing FONDOMICRO's program and services;

- preparation of manuals describing credit application procedures; procedures and criteria to be used in reviewing and approving loan applications; alternative disbursement procedures; etc.;

- establishing procedures to be used in determining appropriate interest rates and other charges to be applied to loans made by FONDOMICRO (including advisability of flexible vs. fixed rates, etc.);

- obtaining and issuing "guarantees";

- issuing different types of bonds;

- most effective means of "leveraging" FONDOMICRO's portfolio;

- assessing credit management capability of different NGOs and designing assistance programs to assist the NGOs to improve same;

- providing the assistance different NGOs require to upgrade their credit management capabilities.

As presently anticipated, FONDOMICRO technical assistance needs will be met principally through two sources:

- a. the "GEMINI" Project being implemented by the Office of Rural Development of the Science and Technology Bureau in AID/W; and
- b. an ISME Credit expert contracted on a personal services basis by USAID/DR (funded by the project).

GEMINI Project

The GEMINI (Growth and Equity through Microenterprise Investments and Institutions) Project is the current principal means through which AID is attempting to catalyze ISME development around the world. GEMINI is a successor to S&T/CD's previous PISCES (Program for Investment in the Small Enterprise Sector) and ARIES (Assistance to Resource Institutions for Enterprise Support) efforts, and is built upon the experiences and knowledge gained through those efforts. As indicated in the GEMINI project paper, the major themes of the worldwide GEMINI effort are:

- Growth and Development of Microenterprise;
- Economic and Social Inspectors of Assistance to Microenterprise
- Sub-sector based analysis and assistance
- Improvement in delivery of non-financed assistance

- Institutional alternatives
- Institutional strengthening
- Women and Microenterprise Growth and Assistance
- Scaling up Microenterprise Program

The GEMINI Project offers solid, experience-based expertise and assistance to ISME organizations and programs throughout the world. It can access the services of virtually all significant practitioners in the ISME field, and can provide assistance in virtually any area associated with ISME sector development. GEMINI Project leadership have expressed strong interest in the effort to be undertaken by FONDOMICRO and are anxious to provide as much assistance as may be needed for the effort.

At this point, plans are that expertise in the following areas in amounts as indicated will be sought from the GEMINI Project (and/or will be sought from S&T/RD's successor project to GEMINI, if any, when the GEMINI Project ends in September 1994):

Technical Assistance Area

Amount TA

- a. Direct assistance to FONDOMICRO:

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-FONDOMICRO internal administration	7 PM
-Database and MIS design and development	4 PM
-Development of credit application/review/ approval/disbursement, etc., procedures, and related manuals.	4 PM
-Determining and fixing appropriate interest rates and charges.	1 PM
-Use of different financing instrument - i.e., guarantees, bonds, etc.	2 PM
-Assessing credit management capability of NGOs	6 PM
-Designing appropriate assistance programs for NGOs to improve their credit program management capabilities.	6 PM
-	
Subtotal	30 PM

b. Assistance provided to NGOs on FONDOMICRO's
behalf (to assist the NGOs in improving credit
program management capability):

-Development of "business plans" and strategic plans".	8 PM
-Design and development of improved accounting procedures and systems.	16 PM
-Design development of organizational structure	6 PM

needed to maximize effectiveness of credit operations.

- Design and development of improved credit management capability (applicant analysis, loan disbursement and collection techniques, lending methodologies, determining and establishing appropriate rates, etc.) 24 PM
- Design and development of improved information systems. 6 PM
- Organization and conduct of workshops/seminars on service relevant topics. 10 PM

Subtotal 70 PM

Total 100 PM

Approximately 30 person-months of the TA outlined above will be provided by a resident expert provided by the GEMINI project- who will probably be a Dominican national. Of the remaining 70 person-months of TA, approximately half will be provided by Dominican organizations sub-contracted by the GEMINI project to provide the assistance. The GEMINI Project TA team leader will report to the Executive Director of FONDOMICRO.

ISME Program Manager

The ISME Credit Expert to be contracted on a personal services

basis by the USAID Mission will have a crucial role in assuring the success of the project, and the attainment of all project objectives. This individual's principal functions will be:

- to assure that all required support from the USAID Mission in Santo Domingo needed by FONDOMICRO is provided in a timely fashion (i.e., assistance in obtaining disbursements in a timely fashion, assistance in issuing RFPs and negotiating contracts, assistance in obtaining evaluations and audits of project activities, etc.);

- jointly with FONDOMICRO management, to determine the appropriate timing of TA needed through the GEMINI Project, and to arrange for timely availability of the needed TA. (Given that there will be no resident TA provided through the GEMINI project, this function is particularly important);

- assisting FONDOMICRO in complying with all terms under which assistance is provided by AID;

- monitoring all aspects of FONDOMICRO's performance under the project, determining where modifications in performance might be useful, and providing the advice and assistance needed by FONDOMICRO to modify performance.

Present plans are that the services of this individual will be

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provided for the entire life of the project.

C. FONDOMICRO's Clientele - the NGOs Serving the ISME Sector

As mentioned in other sections of this Project Paper, literally scores of NGOs have emerged in the Dominican Republic over the years and become active in efforts to promote the well-being of the ISME sector. These NGOs range in size from 1-2 person operations serving clienteles of 10-50 individuals to organizations the size of ADEMI -with a staff of about 150 and a clientele of about 6,000. Some of the NGOs are legally incorporated, most are not. Some are affiliated with churches or co-ops, and some are independent. Some have received support from one or more donor agencies, and some haven't. Most of the organizations attempt to provide a range of services to their clients -training, marketing assistance, procurement assistance- as well as credit, and some specialize in just one area. A recently concluded assessment of these NGOs concluded that, between and among them, these organizations have had contact with and can reach some 60-70% of all ISME operators.

These NGOs, as indicated, are the anticipated clientele of FONDOMICRO. It is with and through them that the financial resources FONDOMICRO is charged with capturing are to be provided to the ISME sector. Although this will not occur during the life of this project, it is hoped and expected that given enough time, enough of these organizations will qualify to obtain resources from FONDOMICRO that the credit needs of the entire ISME sector will be met.

During the life of this project, it is hoped and expected that some 6-10 of these organizations will qualify to receive credit from FONDOMICRO and that, through these organizations, a total of some 10,000-40,000 ISME operators will obtain access to reliably available, reasonably priced credit. The most likely beneficiaries of FONDOMICRO's program are the following NGOs:

Asociacion para el Desarrollo de Microempresas (ADEMI). ADEMI was established in 1982 as the first development program in the country exclusively devoted to the ISME sector. It initiated operations in 1983, with assistance from Accion International. ADEMI's program is by far the biggest and most successful of all the NGOs serving the ISME sector in the D.R. As of October 1988, ADEMI had provided 20,716 loans to 5,479 ISMEs. The total value of the loans amounted to RD\$32.0 million (US\$6.0 million). Clientele have been 68% male and 32% female. Approximately 87% of borrowers are involved in production activities, 13% are involved in trade and commerce.

The Asociacion para la Promocion de la Mujer, Inc. (ADOPEM). ADOPEM was formally established in 1982 as an affiliated program of Women's World Banking, a U.S.-based NGO. Its credit and technical assistance programs are exclusively targeted on women. Since its inception, ADOPEM has provided 2,670 loans to 1,609 women, located in 6 cities, with a total value of RD\$4,600,000. About 47% of its borrowers are involved in production activities, (mainly, food and cloth production, and cottage crafts), another 33% are involved in commerce, (generally selling clothing), and 20% are involved in services, such as hairdressing and nurseries.

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The Asociacion para el Desarrollo, Inc. (APEDI). APEDI initiated its credit program in 1982 in Santiago, the second largest city in the country. The program was assisted by Appropriate Technology International. Since the inception of its credit program, APEDI has made some 566 loans to 526 microenterprises and 413 loans to 366 associative groups. Total value of credit disbursed is RD\$7.4 million.

Asociacion para Inversion y Empleo (ASPIRE). This organization, which began in 1983, originally had ties with several evangelical churches but in the last few years has become secular. In 1988 it received a grant of US\$82,685 from the Inter-American Foundation for microenterprise lending in areas targeted for diversification from sugar production, i.e., the province of Altagracia. Its portfolio in October 1989 was about RD\$1,000,000.

Asociacion para el Desarrollo de la Provincia Espaillat (ADEPE). ADEPE is a development association located in Moca. In 1987 it received the equivalent of US\$500,000 from the IDB for a credit program for small farmers and microenterprises. In October of 1989 its outstanding portfolio of microenterprise loans was RD\$782,772.

Fundacion Dominicana de Desarrollo (FDD). FDD is one of the oldest NGOs in the Dominican Republic to operate a microenterprise credit program. It lends to small farmers and microentrepreneurs and receives support from a number of European donor organizations, and also has a line of credit from Chase Manhattan Bank. Its portfolio for microenterprise lending in October 1989 was RD\$4,000,080.

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Instituto para el Desarrollo Integral, Inc. (IDDI). In 1987, IDDI initiated a microenterprise program in la Zurza, one of the most populous and poorest barrios in Santo Domingo. Prior to this program, IDDI had been operating for about three years, working in such diverse programs as infrastructure development, home improvement, squatter upgrading, family planning, and environmental protection. IDDI's methodology substantially differs from those of ADEMI, ADOPEM, and APEDI. It promotes an "integrated development approach" based on the provision of an array of programs and services to individuals, groups and associations, located in poor barrios of Santo Domingo. These programs and services include credit, technical assistance, and training and are combined with community organization, consciousness raising, health care, development of leadership, and environmental protection.

IDDI has delivered a total of 1,406 loans to 436 program beneficiaries including: solidarity groups (306 loans); microenterprises (610 loans) and microretailers (490). The total value of the loans disbursed is RD\$6.0 million. Average loan size has been about US\$180. Women comprise only 7% of the program beneficiaries. IDDI services both micro (85%) and small business. Sixty-five percent of borrowers are engaged in production enterprises, and the balance in commerce and trade.

Mujeres en Desarrollo Dominicana, Inc. (MUDE). MUDE was founded in 1980 and is headquartered in Santo Domingo. It operates credit programs for disadvantaged rural women, including a credit program for female micro-

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entrepreneurs in agroindustry. It has received resources from the IDB, the United Nations, the Inter-American Foundation and various European donors. Its portfolio in October 1989 was RD\$2,200,000.

Programa de Promocion de Pequeñas Empresas (PROPE). PROPE is located in San Francisco de Macoris and is supported by the Development Association for Duarte Province. PROPE was started as a Technical Assistance Center (TAC) in AID's Small Industry Development Project. It currently supervises a RD\$4.3 million portfolio of bank loans which had been extended during that project. It also has a small portfolio -RD\$30,000- of loans which it has made directly to microenterprises using private donations it has received from residents of San Francisco.

The above organizations are considered to be likely prospects for qualifying to receive support from FONDOMICRO because a) they are legally established entities; b) they are operating credit programs (or have done so in the past), and c) they have expressed interest in receiving such support. (It is also fully anticipated, however, that not all the organizations mentioned will necessarily qualify to receive credit from FONDOMICRO. Insofar, as its resource base permits, FONDOMICRO will attempt to serve all NGOs which qualify to receive support.)

In order to qualify to receive support from FONDOMICRO, NGOs must meet the following criteria:

- they must be legally incorporated and recognized as a juristic person;

- they must have been functioning for at least one year and have a clientele of at least 200 borrowers;

- they must have established office facilities;

- they must have a functioning board of directors, a full-time manager or program director, and established office facilities;

- they must have an adequate and well-maintained accounting system (including statements of income and expenses, balance sheets, charts of accounts, etc.). The make-up and functioning of its accounting system must be prescribed in writing. The accounting system must be such to allow adequate tracking of income and expenditures, sources and uses of funds, a proper balance sheet, etc.;

- the NGO's approach, philosophy and policy regarding credit to the ISMe sector must be consistent with that of FONDOMICRO -i.e., they must call for "full-cost" credit, quick review and approval of applications, rapid disbursement of loans, etc.;

- they must have established, written procedures for analyzing credit requests, and these procedures should be such as to lead to correct

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decisions as to provision of credit (i.e., they should include analysis of such factors as: previous loan repayment history, existing debt of proposed borrower, ability of the enterprise to generate sufficient revenue to service the loan, general reputation of the proposed borrower, proposed use of the credit, etc.);

- they must have established, written procedures for disbursing loans and collecting repayments and these procedures must be reasonable and appropriate;

- they must have and maintain good records on all aspects of their credit programs (names and addresses of all borrowers, amounts borrowed, interest rates, repayment schedules, repayment histories, type of business, number of employees, etc.). Their records must be such as to allow quick and reliable identification and assessment of problem loans, bad loans, overdue loans, etc.;

- they must have externally audited financial statements describing their financial status for the past three years, and these statements must demonstrate prudent and appropriate management of the NGOs resources (if the NGO has been operational for less than three years, financial statements covering the shorter period are required);

- if the NGO operates support programs other than and in addition to its credit program, it must have accounting procedures in place

that allow for separate accounting of disbursements, costs, income, etc., related to its credit program, and disbursements, costs, income, etc., related to its other programs. It must have regulations and policies in place that call for loan repayments to be used first for meeting all costs associated with operation of the credit program (including maintenance of the organization's lending base) before any loan repayment revenues may be diverted for use in meeting costs associated with operation of the non-credit programs operated by the NGO.;

- they must charge positive, real interest rates on loans (rates should be at least the rate currently being charged by commercial banks to other than their favored borrowers, plus sufficient spread to cover all costs NGO incurs in operating its credit program, plus a bad debt reserve).

The criteria outlined above are intended, obviously, to help assure that FONDOMICRO makes loans only to those NGOs which can repay the loans. (FONDOMICRO's survival and its continuing ability to channel credit resources to the ISME sector depends almost entirely upon its ability to make the correct judgments regarding credit-worthiness of NGOs seeking its resources.)

At this point, as suggested previously, most of the NGOs discussed above or mentioned above would not meet all the criteria required to qualify to borrow funds from FONDOMICRO. In some cases, their accounting and internal control systems are inadequate, in others their records keeping is sloppy. Some still espouse no-interest or subsidized interest lending. Some make

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inadequate efforts to judge credit worthiness of potential borrowers and/or make inadequate efforts to assure repayment of loans. Some condition their lending upon borrowers accepting other services -and do not properly segregate the costs of provision of other services with the costs of operating the credit program.

The principal function of FONDOMICRO's Client Services and Research Department will be to provide these NGOs with the assistance they require to improve their operations to a point wherein FONDOMICRO's Financial Support Services department will determine that they are acceptable credit risks and are eligible to receive financial resources from FONDOMICRO. The assistance to be provided by FONDOMICRO's Client Service Department will be in the form of the services of technical experts who will work with individual NGOs to improve areas where their performance and/or structure is not consistent with that required by FONDOMICRO. The experts will help in designing/establishing/ installing improved systems, training NGO staff in operation of the improved systems, monitoring performance of improved systems, etc. As and when this may be necessary and appropriate, FONDOMICRO may provide limited commodity assistance (i.e., computers) to some NGOs to assist them to improve operations and/or may sponsor participation of some staff of some NGOs at selected training courses.

Based upon previous experience working with NGOs operating credit programs in the D.R. (particularly the experience gained under the S&T Bureau's ARIES project), it appears that significantly different amounts of TA

will be required by different NGOs in order to qualify for borrowing from FONDOMICRO. Dependent upon the present sophistication and effectiveness of the NGO's program, number of person-months of TA required could range from none (in the case of ADEMI and ADOPEM), to 4-5 (in the case of IDDI and APEDI) to 8-9 (in the case of FDD, MUDE, etc.) (No amount of TA will have an impact on increasing the effectiveness of an NGOs credit program unless the NGO is in general philosophical agreement with FONDOMICRO on key points surrounding the operation of credit program -i.e., real, positive interest rates, etc.)

Preliminary estimates of the TA requirements of each of the NGOs mentioned above were used in developing the overall projection of TA to be sought through the GEMINI Project indicated above.

D. A.I.D.

Implementation of the project will be monitored, and assisted, principally by the Private Enterprise Division (PED) of USAID/DR. PED will identify and arrange for contracting of an ISME Program Manager to serve as the AID Project Manager for the project, and to provide technical input on all significant project matters. (Description of this individual's principal functions is included above in the section on "Technical Assistance".) Support in project implementation will also be provided by the Mission's Contracts Office, which will give advice on procurement matters, by the Controller's Office, which will arrange for periodic audits, and the Project Support Office, which will assist in arranging and implementing evaluations of the project.

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provided for the entire life of the project.

C. FONDOMICRO's Clientele - the NGOs Serving the ISME Sector

As mentioned in other sections of this Project Paper, literally scores of NGOs have emerged in the Dominican Republic over the years and become active in efforts to promote the well-being of the ISME sector. These NGOs range in size from 1-2 person operations serving clienteles of 10-50 individuals to organizations the size of ADEMI -with a staff of about 150 and a clientele of about 6,000. Some of the NGOs are legally incorporated, most are not. Some are affiliated with churches or co-ops, and some are independent. Some have received support from one or more donor agencies, and some haven't. Most of the organizations attempt to provide a range of services to their clients -training, marketing assistance, procurement assistance- as well as credit, and some specialize in just one area. A recently concluded assessment of these NGOs concluded that, between and among them, these organizations have had contact with and can reach some 60-70% of all ISME operators.

These NGOs, as indicated, are the anticipated clientele of FONDOMICRO. It is with and through them that the financial resources FONDOMICRO is charged with capturing are to be provided to the ISME sector. **Although this will not occur during the life of this project, it is hoped and expected that given enough time, enough of these organizations will qualify to obtain resources from FONDOMICRO that the credit needs of the entire ISME sector will be met.**

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SCOPE OF WORK

Micro and Small Business Program Manager

Objective

The contractor will provide services as a Micro and Small Business Program Manager for a period of up to 30 months. The Contractor will work in the Private Enterprise Division of USAID/DR and will be responsible for monitoring activities and providing technical advice for a project (the Micro and Small Business Development Project) under which AID is supporting the establishment and functioning of FONDOMICRO, a private organization which will have the continuing function of obtaining and providing the financing needed by NGOs operating credit programs in the D.R. Specific duties will include:

- becoming totally familiar with the Micro and Small Business Development Project - its origins, its objectives, current status, etc.

- developing a thorough understanding of the informal small and micro enterprise (ISME) sector in the Dominican Republic. This will involve becoming knowledgeable about the size and characteristics of the sector, governmental policy affecting the sector, principal organizations involved in the sector, factors constraining the growth of the sector, etc.

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- developing effective working relationships with leadership and staff of FONDOMICRO and principal NGOs working in the ISME sector. Becoming aware of responsibilities, capabilities, and functioning of different staff members, departments, etc.

- advising and assisting FONDOMICRO in the planning and implementation of its financial support and credit management improvement programs.

- advising and assisting FONDOMICRO in planning and implementation of various organizational development/organizational improvement activities, with an eye to assuring maximally effective utilization of resources available to the organization. Activities could include: proposing (and participating in staff training, making assessments of effectiveness of different activities, proposing re-distribution of particular responsibilities, etc.

- advising and assisting FONDOMICRO in the selection of various suppliers of goods and services needed by the organization, in negotiating optimal procurement arrangements, and in obtaining agreed upon goods and services from the suppliers.

- advising and assisting FONDOMICRO in identification of particular "governmental policy modification" objectives, and in designing and implementing campaigns aimed at bringing about targeted policy modifications.

- assuring that FONDOMICRO leadership and staff are fully aware of, understand, and comply with all relevant AID regulations and policies - and with all terms of their Cooperative Agreement with AID.

- assisting FONDOMICRO to prepare all reports and other documents required by AID (including financial reports), and making sure these reports and other documents are properly and expeditiously processed through AID.

- preparing periodic reports, assessments, and/or analyses on the overall status of the Micro and Small Business Promotion Project, and/or various matters of interest regarding the project as may be assigned.

- preparing drafts of correspondence providing guidance and/or information to IPC and other organizations on various matters of concern for the project.

- keeping AID management advised at all times of status of the project, progress being attained, and problems being encountered.

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STATEMENT OF WORK

I. TITLE

Technical Assistance to FONDOMICRO and its clients.

II. OBJECTIVE

The objectives of the buy-in are 1) to provide technical assistance to FONDOMICRO, an innovative non-government institution established to link local and international financial markets with NGO-based microenterprise programs, 2) to provide technical assistance to the NGOs that are clients of FONDOMICRO, and 3) to document the experience of FONDOMICRO as a demonstration project under GEMINI's action research program, "The Frontiers of Financial Assistance to Microenterprise".

III. BACKGROUND

FONDOMICRO is a private, non-profit organization in the Dominican Republic, created with funding from USAID/Dominican Republic. It is a "second level" microenterprise funding organization, whose purpose are to on-lend donor, government, and commercial funds to NGOs for microenterprise credit programs, and simultaneously, to encourage the upgrading of NGO capacity.

Because of its significance, GEMINI has selected FONDOMICRO as a demonstration project under its Action Research Program (ARP) entitled "The Frontiers of Financial Assistance to Microenterprises". FONDOMICRO will be a demonstration project under two streams of that ARP, one on the growth and dynamics of microenterprise credit institutions, and another on microenterprise credit in the financial system.

As stated in the GEMINI core contract,

Demonstration projects in this context will consist of projects or programs which are in process or just starting under A.I.D. and/or PVO sponsorship. To initiate a demonstration, the sponsoring organizations will agree to incorporate experimental elements into their project designs and to receive periodic technical assistance from the contractor in doing so. The contractor will observe and evaluate these projects during a two to three year period.

USAID/Dominican Republic and GEMINI have agreed to carry out this demonstration effort together, as follows:

- ◆ USAID/DR will finance the technical assistance to FONDOMICRO and to the NGOs as a buy-in to GEMINI.
- ◆ The GEMINI project core will finance documentation of the demonstration effort, and the development of any training packages that draw on FONDOMICRO experience, including using the project as the subject for teaching cases.

This scope of work describes the technical assistance inputs that GEMINI will provide with USAID/DR funding.

IV. SCOPE OF WORK

The contractor will provide approximately 50 person-months of technical assistance in support of FONDOMICRO over a two-year period. Eighteen-months of the assistance will be in the form of a long-term expatriate technical advisor and the remaining 32 person-months as short-term technical assistance. It is anticipated that approximately 11 person-months of the short-term assistance will be provided by US-based advisors and 21 person-months from Dominican sources.

The technical assistance will serve two purposes: to strengthen the capacity of FONDOMICRO itself; and, to provide direct assistance to potential client NGOs. It is also anticipated that some effort will be devoted to providing US-based support to the project. The substantive areas for technical assistance are outlined below, but the precise needs will be detailed in the annual technical assistance plan (see below).

A. Long-Term Expatriate Advisor

The long-term (resident) expatriate technical advisor will coordinate the delivery of GEMINI technical assistance to FONDOMICRO for 18 months from the start of this buy-in and will have substantive oversight over key technical assistance deliverables during this period. This advisor will be responsible for the following tasks and outputs:

- ◆ develop annual technical assistance plans in conjunction with USAID, FONDOMICRO, and GEMINI;
- ◆ develop detailed scopes of work for specialized short-term technical assistance assignments;
- ◆ coordinate short-term specialized technical assistance;

- ♦ Assist FONDOMICRO with their reporting to A.I.D.

The long-term technical advisor will be in continuous communication with GEMINI project management in Washington, and will report directly to the Executive Director of FONDOMICRO in the Dominican Republic. The long-term advisor will also serve as liaison between FONDOMICRO (represented by the director) and USAID (represented by USAID/DR's Project Advisor).

B. Short-Term Advisor

1. Technical Assistance to FONDOMICRO

The Assistance to be provided by the contractor in the first two years of the project will focus primarily on the institutional strengthening of FONDOMICRO. Approximately 18 person-months of short-term technical assistance will be required in three areas: development of FONDOMICRO's internal institutional capability; development and implementation of their credit program, and development of their capability to provide credit management assistance to NGOs. The attached technical assistance plan provides the detailed allocation of technical assistance activity. In support of this activity, the contractor will carry out the following tasks over the next two years, resulting in the deliverables specified below:

- review and advise FONDOMICRO on the following documents: business plans, operating budgets, annual implementation plans, and other documents related to project implementation;
- design and develop a computerized database containing relevant information on the ISME sector in the Dominican Republic; the size, nature, and functioning of NGOs serving the sector, etc.
- design and develop a computerized Management Information System. The system will need to allow FONDOMICRO to access data on FONDOMICRO's past and existing grants and loans; performance of outstanding loans, etc. The contractor will assist with staff training, use, and maintenance of the MIS during the first year of project implementation.
- develop a manual detailing guidelines governing the operation of FONDOMICRO's Credit Program. The manual will include guidelines for the following:

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- assessing NGO's eligibility to borrow from FONDOMICRO;
 - assessing which NGOs are acceptable credit risks;
 - procedures for reviews and making decisions on loan requests;
 - procedures governing use of loan re-flows;
 - procedures for determining amounts that may be borrowed by different NGOs;
 - procedures for establishing a delinquent debt reserve;
 - following up on problem loans;
 - providing "guarantees" on loans made by banks directly to NGOs;
 - assessing effective means of "leveraging" FONDOMICRO's portfolio;
 - disposing of FONDOMICRO assets in the event of dissolution of the organization.
- establish procedures for determining interest rates and other charges, including advisability of flexible versus fixed rates (note results of this task will feed into development of the credit manual discussed above);
 - establish procedures for assessing the credit management capability of different NGOs and designing assistance programs to assist the NGOs to improve same;
 - set up and deliver short training courses relevant to the further professional development of FONDOMICRO staff members (some offshore, some on-shore);
 - prepare promotional literature describing FONDOMICRO's program and services.

2. Technical Assistance to FONDOMICRO Clients

The other main aspect of the technical assistance to be provided by the contractor is the provision of assistance, specifically credit management assistance, to the NGOs seen as the prospective clients of FONDOMICRO. This activity will involve approximately 26 person-months in the form of short-term technical assistance. Approximately two-thirds of these person-months will be provided by Dominican nationals, whose services will be arranged by Dominican organizations under subcontract with the GEMINI project. It is anticipated that GEMINI will

provide assistance to approximately 5 NGO programs. This assistance will focus on improving the capacity of NGOs to administer credit programs to the point where they can be considered eligible borrowers from FONDOMICRO according to the criteria laid out in the credit manual. The technical experts will work with individual NGOs to improve areas where performance is weak and/or where the structure of their credit programs is not consistent with FONDOMICRO requirements. In particular, technical assistance will focus on the following areas:

- development of business plans and strategic plans;
- design and development of improved accounting procedures and systems;
- design and development of organizational structure needed to maximize effectiveness of credit operations;
- design and development of improved credit management capability (applicant analysis, loan disbursement and collection techniques, lending methodologies, determining and establishing appropriate rates, etc.);
- design and development of improved information systems;
- organization and conduct of relevant workshops/seminars.

It is anticipated that different NGOs' needs for technical assistance will vary between 1 and 10 person-months in order to attain the required operational capability.

Reports

The Contractor is to provide quarterly reports of progress made and problems being encountered under this effort. Two copies of each report are to be provided to FONDOMICRO and USAID/DR.

**LEVEL OF EFFORT REQUIRED
FONDOMICRO TECHNICAL ASSISTANCE REQUIREMENTS**

	YEAR 1			YEAR 2				
	Pers Mos	LT Adv	ST Adv	Dom Adv	Pers Mos	LT Adv	ST Adv	Dom Adv
Project Management								
Coordination w/AID	0.75	0.50	0.25		0.75	0.50	0.25	
Coordination of TA	0.75	0.50	0.25		0.75	0.50	0.25	
Reporting	0.50	0.50			1.00	1.00		
Procurement	1.00	0.50	0.50		0.50		0.50	
Assistance to FM								
Internal Admin	1.00	1.00						
MIS Development	6.00		2.00	4.00				
Credit Proc & Manuals	3.00	2.00	1.00					
Financial Innovations								
Client Assessment	3.00	2.00	1.00		2.00	1.00	1.00	
Client Asst Design	1.00	1.00			2.00	1.00	1.00	
Assistance to FM Clients								
Planning	1.00	1.00			3.00	1.00		2.00
Accounting Systems					3.00			3.00
Org Development	1.00	1.00			4.00	1.00	1.00	2.00
Credit Management					6.00			6.00
MIS					3.00			3.00
Workshops	3.00	1.00	1.00	1.00	2.00	1.00	1.00	
	22.00	11.00	6.00	5.00	28.00	7.00	5.00	16.00

MICRO AND SMALL BUSINESS DEVELOPMENT PROJECT

Technical Analysis

Project Summary

The purpose of the project, as stated above, is to develop FONDOMICRO into a viable, financially self-sustaining organization which is efficiently providing the financing and related administrative assistance needed by NGOs operating credit programs for the ISME sector.

As indicated by the purpose statement, while FONDOMICRO will have a number of functions, its principal role will be that of a finance institution. Like all finance institutions, it will seek to obtain funds from a number of sources, and it will make the resources it obtains available to others. As loans are repaid the resources will become available for re-lending. Through interest rates and other charges it imposes upon funds it lends out, it expects to generate sufficient income: to repay all funds it has borrowed; to develop an equity base sizeable enough to allow it to borrow all funds it needs for on-lending to NGOs; to cover all expenses it incurs in the operation of its credit programs -in short, to stay in business.

Principal anticipated sources of funds for FONDOMICRO are AID and the GODR the Interamerican Development Bank, other bilateral donors, and the commercial banking sector in the D.R.

FONDOMICRO's clientele are to be the NGOs which are currently operating credit programs for the ISME sector, and who can greatly expand the size of their credit programs if additional resources were made available to them. These NGOs would borrow funds from FONDOMICRO, agreeing to pay the interest rates and other charges fixed by FONDOMICRO, and on-lend the funds to their clients -the ISME operators. They would also, of course, add further charges to the loans they are making to the ISME operators to cover their own costs of operation.

Because of the profitable nature of many ISME enterprises, they would be able to pay the full cost of the credit provided to them, and still be able to operate and expand their businesses.

In addition to factors demonstrating its sound establishment as an institution, the success of FONDOMICRO will also be measured by the increase in the number of ISME operators obtaining loans and (as a result of availability of the loans), expanding their businesses and the number of people employed in them. Based, essentially, on estimates of the capacity of NGOs to effectively service much expanded clienteles, it is hoped that by the end of the project, a much greater number of ISME operations will have reliable access to reasonably priced credit than is presently the case.

The principal technical issues and questions affecting project implementation and prospects for successful attainment of objectives are the following:

1. What is the most reasonable target for the project in terms of numbers of ISME operators who can gain reliable access to reasonably priced credit?

As indicated in the MSI study, approximately 87,000 of the 145,000 ISME operators in the DR want and would take advantage of reasonably priced credit if it were available, but only about 10,000 currently have access, leaving an unmet demand on the part of 77,000 ISME operators. This number, therefore, constitutes the actual existing potential market for credit provided by FONDOMICRO. The only organized source of credit for ISME operators are the NGOs operating credit programs for the ISME sector. The capability of these NGOs effectively to service the ISME sector, therefore, is a key factor in determining realistic targets for numbers of ISMEs to be served.

At present, between and among the NGOs operating significantly sized programs, about 10,000 ISME operators are receiving credit. Almost all the NGOs are facing administrative and other problems in operating their present programs. While expansion of their clienteles is possible and desirable, in most cases, prudence suggests that expansion should be at a pace commensurate with the NGOs' ability effectively to administer expanded programs. While the situation will vary among NGOs, an average expansion in number of clients and size of their loan portfolios of about 20% per year has been found to be an achievable and desirable level for most. An annual 20% expansion in the number of ISME operators currently receiving credit (i.e., 10,000) would, at the end of 7 years, result in a situation where approximately 36,000 ISME operators had access to reasonably priced credit. Depending on the average

amount of credit required and desired by each ISME operator, this would entail a requirement that the equivalent of between \$18,000,000 and \$43,200,000 in credit be available to the sector (in constant 1990 dollars): (If the current average loan made by NGOs to ISME operators is maintained, the lower figure would apply. The higher figure would apply if the average amount ISME operators indicated they needed in the MSI study were to be available.) The project designers believe that selecting a figure midway between the two extremes would be most reasonable (as this would accommodate the fact that, reflecting NGOs desire to assist as many clients as possible with limited resources, the average loan provided by NGOs has probably been lower than the amount actually needed by the borrowers, and the fact that the businesses of many ISME operators couldn't support a loan of the size they indicate they would like). The midway point between \$500 and \$1,200 is \$850.

The above calculations suggest that a project which could result in 36,000 ISME operators having access to a lending portfolio of about \$30,000,000-\$35,000,000 would be reasonable given the 7-year life of the effort.

2. Can \$30,000,000 in Credit be Made Available to the ISME Sector? If so, how?

At present, total amount of funds available for lending to the ISME sector comes to about \$5,000,000. These are the resources currently being managed by the NGOs operating credit programs for the ISME sector. Almost all those resources come from donor agencies (including AID) and the multilateral banks.

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\$30,000,000 is six times as much as the amount currently available to the sector. It is a very sizeable amount and, clearly, given the many competing claims on donors' resources, it is beyond the capability of donor agencies to make that amount available for FONDOMICRO.

Because attainment of the ultimate objective of this project requires that FONDOMICRO be able to reliably tap a variety of funding sources -principally the commercial banking sector- on a continuing basis (in order to assure adequate levels of resources for the ISME sector) it is not desirable that FONDOMICRO's resources come exclusively from donor agencies during the life of the project. Rather, as FONDOMICRO's long term effectiveness and usefulness depends substantially upon its ability to deal with the commercial banking sector, it is important that FONDOMICRO become experienced in doing so during the life of the project.

Because of the foregoing -i.e., the inability of donor agencies to provide all resources needed, and the need for FONDOMICRO to develop experience and expertise in accessing resources from the commercial banking sector- FONDOMICRO will attempt to secure resources from the commercial banking sector to supplement the resources being provided by AID, the GODR, and other donors, during the life of the project.

As presently anticipated, FONDOMICRO's credit fund will come from the following sources:

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AID (through this project)	\$ 3,500,000
GODR (through local currency resources generated from AID sources).	\$ 2,000,000
IDB	\$ 8,000,000
Other bilateral donors	\$ 2,500,000
Commercial Banks, private investors, debt swaps.	\$14,000,000
Total	\$30,000,000

Some information regarding terms and conditions under which the funds are expected to be available follows.

- The \$3,500,000 in credit funds to be provided by AID will be in the form of a grant to FONDOMICRO, the terms of which will require that it can be used only for making (or guaranteeing) loans to NGOs operating credit programs. The \$3,500,000 will be disbursed to FONDOMICRO (in DR\$ equivalent) as it is needed by FONDOMICRO to make loans. It is anticipated that all \$3,500,000 will have been disbursed to FONDOMICRO by the end of year 4 of the project.
- The DR\$ equivalent of US\$2,000,000 to be provided by the GODR will be made available in the form of a "conditional loan" to FONDOMICRO by the Technical Secretariat of the Presidency (STP) using funds generated from AID's PL-480 or ESF programs. As a "conditional

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loan", STP may decide to convert the funds into a grant to FONDOMICRO if, at the end of the project, it determines that the project has been successful.

STP-provided funds, at present, carry a 24% p.a. interest rate, and 2-year grace period before repayment must be made. As FONDOMICRO has no assurance that the loan will be converted to a grant, it will have to on-lend the funds with terms that assure its ability to service a 24% p.a. interest rate on the funds (or whatever rate is relevant at the time). The funds will be disbursed to FONDOMICRO upon its request as they are needed to make loans to NGOs. Probably, all funds will be disbursed to FONDOMICRO by the end of year 2.

- The IDB has "pre-programmed" a loan to FONDOMICRO of US\$8,000,000. The loan will be through the GODR, which will guarantee repayment. IDB's terms call for repayment within 40 years, with a 10 year grace period, with interest at 2% p.a. to the GODR. Interest rate payable by FONDOMICRO will probably be at 15%. The funds would probably be available anytime after the end of year 1 of the project. Plans are that they be accessed and disbursed starting in year 3 of the project.
- Other Bilateral Donors. At present, a number of donors in addition to AID are providing significant levels of grant support to NGOs

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servicing the ISME sector. These are: the Interamerican Foundation, the Deutsche Gesellschaft fur Technische (GTZ), and the Deutsche Welthungerhilfe (DWHH), and the Swiss Development Corp., etc. Between them, a total of approximately \$500,000 per year is being provided to the NGOs. While a good percentage of those resources are used to meet costs other than credit, approximately \$350,000 is used for credit. During the life of the project, FONDOMICRO will endeavor to obtain at least that level of support from these donors.

The bulk of the funds to be sought from the commercial banking sector will not be available until after FONDOMICRO has been operating its (donor-funded) lending program for several years, and, based upon its experience in operating its programs, is able to demonstrate its credit-worthiness. Funds would be available from the commercial banks at normal commercial rates (currently about 32% p.a.). Most likely, most of the credit for FONDOMICRO would be in the form of lines of credit which would be secured by FONDOMICRO's outstanding loan portfolio to various NGOs. In addition to lines of credit, FONDOMICRO will also possibly seek to obtain credit by issuing its own commercial paper (I.O.U.s or "pagares" with tenures of 15-150 days). These would be particularly useful to FONDOMICRO for covering short term liquidity needs. The commercial paper would also be backed by FONDOMICRO's portfolio.

Other Sources. While it is anticipated that FONDOMICRO will be able to obtain enough credit from the commercial banking sector to meet all the needs of its clients that will not be met using donor-provided funds, it is also possible that FONDOMICRO might avail itself of some other potential sources of funds -either because it was not able to obtain adequate amounts from the sources listed above, or because better terms might be available through these other sources. Principal alternative sources presently contemplated include the following:

a) Bond Issues. Once its name and reputation become known, FONDOMICRO could consider issuing different types of bonds. Depending upon the elements of FONDOMICRO's portfolio that were used to back the bond issue, and the intended use of the proceeds of the sale of the bonds, it might even be possible for FONDOMICRO to issue tax-exempt bonds. FONDOMICRO bonds, for example, might carry a 12% per year coupon rate, but sell at a 50% discount against face value, therefore, yielding 18% to the purchaser. A bank would charge a 4% to guarantee and sell the bond. Total cost to FONDOMICRO would thus be 22%.

Because of the absence of a capital market in the D.R., sale of the bonds would have to be by a bank, or by FONDOMICRO itself. This would not be a simple or easy operation. Accordingly, full attainment of project objectives is not depending upon availability of funding raised through bond issues.

b) Debt Swaps. In accordance with current regulations and policies of the Central Bank, it is theoretically possible for organizations like FONDOMICRO to obtain outstanding US dollar-denominated Dominican government debt at prices substantially below the face value of the debt, and then convert the debt for Dominican pesos at a rate that would result in FONDOMICRO's obtaining a substantial premium over the amount it would have received through a normal exchange of dollars for pesos.

Implementation details of the GODR's debt swap program are still somewhat uncertain. When clarified however, given the potentially significant benefit that may be obtained through this option, FONDOMICRO will actively pursue the option.

c) Loan Guarantees. With a guarantee, FONDOMICRO would be making it easier for one of its NGO clients to directly borrow funds from a commercial bank. In providing a guarantee, FONDOMICRO would be guaranteeing the lending bank that, in event of a default by the NGO, FONDOMICRO would repay the loan. The loan would still be backed by the NGO's portfolio, and FONDOMICRO would have to resource this portfolio in event of a default.

FONDOMICRO would normally only issue a guarantee when it had no funds of its own to lend (i.e., when an unexpected surge in demand creates short-term liquidity problems for FONDOMICRO) and would obtain compensation for the risk and expenses it incurs in providing the guarantee by charging a fee (probably 2% of the amount being guaranteed).

Full attainment of project objectives is not dependent upon FONDOMICRO's utilization of loan guarantees.

The following chart reflects FONDOMICRO's plans for obtaining inputs of funds from different sources, over time, and using those funds to make loans to NGOs.

	INFLOW	Loans to NGOs
Year 1	AID Grant \$.5 million GODR contribution 1.0 million Total \$1.5 million	\$ 1.5 million
Year 2	AID Grant \$.8 million GODR contribution 1.0 million Bank Sector .7 million Total \$2.5 million	\$ 2.5 million
Year 3	AID Grant \$.7 million IBD loan \$2.0 million Bank sector \$.8 million Total \$3.5 million	\$ 3.5 million
Year 4	AID Grant \$.5 million IBD loan \$2.0 million	

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	Other donors \$1.0 million	
	Banks \$2.0 million	
	Total \$5.5 million	\$ 5.5 million
Year 5	AID Grant \$.5 million	
	IBD loan \$2.0 million	
	Banks \$2.5 million	
	Other donors .5 million	
	Total \$5.5 million	\$ 5.5 million
Year 6	AID Grant .5 million	
	IBD loan \$2.0 million	
	Banks \$2.5 million	
	Other donors .5 million	
	Total	\$ 5.5 million
Year 7	Banks 5.5 million	
	Other donors .5 million	
	Total 6.0 million	\$ 6.0 million
	Total \$30 million	\$30.0 million

(It should be noted that anticipated inputs from the banking sector for the different years, as shown above, reflect net additional inputs. The numbers do not include loans from the banking sector that are "rolled over"

and made available again. It should also be noted that FONDOMICRO itself could generate between \$2-3,000,000 from the operation of its credit program that will be available for on-lending.)

The above scenario, while ambitious, appears to be achievable.

3. What interest rate/related charges should be levied on funds provided by FONDOMICRO?

This question, of course, has at least two components -first, what interest rate should FONDOMICRO charge to NGOs who directly borrow its funds, and second, what rates should the NGOs charge the ISME operators they on-lend the funds to?

- Rate Chargeable by FONDOMICRO

Over the long term, FONDOMICRO's credit program can continue, and credit can continue to be available to the ISME sector, only if 1) all costs FONDOMICRO incurs relating to the operation of the credit program are met by resources generated through and by the program; and 2) FONDOMICRO has the ability to regularly and reliably obtain from the commercial banking sector all the funds it requires for on-lending to NGOs.

These realities are, in fact, interrelated in that FONDOMICRO will be able to borrow significant amounts of funds from the commercial banking sector only if it can demonstrate that it can meet all costs associated with

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its credit program. These costs would include: costs of the funds it borrows from different sources; cost of developing and maintaining an equity base of a size adequate to allow it to borrow all funds it requires for on-lending; administrative costs incurred in operating its program; and costs to the program resulting from unpaid loans. Interest rates and other charges FONDOMICRO places on its loans will be calculated to allow FONDOMICRO to cover all those costs.

a. Cost of Funds. As indicated above, during the life of the project, FONDOMICRO will have access to both grant funds and loan funds for on-lending to NGOs. Grant funds are anticipated both from AID (\$3,500,000) and other donors (\$2,500,000). Loan funds are expected to be available from the GODR's Technical Secretariat of the Presidency (\$2,000,000), the Interamerican Development Bank (\$8,000,000), and the commercial banking sector in the D.R. (\$14,000,000).

The different funds from the different sources will be available at different interest rates. Grant-derived funds, of course, belong to FONDOMICRO, and no interest is payable on them. STP funds will probably cost 24% p.a.; IBD funds 15% p.a.; and commercial bank funds between 24% and 35% p.a.. (These estimated interest rates are based upon discussions with the lending organizations, observations of their recent practice, and estimates of inflation over the next several years.)

Insofar as possible, interest rates FONDOMICRO charges its borrowers will reflect a blending of the rates it is paying on the funds. The

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actual blended rate will reflect the different percentages of differently priced funds that will compose the pool of lending capital FONDOMICRO will have available in any one year. (Grant funds available for on-lending will be included in the pool, with an ascribed cost of 0%.)

The blended costs of borrowed funds will be calculated and determined by FONDOMICRO at least annually.

b. Cost of Establishing and Maintaining an Appropriate Equity Base. As indicated, FONDOMICRO's principal role, over the long term, is to act as a bridge between the formal banking sector and the NGOs operating credit programs for the ISME sector. While during the project period it appears FONDOMICRO will be able to borrow funds at concessional rates, and will also receive grant funds, this will probably only be true during the period of the project. After the end of the project, FONDOMICRO's only source of funds will be the commercial banking sector.

After the end of the project, decisions from commercial banks as to whether and how much they will lend to FONDOMICRO will be influenced by a number of factors, but one of the principal factors will be FONDOMICRO's equity position. As is the case with all individuals and institutions seeking to borrow from commercial banks, the banks' lending decisions will be influenced by how much of the borrower's own capital is being put at risk in the enterprise to be financed. From discussions with a number of banks and bankers, and from observation of related experience, it appears that

commercial banks will require that FONDOMICRO have equity equivalent to about 15% of the total it wishes to borrow from banks. As indicated above, FONDOMICRO has established a target of having \$30,000,000 available for on-lending to NGOs by the end of the project. To be able to borrow enough to make this amount available after the project ends would require that FONDOMICRO itself have approximately \$4,500,000 of its own capital available for lending.

c. FONDOMICRO's Administration Costs. FONDOMICRO will attempt to cover all recurrent costs of administering its credit program through some small additional charges it imposes on its loans. Because FONDOMICRO is and will remain a relatively small organization, these costs are not expected to be excessive. They are estimated to average about \$307,000 per year by the end of the project. (Note: it is not intended that all costs FONDOMICRO incurs in operating its credit program management assistance program for NGOs will be covered through charges on loans. FONDOMICRO may, however, attempt to recover some of these costs by imposing some charge on the particular NGOs which receive assistance through the program. FONDOMICRO, for the most part, will be seeking support from donors to cover its costs in providing credit program management assistance to NGOs.)

The actual additional charge to be reflected in interest rates imposed on loans that will be required to cover FONDOMICRO's operational costs will vary with the size of FONDOMICRO's portfolio. In general, the larger the portfolio, the smaller the rate FONDOMICRO will have to impose. FONDOMICRO

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will make every effort to keep this rate as low as prudently possible. Actual charges could be as low as 1-2% per year by the end of the project.

d. Delinquent Debt Reserve. While it is hoped that FONDOMICRO's knowledge of the ISME sector and the NGOs operating in the ISME sector will be such that all loans it makes will be repaid in full and on schedule, experience indicates that it is unlikely that this can be the case. Accordingly, if FONDOMICRO is to be able to always repay its obligations on schedule, and thus retain the confidence of its funding sources, prudence dictates that some funds be set aside to be used by FONDOMICRO to repay its obligations when and if its borrowers do not meet their obligations to FONDOMICRO on a timely basis. FONDOMICRO will attempt to establish a delinquent debt reserve equal to 10% of its outstanding portfolio by adding 2.5% to the interest rate it charges its borrowers.

e. The Rate Formula

The formula, therefore, for determining the rate FONDOMICRO charges its NGO clients for borrowing its funds is as follows:

- blended cost of funds available for lending during the period
in question;

plus

1/3.

- a charge calculated to help produce the equity level FONDOMICRO will require to obtain the loans it will be seeking from commercial banks the following year;

plus

- a charge to cover FONDOMICRO's costs in administering its programs (estimated to range between 2% and 6%);

plus

- a charge to cover costs of establishing and maintaining a delinquent debt reserve (estimated at 2.5%).

Note: the following hypothetical situation illustrates how the interest rate chargeable on loans for a given period could be determined. In year X of the project, FONDOMICRO anticipates receiving and responding to requests for loans totalling RD\$60,000,000. To make those loans, FONDOMICRO anticipates using RD\$20,000,000 in grant funds it has received, RD\$20,000,000 in funds obtained from the IBD on which it is paying an interest rate of 15% p.a., and RD\$20,000,000 in funds borrowed from commercial banks at 30% p.a.

In year X + 1 of the project, FONDOMICRO anticipates it will be seeking to borrow an additional RD\$40,000,000 from commercial banks.

FONDOMICRO would calculate the interest rate chargeable on funds as follows:

- blended cost of funds would be 15%, because:

\$20,000,000 @ 0%

\$20,000,000 @ 15% - 60,000,000 @ 45/3 = 15%

\$20,000,000 @ 30%

- cost for developing adequate equity base would be 10%, because:

In order to borrow an additional RD\$40,000,000 in year X+1, FONDOMICRO will require an additional RD\$6,000,000 (15% of RD\$40,000,000) in equity over and above the amount it currently owns. In order to generate RD\$6,000,000 on RD\$60,000,000 being loaned, FONDOMICRO will have to add a 10% charge.

- FONDOMICRO administration costs are estimated at 3%.
- Delinquent debt reserve would be 2.5%.

Total interest charge would be: 15% + 10% + 3% + 2.5% = 30.5%.

Because during the life of the project FONDOMICRO will be: a) borrowing at below market rates from the IBD and the GODR, and b) will be receiving grant funds which will be available for on-lending, it is possible that, under some scenarios, the interest rate derived from using the above formula could be significantly below commercial bank "market" rates. In order to avoid the potentially distortionary effect such a situation might have on the efficiency with which NGOs operate their programs, FONDOMICRO has adopted a policy of not lending its funds at rates lower than 80% of the "prime" commercial bank rate (the rate major commercial banks charge their preferred clients). In those situations where this "floor" on interest rates results in a return to FONDOMICRO on its funds greater than required to meet its obligations, pay its operational costs, build its needed equity, etc., the additional return will become part of FONDOMICRO's equity.

4. Rates Chargeable by NGOs to ISME Operators

As indicated above, FONDOMICRO will be lending funds to NGOs at rates calculated to assure that it meets all of its costs, and avoids loss of its capital through inflation or bad debt. Because FONDOMICRO will, in some instances be able to obtain lending funds at below market costs, it is likely that rates it charges NGOs will also be below market. A principal tenet of FONDOMICRO is that loans be provided only to those ISME operators which can afford to pay unsubsidized interest rates. It is not anticipated that any below market rates received by NGOs will be passed along by the NGOs

in their on-lending to ISME operators. Any concessional element in the rate received by the NGOs will be retained by the NGOs themselves, and used to develop and/or expand their own capital bases (i.e., the funds they have available for lending).

Interest rates chargeable by the NGOs to final borrowers will be the higher of the two rates determined by the following formula:

- cost of the funds (i.e., rate charged by FONDOMICRO), plus NGO's cost in administering the credit program, plus NGO's cost in developing and maintaining a bad debt reserve;

OR

- annual inflation rate plus NGO's cost in administering the credit program, plus NGO's cost in developing and maintaining a bad debt reserve.

The existence of the two options listed above will serve to help assure that ISME operators are, in fact, paying real, positive interest rates on credit even if an NGO is receiving a concessional rate from FONDOMICRO.

While the figure will vary among different NGOs, it is anticipated that the costs of administering their credit programs will average about 15% of the respective portfolios. Bad debt reserves equal to about 5% of portfolios also appear desirable. Thus, if the annual inflation rate was 15%, cost of credit to the ISME operators would be about 35%.

5. NGOs Ability to Expand Credit Services

As indicated above, this project seeks to expand the number of ISME operators having access to reasonably priced credit from the present (roughly) 10,000 to a total of 36,000 by the end of the project. This will require a (compounded) annual expansion of the size of the existing clientele of NGOs serving the ISME sector of about 20%.

Expansion at the rate of 20% per year is an ambitious target. It is considered to be achievable in this situation because:

- the demand is clearly already there. (As indicated above, a number of studies show that some 87,000 ISME operators are seeking reasonably priced credit, and only 10,000 have access to it);
- the NGOs operating the more successful credit programs (i.e., ADEMI, ADOPEM, APEDI) report the existence of

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backlogs of known applicants more than equal to the size of their present clientele;

- the NGOs operating the more successful programs have been expanding the size of their clientele at a rate greater than 20% per year over the past several years, and appear to have experienced no significant problems in doing so.

6. ISME Operators' Ability to Pay "Full-Cost" of Credit

As indicated above, FONDOMICRO will require that ultimate borrowers of its resources pay real, positive interest rates. In a situation where the annual inflation rate is 40%, given the high transaction costs associated with making and servicing small loans, it is quite conceivable that the ultimate borrowers of the funds would have to pay annualized interest rates of 55-60%.

The various studies on the ISME sector that have been carried out here in the D.R. as well as in other parts of the world demonstrate quite conclusively that ISME operators can comfortably service rates at those levels while increasing their productivity and profitability. The experience of ADEMI particularly, is illustrative. The 1987 ISTI showed that ADEMI's borrowers, who were paying rates averaging 49% during the period in question (when inflation was averaging about 26%), reported average increases in

productivity and profits of 80% as a result of their being able to borrow funds. Recent assessments of the performance of ADEMI and ADOPEM indicate that this is still the case. Their borrowers, although paying interest rates in the area of 80% p.a., appear to be thriving. Loans are being repaid in full and on schedule and the businesses are expanding.

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MICRO AND SMALL BUSINESS DEVELOPMENT PROJECT

ANNEX E

SOCIAL SOUNDNESS ANALYSIS

1. Socio-economic context

The ISME sector has assumed an increasingly significant role in the Dominican economy in recent years. It is estimated to comprise up to 50% of the economically active population.

Several factors have contributed to the rapid expansion of the ISME sector. First, the lack of labor absorption by the rural economy has led to massive migration to urban areas. Today, about 60% of the population lives in urban areas. Second, a decline in industrial growth based on import substitution, and a sharp decline in private sector investment over the past five years have reduced the labor absorption capacity of the formal industrial sector. It is estimated that unemployment and underemployment affect about 50% of the economically active population.

A MSI study identifies 145,000 ISME operations in the country. Thirty-one percent operate in services (repair shops, beauty parlors,

transportation), 51% in commerce (street vendors, shops, food vendors), and 18% in production (food and cloth production). These ISMEs average 2.7 workers in size, including owners and part-time employees; however, 50% of them have only one employee. Women have a significant presence in the ISME sector, with a heavy representation in commerce. Forty percent of the establishments identified by the MSI study were owned by women.

One of the main constraints of the entrepreneur operating in the informal sector is access to credit. Credit plays an important supporting role as a means for individuals and groups to acquire and mobilize productive resources. However, the entrepreneurs face restrictions in access to credit and financial institutions. The MSI study found that while 60% of the ISMEs wanted credit, only 6% had received loans from formal sources; 20% had obtained loans from informal sources; 74% had obtained no credit at all. Large lender transaction costs for servicing small and new borrowers discourage banks from lending to ISMEs. Woman entrepreneurs are particularly subject to these constraints because, in most cases, they are both new and small borrowers. Also, perceived high transaction costs, lack of experience in using formal credit, and lack of information regarding availability of credit and application procedures discourage ISME operators from applying for loans.

Despite limited access to formal financial institutions, the ISME operators do avail themselves of informal credit systems. Figures from the MSI study indicate that 77% of the credit obtained by ISMEs came from informal

sources -mainly relatives, rotating saving associations, and moneylenders. This participation in the informal credit system suggests that, as a user of credit and savings, the ISME operator is an important factor in the mobilization of capital for development.

Several organizations offering credit and technical assistance work with ISME operators in the Dominican Republic. Their programs, however, have been unable to reach the vast numbers of potential beneficiaries in the country. According to the MSI study, they have been able to reach only about 10% of the total number of ISMEs operating in the country.

2. Beneficiary Profile

The typical ISME owner operates a business from his/her own home, has less than six employees, and makes less than US\$500 in monthly sales. He/she usually has no access to commercial credit, or any formal marketing mechanism. For the majority of these ISME owners the only source of credit are moneylenders (prestamistas). The value of the prestamista is that they will lend small amounts on a short term basis. They are local, accessible, available day or night, and flexible about repayment. Their collateral requirements depend primarily on the level of personal acquaintance with the borrower. The trade-off for the ISME operator is the prestamista's very high

interest rates (e.g., 10% daily, 20% per week, 75% per month). The interest paid to the moneylender frequently absorbs all of the ISMEs profit and traps the ISME operators in a vicious circle that he/she can rarely break.

The typical female ISME operator has 3 to 5 children and a husband who earns a low and erratic income. She has little education, and is almost illiterate. In general, however, her children all attend school, even up to university level. She learned how to sew in a local school or social program, bought a sewing machine, and established a business. Typically this woman borrows money from a moneylender to buy material. She is usually incapable of producing more than the minimum needed to keep up with the payments to the moneylender.

3. Socio-economic impact of proposed project.

The following impacts are foreseen. See economic analysis for additional details and projections.

a. Access to credit

The MSI/AID study identifies 145,000 existing ISMEs in the Dominican Republic. The study estimates that only 6% of these have loans from formal sources, 20% have loans from informal sources, and 74% have no credit

at all. These ISMEs have the potential to benefit from access to the credit programs FONDOMICRO is intended to serve.

b. Employment generation

The project is intended to have a significant impact on employment generation. The capacity of ISME operators to generate employment very rapidly, and at a very low cost is well known. In a country where unemployment and underemployment affect 50% of the economically active population, employment generation becomes a critical issue. It is expected that FONDOMICRO, during its first seven years of operation, will help create at least 20,000 jobs.

Most ISME operators are based in poor communities and the jobs ISMEs create are located in those communities. The jobs generally do not require sophisticated skills. They can be filled by people from those communities.

c. Increases in income

Another important effect of the resources to be channeled through FONDOMICRO will be increases in the income of the ISME operators. ADEMI's statistics on beneficiaries performance show over 100% increases in income as a result of access to credit. Income increases are directly translated into better nutrition and education of the children of the ISME operator, and into

improved housing and living conditions for the entire family. Indirectly, ISME income increases are translated into benefits to input suppliers as demand on the part of the beneficiary enterprises increases.

d. Increases in fixed assets

In addition to the impact on income, records maintained by several NGOs in the DR indicate that credit has a substantial effect on the fixed assets base of the ISME operators. APEDI's beneficiaries have experienced up to 175% increases in their fixed assets. Similar performance is observed among ADEMI's and ADOPEM's beneficiaries, who experienced up to 375% and 292% increases, respectively.

e. Improved management skills

Flexible repayment schedules and small loans on an escalating basis will allow clients to gradually introduce new capital into their business while learning how to manage increased scales of operations and deal with administrative problems. For the inexperienced client this will be a very effective way to introduce concepts of efficiency and economies of scale. Furthermore, through participation in the FONDOMICRO program, ISME operators who have never used a bank account or been exposed to an office setting, will learn a number of new skills. For instance, ADEMI staff introduce ADEMI

clients personally to banks and take them step-by-step through check-cashing and depositing procedures. When necessary they even teach their clients how to sign their names. For the many ISME operators who are illiterate or unfamiliar with procedures like these, programs of the kind to be supported through this project help integrate them into a different sociocultural world and a new level of economic participation.

f. Impact on women

Women entrepreneurs will benefit substantially from the FONDOMICRO project because terms and conditions of credit to be provided through the project are well suited to the needs of the women, and women are very active in the types of businesses that the project will reach. The MSI study indicates that 40% of the existing ISME operations are owned by women. Although not originally intended to specifically address women's needs, the outreach efforts of most of the NGO clients of FONDOMICRO have concentrated in the largest and poorest settlements, where there is a high percentage of women headed households, working women, and women entrepreneurs. Women comprise 34% of APEDI's beneficiaries, and 31% of ADEMI's. Other NGOs like ADOPEM and MUDE concentrate exclusively on women.

Women's access to and benefit from microenterprise programs will be particularly important given the growing number of Dominican households which

depend on the earnings of women heads of households, and the increasing importance of secondary earnings of women in poor households headed by men. Women's access to the programs funded by FONDOMICRO will not only translate into increased income earning opportunities, but also will increase the influence and the autonomy of women both within their communities and within their families.

SMEPP6

MICRO AND SMALL BUSINESS DEVELOPMENT PROJECT

FINANCIAL ANALYSIS

Two financial scenarios were developed for this analysis. The first begins with a peso to dollar exchange of 7.25 to 1 (the official commercial bank rate as of this writing) in year 1 of the project and assumes an annual inflation rate in the Dominican Republic of 24% in each subsequent year, with corresponding exchange rates in each of these years increasing proportionately with the inflation. The second scenario assumes a more realistic market average rate for year 1 of 13.65 pesos to the dollar. All other assumptions for Scenario II are identical with those of Scenario I so only the magnitudes of the scale, (i.e. an increased number of pesos) are different. Since the same proportions of funds in specific categories remain proportional, the financial ratios also remain identical.

Under both scenarios FONDOMICRO becomes a viable self-sustaining organization, capable of meeting its financial obligations and covering its operational costs according to project targets. During the first two years of the project 100% of operational costs are covered by AID grant funds. In year 3 this coverage is reduced to 60%, in years 4 and 5 to 40% and 20% respectively. By year 6 FONDOMICRO is covering all operating costs with income generated from interest and fees on its portfolio.

FONDOMICRO borrows from the STP during the first and second project years, from local banks beginning in the second year and from the IDB beginning in the third year. Repayment obligations on interest begin in the second project year and recur each semester thereafter. These payments are also covered by interest income generated from the portfolio.

A significant proportion, 28%, of new money is accessed from the local commercial market in year 2 of the project. This proportion continues to increase every year of the project through year 7 when approximately 91% of all new lending funds are supplied from this source.

A delinquent debt reserve of 2.5% of all new loans made allows FONDOMICRO to meet its financial obligations even if its NGO clients are late with their payments. Based on actual experience, FONDOMICRO management may wish to increase or decrease this proportion. The delinquent debt reserve earns interest at 12% compounded semi-annually and these earnings are reinvested into the account.

It is assumed that FONDOMICRO charges its clients interest of 24% a year plus a 2.5% loan origination fee. This fee is paid up-front and used to finance the delinquent loan reserve account. A 1% fee is charged on all loan renewals and this is also paid up-front. The scenarios assume that total interest charged varies from 26.5% on new loans to 25% for renewals in years 1 through 6 of the project. In the final year of the project when over 90% of new money is accessed from the commercial market, the cost of funds to

FONDOMICRO rises to 19.6% and accordingly FONDOMICRO's base rate (before fees) to its borrowers rises to 25.6%. These rates are consistent with FONDOMICRO's policy to charge a composite total rate (including fees) that is 80% of the "prime" rate (assumed at 30%) or a 6 point spread over costs, whichever is greater. This analysis assumes that loans are extended as lines of credit for one year periods and are renewable annually. Interest is paid semi-annually by borrowers.

FONDOMICRO has positive cash flows in each year of the project and this indicates that it will be able to service its own debt as well as meet the demand of its NGO borrowers. The income statements in both scenarios indicate favorable returns on "at risk" (portfolio) assets during each of the seven years. In the first two years when FONDOMICRO's operational expenses are totally covered by AID grant funds and return those years is over 7%. As FONDOMICRO pays proportionally more of its own expenses, this return drops to 5.76% in year 5, and then as the portfolio grows the return rises again to approximately 6.6%. Commercial banks in the Dominican Republic consider that a return on lending activities of at least 3% is acceptable. However, commercial banks finance most of their lending activities out of low cost deposits, whereas FONDOMICRO will be using borrowed funds for its portfolio. Therefore, FONDOMICRO's return should be higher than that of commercial banks.

The balance sheet indicates the annual growth of FONDOMICRO's assets and liabilities, including its loan portfolio and networth (capital plus surplus). By year 7 of the project FONDOMICRO's loan portfolio in both

deposits divided by interest payable is used to determine whether FONDOMICRO will be able to meet its financial obligations and make its interest payments on time. This ratio is the "quick ratio" for FONDOMICRO because interest receivable and cash constitute its current assets (those easily convertible into cash) while interest payable is a current or short-term liability (one due within twelve months). This ratio should normally be above 1 and a higher ratio indicates that the organization is more liquid or in a better position to meet its current obligations. FONDOMICRO's quick ratio is 2:3 in year 1 of the project, drops to 1.71 in year 3 when it must begin to pay 40% of its operational costs. However, by year 7 when its portfolio is higher, this ratio rises to 1.87.

A net present value (NPV) analysis indicates the capitalization of FONDOMICRO in current 1990 pesos. The discount rate selected for this analysis was that of projected annual inflation. The assumed rate is 42% for year 1 and 24% for each subsequent year. The stream of payments generated by this analysis totals RD\$8,450,377 for Scenario I and RD\$15,777,448 for Scenario II. The streams obtained in this analysis were subsequently discounted by a rate of 17% which is the opportunity cost of funds for the Dominican economy overall and the resulting streams sum to RD\$4,046,603 in Scenario I and RD\$7,699,536 in Scenario II. Since these sums are greater than zero, this means the project investment is earning more than the required return of 17%. Since the cash flows are positive under both scenarios for each project year, the net present value analysis described above was used in place of the financial internal rate of return.

ASSUMPTIONS FOR FINANCIAL ANALYSIS

1. All monetary units are pesos (RD\$). The assumed exchange rate RD\$ to US\$ is written under each project year on the cash flow worksheet. Annual inflation rate in the Dominican Republic of 24% a year is assumed. Year 1 refers to FY1991 and all first year figures were calculated in FY1991 pesos. Therefore, inflation does not begin until year 2.

2. Founders' Capital - RD\$300,000 donated by the founders of FONDOMICRO and private sector banks and businesses. Half of these funds are used for pre-project expenses and half are placed into a CD paying 24% annually. The accumulated interest remains in this CD.

3. AID Operational Expense Grant - covers 100% of FONDOMICRO's operating expenses during years 1 and 2 of the project, 60% in year 3, 40% in year 4, and 20% in year 5. Operational costs are calculated for year 1 in FY1991 US dollars and then converted into pesos using the exchange rate 7.25 in Scenario I and 13.65 in Scenario II. These costs in pesos are then inflated by 24% a year.

4. AID grant funds for commodities are used to purchase vehicles and equipment during the first year of the project.

scenarios has reached the equivalent of US\$22.6 million (dividing the total amount of pesos by the corresponding exchange rate for that year). Assumed portfolio inflows from all sources have totaled the equivalent of US\$30 million and approximately US\$7 million has been transferred to the NGOs. The scenario indicates only a real loss of about US \$400,000 due to delinquent loans which have been charged-off.

FONDOMICRO must build a net worth (capital, reserves and operating surplus) to facilitate its accessing funds from the commercial market. To accomplish this the ratio of its income to its average net worth should be on the order of 15% a year. Both scenarios project this ratio climbing from 14.9% in the first year of the project to 19.9% by year 7. The net worth to total assets ratio indicates the percentage of FONDOMICRO's capital to its total asset base. Accordingly, in year 1 of the project when a third of its portfolio is supplied by AID grant and its vehicles and equipment are new, this ratio is relatively high at 40%. However, as FONDOMICRO borrows to increase its portfolio and the value of equipment decreases due to depreciation, this ratio falls to 27%.

Two additional ratios, debt and liquidity, have been examined to assess FONDOMICRO's ability to go to the local commercial market. The debt ratio (total debt to total assets) indicates the extent to which the organization is leveraged, that is, using debt to finance its operations. In year 1 this ratio is .531 and it gradually increases to .639 over the seven year life of the project. The liquidity ratio, interest receivable plus cash & bank

5. Depreciation is calculated over seven years on a straight-line basis. A reserve for the replacement of vehicles and equipment is established in Year 1 of the project. Funds placed in this reserve account are equal to the annual depreciation expense. This reserve account earns interest at 24% compounded annually and interest earnings from this account are invested in the loan portfolio.

6. AID grant for credit totals US\$3.5 million equivalent in pesos and is at no cost to FONDOMICRO. It is disbursed in tranches of \$500,000 (in RD\$ equivalent) in the first year of the project, \$800,000 in the second year, \$700,000 in the third year and \$500,000 annually in years 4 through 6.

7. The STP loans disbursed to FONDOMICRO are the equivalent in RD\$ of US\$2,000,000 and have an interest rate of 24%. No principal is repaid during the seven year projected period. Interest payments are made twice a year.

8. The IDB loan is the equivalent in RD\$ of US\$8 million at 15% interest to FONDOMICRO. Interest payments are made each semester.

9. Commercial bank loans are lines of credit to FONDOMICRO. They are the equivalent of US\$14 million and carry a 30% interest rate. These lines are renewed each year and only interest is paid bi-annually.

10. Other no interest donor grants total the equivalent of US\$2.5 million and flow in during years 4 (\$1 million), and years 5, 6, and 7 at \$.5 million each year.

11. All dollar amounts flowing into FONDOMICRO from various sources such as AID and the IDB are multiplied by the exchange rate corresponding for each year to determine the peso equivalent.

SMEPP8

SOURCES OF FUNDS
FONDMICRO PORTFOLIO
BY YEAR - EXPECTED DEMAND*
AID GRANT SPREAD OVER LIFE OF PROJECT

YEAR	AMOUNT US\$ millions	SOURCES	TOTAL NEW MONEY	AVG. COST of FUNDS**	AVG. COST of FUNDS***	AVG. COST of FUNDS****
1	0.5	AID	1.5	24.00%	16.00%	22.30%
	1.0	STP				
	0	Loc. Mkt.				
2	0.8	AID	2.5	25.05%	17.25%	20.85%
	1.0	STP				
	0.7	Loc. Mkt.				
3	2.0	IDB	3.5	20.00%	16.40%	20.00%
	0.0	STP				
	0.8	Loc. Mkt.				
	0.7	AID				
4	2.0	IDB	5.5	22.85%	16.38%	19.98%
	2.0	Loc. Mkt.				
	1.0	Other Donor				
	0	STP				
	0.5	AID				
5	2.0	IDB	5.5	25.50%	17.19%	20.79%
	2.5	Loc. Mkt.				
	0.5	Other Donor				
	0.5	AID				
	0	STP				
6	2.0	IDB	5.5	22.63%	17.63%	21.23%
	2.5	Loc. Mkt.				
	0.5	Other Donor				
	0.5	AID				
7	0.0	IDB				
	5.5	Loc. Mkt.	6.0	24.40%	19.60%	23.20%
	0.5	Other Donor				
8	0.0	IDB				
	6.0	Loc. Mkt.	6.0	32.10%	21.63%	25.23%
	0.0	Other Donor				

* Interest rate to final borrowers calculated by adding a 6% spread to rates stated above

** All grants valued at 24%

***All grants valued at 0

****Assumes 15% of total portfolio is protected from inflation

SCENARIO I
SUMMARY FINANCIAL TABLE
RDS (000)

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7
AVERAGE PORTFOLIO	8,054	26,999	59,553	121,487	203,231	303,283	435,203
AVERAGE TOTAL ASSETS	10,281	32,686	74,078	146,793	242,123	360,502	519,391
AVERAGE LIABILITIES (excluding net worth)	6,055	20,461	51,210	101,409	170,389	254,622	374,989
AVERAGE NET WORTH	4,227	12,226	22,867	45,384	71,734	105,880	144,401

SCENARIO II
SUMMARY FINANCIAL TABLE
RDS(000)

AVERAGE PORTFOLIO	15,164	50,858	112,907	228,766	382,704	571,126	819,573
AVERAGE TOTAL ASSETS	19,185	61,354	139,240	276,088	455,532	678,370	977,483
AVERAGE LIABILITIES (excluding net worth)	11,400	38,541	96,439	188,705	320,857	479,489	706,170
AVERAGE NET WORTH	7,785	22,812	42,800	85,132	134,677	199,030	271,353

SUMMARY RATIOS
SCENARIOS I and II

RETURN ON NET WORTH (income/net worth)	14.9%	15.9%	17.6%	17.3%	16.3%	18.2%	19.9%
NET WORTH/TOTAL ASSETS	40.4%	37.0%	29.9%	31.0%	29.3%	29.3%	27.4%
DEBT (Tot. Debt/Tot. Assets)	53.1%	56.2%	59.2%	59.8%	62.1%	62.4%	63.9%
LIQUIDITY (Int Rec+Cash/Int Pay)	2.30	2.16	1.71	1.81	1.83	1.92	1.87

10/29

SCENARIO I FINANCIAL WORKSHEET (Assumes official exchange rate)

FONDOMICRO LENDING AT 4 PTS. LOWER THAN PRIME (LENDING RATE INCLUDES 2.5 PTS UP FRONT) WORKSHEET FOR CASH FLOWS BY YEAR	YEAR 1		YEAR 2		YEAR 3		YEAR 4		YEAR 5		YEAR 6		YEAR 7	
	Oct	Apr	Oct	Apr	Oct	Apr	Oct	Apr	Oct	Apr	Oct	Apr	Oct	Apr
	exchange 7.25		exchange 8.64		exchange 10.3		exchange 12.29		exchange 14.65		exchange 17.47		exchange 20.83	
SEMIESTER PAYMENTS														
Operating Sources														
Cash at beginning *	0	0	40,100	447,849	637,847	736,540	1,449,578	2,115,065	3,115,848	4,013,832	5,194,145	5,988,863	7,607,053	11,466,433
Founder's Capital	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000
AID Op. Exp. Grant	815,600	815,600	1,011,344	1,011,344	752,440	752,440	622,017	622,017	385,651	385,651	0	0	0	0
AID Grant Commodities	1,160,000													
AID Cred. Grant	1,812,500	1,812,500	3,456,000	3,456,000	3,608,500	3,608,500	3,072,500	3,072,500	3,662,500	3,662,500	4,367,500	4,367,500	0	0
STP Loan	3,625,000	3,625,000	4,320,000	4,320,000	0	0	0	0	0	0	0	0	0	0
Commerc. Loans	0		3,024,000	3,024,000	4,124,000	4,124,000	12,290,000	12,290,000	18,312,500	18,312,500	21,837,500	21,837,500	57,282,500	57,282,500
IDB Loan	0		0	0	10,310,000	10,310,000	12,290,000	12,290,000	14,650,000	14,650,000	17,470,000	17,470,000	0	0
Other Donor Grants	0						6,145,000	6,145,000	3,662,500	3,662,500	4,367,500	4,367,500	5,207,500	5,207,500
Interest Revenues Owed														
Interest Revenues Owed Cum														
Loan Renewal Fee			51,656	103,321	208,910	316,719	498,827	677,806	1,021,299	1,369,573	1,792,532	2,222,236	2,741,094	3,263,884
Interest Revenues Received		617,444	1,219,451	2,434,940	3,681,392	5,770,669	7,850,052	11,799,149	15,777,064	20,603,689	25,511,019	31,430,429	39,774,266	48,072,907
Loan Origination Fees**	135,938	135,938	271,003	281,196	467,009	469,476	881,177	897,814	1,085,084	1,107,533	1,330,916	1,350,784	1,752,426	1,848,911
Revenue: Founder's Cap. CD	17,033	18,967	21,121	23,519	26,190	29,164	32,475	36,163	40,269	44,842	49,934	55,604	59,984	68,730
Interest, Res. for Equip. Replacement				2,997		5,995		8,992		11,989		14,987		17,984
Interest, Reserve for Delinquent Acct.		7,925	8,387	16,751	18,321	30,223	32,128	58,004	62,356	76,909	82,701	100,546	107,567	137,254
Loan Recupérations														0
TOTAL SOURCES	7,716,070	7,183,374	13,573,063	15,271,918	23,984,609	26,303,724	45,313,756	50,162,510	61,925,070	68,051,519	82,153,746	89,355,949	114,682,391	127,516,102
OPERATING USES														0
Purchase of Commodities	1,160,000													1,160,000
Operational Costs	815,600	815,600	1,011,344	1,011,344	1,254,067	1,254,067	1,555,043	1,555,043	1,928,253	1,928,253	2,391,033	2,391,033	2,964,881	3,060,523
Loan Disbursements to NGOs	5,437,500	5,437,500	10,840,100	11,247,849	18,680,347	18,779,040	35,247,078	35,912,565	43,403,348	44,301,332	53,236,645	54,031,363	70,097,053	73,956,433
Annual Res. for Equip. Replacement		165,714		165,714		165,714		165,714		165,714		165,714		165,714
Fin. Exp. Disbursed		411,629	823,258	1,737,697	2,652,136	3,976,463	5,300,790	8,271,359	11,241,928	15,082,791	18,923,654	23,503,850	28,084,047	36,417,245
Reserves: Delinquent Loans	135,938	135,938	271,003	281,196	467,009	469,476	881,177	897,814	1,085,084	1,107,533	1,330,916	1,350,784	1,752,426	1,848,911
Reinvest Founders' Cap.	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000
Reinvest int. Founder's Cap. CD	17,033	18,967	21,121	23,519	26,190	29,164	32,475	36,163	40,269	44,842	49,934	55,604	59,984	68,730
Reinvest Int. Res. for Del.	0	7,925	8,387	16,751	18,321	30,223	32,128	58,004	62,356	76,909	82,701	100,546	107,567	137,254
Total Uses of Funds	7,716,070	7,143,273	13,125,213	14,634,071	23,248,070	24,854,146	43,198,691	47,046,662	57,911,238	62,857,375	76,164,884	81,748,895	103,215,959	115,804,809
Sources - Uses	0	40,100	447,849	637,847	736,540	1,449,578	2,115,065	3,115,848	4,013,832	5,194,145	5,988,863	7,607,053	11,466,433	11,711,293
Available for Capitalization	0	40,100	447,849	637,847	736,540	1,449,578	2,115,065	3,115,848	4,013,832	5,194,145	5,988,863	7,607,053	11,466,433	11,711,293
Current Loan Portfolio	5,437,500	10,739,063	21,443,225	32,420,072	50,819,223	69,131,254	103,908,855	138,940,244	181,445,779	224,662,027	276,791,138	329,491,585	389,237,854	470,441,860

10/15/11

SCENARIO I FONDOMICRO'S PROJECTED CASH FLOWS

CASH FLOWS	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8
INFLOWS								
AID Commodities Grant	1,160,000							
AID Op. Exp. Grant	1,631,200	2,022,688	1,504,880	1,244,034	771,301	0	0	0
AID Grant: Credit	3,625,000	6,912,000	7,217,000	6,145,000	7,325,000	8,735,000	0	0
STP Loans	7,250,000	8,640,000	0	0	0	0	0	0
Commerc. Loans	0	6,048,000	8,248,000	24,580,000	36,625,000	43,675,000	114,565,000	136,565,000
IDB Loans	0	0	20,620,000	24,580,000	29,300,000	34,940,000	0	0
Other Donor Loans/Grants	0	0	0	12,290,000	7,325,000	8,735,000	10,415,000	0
Interest Revenues from NGO Loans	617,444	3,654,391	9,452,061	19,649,202	36,380,753	56,941,447	87,847,174	132,203,148
Loan Origination and Renewal Fees	271,875	707,176	1,462,114	2,955,624	4,583,489	6,696,468	9,606,315	4,117,742
Interest: Founders Cap. CD	36,000	44,640	55,354	68,638	85,112	105,539	128,714	161,759
Interest: Reserve Del. Accts.	7,925	25,138	48,544	90,132	139,264	183,248	244,820	319,357
Interest: Reserve for Equip. Replacement		2,997	5,995	8,992	11,989	14,987	17,984	20,982
TOTAL	14,599,444	28,057,031	48,613,947	91,611,623	122,546,909	160,026,688	222,825,007	273,367,007
OUTFLOWS								
Operating Costs	1,631,200	2,022,688	2,508,133	3,110,085	3,856,505	4,782,067	6,025,404	7,590,096
Purchase of Commodities	1,160,000							
Interest Payments Disbursed	411,629	2,560,956	2,652,136	13,572,148	26,324,720	42,427,505	64,501,292	99,072,417
Loan Disbursements	10,875,000	22,087,950	37,459,387	71,159,643	87,704,680	107,268,007	144,053,486	164,709,697
TOTAL	14,077,829	26,671,593	42,619,656	87,841,877	117,885,906	154,477,578	214,580,182	271,372,210
CHANGE IN CASH AND BANKS	521,615	1,385,438	5,994,291	3,769,746	4,661,003	5,549,110	8,244,825	1,994,797

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SCENARIO I FONDOMICRO'S PROJECTED INCOME STATEMENTS

INCOME STATEMENT	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7
INCOME							
AID Op. Exp. Grant	1,631,200	2,022,688	1,504,880	1,244,034	771,301	0	0
Loan Origination and Renewal Fees	271,875	707,176	1,462,114	2,955,624	4,583,489	6,696,468	9,606,315
Accrued Portfolio Interest	1,836,895	6,116,332	13,620,721	27,576,213	46,114,708	71,204,695	109,105,439
Accrued Reserve Acct. Interest	16,313	35,072	62,351	120,359	159,610	208,113	288,134
Accrued Founder's Cap. Rev.	40,088	49,709	61,639	76,433	94,776	115,589	145,264
Accrued Equip. Rep. Acct. Interest	0	2,997	5,995	8,992	11,989	14,987	17,984
TOTAL	3,796,370	8,933,975	16,717,700	31,981,656	51,735,874	78,239,851	119,163,136
EXPENSES							
Operating Expenses	1,631,200	2,022,688	2,508,133	3,110,085	3,856,505	4,782,067	6,025,404
Bad Debts	135,938	406,940	748,205	1,350,653	1,982,898	2,438,449	3,103,210
Accrued Interest	1,234,887	4,389,833	9,277,252	19,513,287	34,006,445	51,587,897	81,167,690
Depreciation Expense	165,714	165,714	165,714	165,714	165,714	165,714	165,714
TOTAL	3,167,739	6,985,176	12,699,305	24,139,740	40,011,563	58,974,128	90,462,018
NET INCOME	628,631	1,948,799	4,018,395	7,841,916	11,724,311	19,265,723	28,701,118
RETURN ON RISK ASSETS	0.0777	0.0724	0.0670	0.0646	0.0577	0.0636	0.0661

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SCENARIO I FONDMICRO'S PROJECTED SOURCES AND USES OF FUNDS STATEMENTS							
SOURCES AND USES OF FUNDS	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7
SOURCES							
Change in AID Credit Grants	3,625,000	6,912,000	7,217,000	6,145,000	7,325,000	8,735,000	0
Change in AID Commodities Grant	1,160,000						
Change in Net Income	628,631	1,948,799	4,018,395	7,841,916	11,724,311	19,265,723	28,701,118
Change in Borrowing	7,250,000	14,688,000	28,868,000	49,160,000	65,925,000	78,615,000	114,565,000
Change in Other Donor Grants	0	0	0	12,290,000	7,325,000	8,735,000	10,415,000
Change in Interest Payable	823,258	1,828,878	6,625,116	5,941,139	7,681,726	9,160,392	16,666,398
TOTAL SOURCES	13,486,890	25,377,677	46,728,511	81,378,055	99,981,037	124,511,116	170,347,516
USES							
Change in Cash & Banks	521,615	1,385,438	5,994,291	3,769,746	4,661,003	5,549,110	8,244,825
Net Lending	10,739,063	21,681,010	36,711,182	69,808,990	85,721,783	104,829,558	140,950,276
Interest Receivable/Portfolio	1,219,451	2,461,941	4,168,660	7,927,011	9,733,955	14,263,248	21,258,265
Interest Receivable/Reserve Accts	8,387	9,934	13,807	30,227	20,346	24,865	43,314
Int. Receivable/Founder's Cap. CD	4,088	5,069	6,286	7,794	9,665	10,050	16,550
Int. Receivable/Equip. Rep. Acct.	0	0	0	0	0	0	0
Purchase Equipment	1,160,000						
Change Accumulated Depreciation	(165,714)	(165,714)	(165,714)	(165,714)	(165,714)	(165,714)	(165,714)
TOTAL USES	13,486,890	25,377,677	46,728,511	81,378,055	99,981,037	124,511,116	170,347,516

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SCENARIO I FONDOMICRO'S PROJECTED BALANCE STATEMENTS

BALANCE SHEET	YEAR 0	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7
ASSETS								
Cash & Banks	150,000	671,615	2,057,052	8,051,343	11,821,090	16,482,093	22,031,203	30,276,028
Interest Receivable/Portfolio		1,219,451	3,681,392	7,850,052	15,777,064	25,511,019	39,774,266	61,032,531
Interest Receivable/Reserve Accts		8,387	18,321	32,128	62,356	82,701	107,567	150,881
Int. Receivable/Founder's Cap. CD	17,033	21,121	26,190	32,475	40,269	49,934	59,984	76,534
Loan Portfolio		10,739,063	32,420,072	69,131,254	138,940,244	224,662,027	329,491,585	470,441,860
Vehicles and Equip.		1,160,000	1,160,000	1,160,000	1,160,000	1,160,000	1,160,000	1,160,000
Accumulated Depreciation		(165,714)	(331,429)	(497,143)	(662,857)	(828,571)	(994,286)	(1,160,000)
TOTAL ASSETS	167,033	13,653,923	39,031,600	85,760,111	167,138,166	267,119,203	391,630,319	561,977,834
LIABILITIES								
Interest Payable		823,258	2,652,136	9,277,252	15,218,391	22,900,117	32,060,509	48,726,907
Borrowing		7,250,000	21,938,000	50,806,000	99,966,000	165,891,000	244,506,000	359,071,000
Founder's Capital	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
AID Grant Capital		4,785,000	11,697,000	18,914,000	25,059,000	32,384,000	41,119,000	41,119,000
Other Grant Capital		0	0	0	12,290,000	19,615,000	28,350,000	38,765,000
Surplus*	(132,967)	495,664	2,444,463	6,462,858	14,304,774	26,029,086	45,294,809	73,995,927
TOTAL LIABILITIES	167,033	13,653,923	39,031,600	85,760,111	167,138,166	267,119,203	391,630,319	561,977,834

*Surplus = profit or loss from income statement

SUMMARY TABLES AND RATIO ANALYSIS FOR FONDOMICRO
OVER LIFE OF PROJECT

SCENARIO I
SUMMARY FINANCIAL TABLE
RD\$ (000)

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7
AVERAGE PORTFOLIO	8,054	26,999	59,553	121,487	203,231	303,283	435,203
AVERAGE TOTAL ASSETS	10,281	32,686	74,078	146,793	242,123	360,502	519,391
AVERAGE LIABILITIES (excluding net worth)	6,055	20,461	51,210	101,409	170,389	254,622	374,989
AVERAGE NET WORTH	4,227	12,226	22,867	45,384	71,734	105,880	144,401

SCENARIO II
SUMMARY FINANCIAL TABLE
RD\$(000)

AVERAGE PORTFOLIO	15,164	50,858	112,907	228,766	382,704	571,126	819,573
AVERAGE TOTAL ASSETS	19,185	61,354	139,240	276,088	455,532	678,370	977,483
AVERAGE LIABILITIES (excluding net worth)	11,400	38,541	96,439	188,705	320,857	479,489	706,170
AVERAGE NET WORTH	7,785	22,812	42,800	85,132	134,677	199,030	271,353

SUMMARY RATIOS
SCENARIOS I and II

RETURN ON NET WORTH (income/net worth)	14.9%	15.9%	17.6%	17.3%	16.3%	18.2%	19.9%
NET WORTH/TOTAL ASSETS	40.4%	37.0%	29.9%	31.0%	29.3%	29.3%	27.4%
DEBT (Tot. Debt/Tot. Assets)	53.1%	56.2%	59.2%	59.8%	62.1%	62.4%	63.9%
LIQUIDITY (Int Rec+Cash/Int Pay)	2.30	2.16	1.71	1.81	1.83	1.92	1.87

FINANCIAL STATEMENT (Assumes Free Market Exchange Rates)

FUNDING LENDING AT 6 PIS, LOWER THAN PRIME (LENDING RATE INCLUDES 2.5 PIS UP FRONT)

MEMBER FIRM CASH FLOWS BY YEAR	YEAR 1		YEAR 2		YEAR 3		YEAR 4		YEAR 5		YEAR 6		YEAR 7	
	Oct exchange 13.63	Apr	Oct exchange 16.28	Apr	Oct exchange 19.41	Apr	Oct exchange 23.14	Apr	Oct exchange 27.59	Apr	Oct exchange 32.9	Apr	Oct exchange 39.23	Apr
Operating Sources														
Cash at Beginning	0	0	75,499	843,192	1,201,376	1,387,771	2,730,333	3,983,303	5,867,719	7,558,624	9,781,419	11,778,591	14,325,857	21,593,950
Founder's Capital	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000
AID Op. Exp. Grant	1,535,577	1,535,577	1,904,116	1,904,116	1,416,662	1,416,662	1,171,107	1,171,107	726,087	726,087	0	0	0	0
AID Grant Commitment	2,184,000													
AID Crd. Grant	3,412,500	3,412,500	6,512,000	6,512,000	6,793,500	6,793,500	5,785,000	5,785,000	6,897,500	6,897,500	8,225,000	8,225,000	0	0
SIP Loan	6,825,000	6,825,000	8,140,000	8,140,000	0	0	0	0	0	0	0	0	0	0
Foreign Loans	0		5,698,000	5,698,000	7,764,000	7,764,000	23,140,000	23,140,000	34,487,500	34,487,500	41,125,000	41,125,000	107,882,500	107,882,500
ISB Loan	0		0	0	19,410,000	19,410,000	23,140,000	23,140,000	27,590,000	27,590,000	32,909,000	32,909,000	0	0
Other Loan Grants	0													
Interest Revenues (Net)							11,570,000	11,570,000	6,897,500	6,897,500	8,225,000	8,225,000	9,807,500	9,807,500
Interest Revenues (Gross) Cum														
Loan Renewal Fee			97,256	194,525	393,482	596,621	939,471	1,276,433	1,923,181	2,578,929	3,375,474	4,184,721	5,161,847	6,146,377
Interest Revenues Received		1,162,498	2,295,933	4,586,244	6,934,808	10,868,171	14,783,025	22,218,632	29,705,485	38,798,366	48,040,164	59,187,722	74,900,888	90,529,981
Loan Origination Fees**	255,938	255,938	510,637	529,830	879,222	883,882	1,659,133	1,690,458	2,043,505	2,085,778	2,506,410	2,543,835	3,300,396	3,482,099
Revenue: Founder's Cap. CD	17,033	18,967	21,121	23,519	26,190	29,164	32,475	36,163	40,269	44,842	49,934	55,604	59,984	65,730
Interest, Res. for Equip. Replacement				5,643		11,287		16,930		22,573		28,217		33,860
Interest, Reserve for Delinquent Acct.		14,921	15,791	31,561	34,520	56,902	60,491	109,216	117,409	144,837	155,746	189,349	202,570	258,422
Loan Recuprations														
TOTAL SOURCES	14,380,643	13,375,401	25,420,353	28,618,630	45,003,759	49,367,960	85,161,037	94,287,241	116,449,157	127,982,536	154,534,147	169,072,838	219,791,542	239,953,494
OPERATING USES														
Purchase of Commodities	2,184,000													0
Operational Costs	1,535,577	1,535,577	1,904,116	1,904,116	2,361,104	2,361,104	2,927,768	2,927,768	3,630,433	3,630,433	4,501,737	4,501,737	5,582,153	5,727,223
Loan Disbursements to MGA	10,237,500	10,237,500	20,425,499	21,193,192	35,168,876	35,355,271	66,365,333	67,618,303	81,740,219	83,431,174	100,256,419	101,753,521	132,015,857	139,283,960
Annual Res. for Equip. Replacement		312,000		312,000		312,000		312,000		312,000		312,000		312,000
Fin. Exp. Disbursed		774,998	1,549,997	3,273,037	4,996,077	7,489,305	9,982,533	15,575,615	21,168,696	28,402,103	35,635,510	44,261,665	52,856,621	68,580,879
Reserves: Delinquent Loans	255,938	255,938	510,637	529,830	879,222	883,882	1,659,133	1,690,458	2,043,505	2,085,778	2,506,410	2,543,835	3,300,396	3,482,099
Reinvest Founder's Cap	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000
Reinvest Int. Founder's Cap. CD	17,033	18,967	21,121	23,519	26,190	29,164	32,475	36,163	40,269	44,842	49,934	55,604	59,984	65,730
Reinvest Int. Res. for Del	0	14,921	15,791	31,561	34,520	56,902	60,491	109,216	117,409	144,837	155,746	189,349	202,570	258,422
Total Uses of Fund	14,380,643	13,299,901	24,577,161	27,477,255	43,615,958	46,637,127	87,177,734	94,472,527	118,001,531	128,201,117	163,256,726	173,766,621	224,192,582	247,893,328
Sources - Uses	0	75,499	843,192	1,201,376	1,387,771	2,730,333	3,983,303	5,867,719	7,558,624	9,781,419	11,778,591	14,325,857	21,593,960	22,055,116
Available for Capitalization	0	75,499	843,192	1,201,376	1,387,771	2,730,333	3,983,303	5,867,719	7,558,624	9,781,419	11,778,591	14,325,857	21,593,960	22,055,116
Current Loan Portfolio	10,237,500	20,219,063	40,388,625	61,071,179	95,710,225	130,186,274	195,867,725	261,622,845	341,912,645	438,364,275	551,711,476	683,271,621	835,453,916	1,005,637,483

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SCENARIO II FONDOMICRO'S PROJECTED CASH FLOWS

CASH FLOWS	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8
INFLOWS								
AID Commodities Grant	1,160,000							
Aid Op. Exp. Grant	3,071,154	3,808,232	2,833,324	2,342,215	1,452,173	0	0	0
AID Grant: Credit	6,825,000	13,024,000	13,587,000	11,570,000	13,795,000	16,450,000	0	0
STP Loans	13,650,000	16,280,000	0	0	0	0	0	0
Commerc. Loans	0	11,396,000	15,528,000	46,280,000	68,975,000	82,250,000	215,765,000	257,235,000
IDB Loans	0	0	38,820,000	46,280,000	55,180,000	65,800,000	0	0
Other Donor Loans/Grants	0	0	0	23,140,000	13,795,000	16,450,000	19,615,000	0
Interest Revenues from NGO Loans	1,162,498	6,882,177	17,802,979	37,001,658	68,506,851	107,227,886	165,430,869	248,968,966
Loan Origination and Renewal Fees	511,875	1,332,248	2,753,207	5,565,495	8,631,394	12,610,440	18,090,719	7,755,954
Interest: Founders Cap. CD	36,000	44,640	55,354	68,638	85,112	105,539	128,714	161,759
Interest: Reserve Del. Accts.	14,921	47,352	91,422	169,707	262,246	345,094	461,057	601,467
Interest: Reserve for Equip. Replacement		5,643	11,287	16,930	22,573	28,217	33,860	39,503
TOTAL	26,431,448	52,820,292	91,482,572	172,434,642	230,705,350	301,267,175	419,525,219	514,723,147
OUTFLOWS								
Operating Costs	3,071,154	3,808,232	4,722,207	5,855,537	7,260,866	9,003,473	11,344,376	14,290,313
Purchase of Commodities	1,160,000							
Interest Payments Disbursed	774,998	4,823,033	4,996,077	25,558,147	49,570,800	79,896,575	121,467,500	186,579,285
Loan Disbursements	20,475,000	41,618,691	70,524,147	133,983,636	165,171,343	202,009,810	271,299,817	310,238,178
TOTAL	25,481,153	50,249,956	80,242,431	165,397,320	222,003,008	290,909,859	404,111,693	511,107,776
CHANGE IN CASH AND BANKS	950,295	2,570,336	11,240,141	7,037,323	8,702,341	10,357,316	15,413,525	3,615,371

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SCENARIO II FONDOMICRO'S PROJECTED SOURCES AND USES OF FUNDS STATEMENTS

SOURCES AND USES OF FUNDS	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7
SOURCES							
Change in AID Credit Grants	6,825,000	13,024,000	13,587,000	11,570,000	13,795,000	16,450,000	0
Change in AID Commodities Grant	2,184,000						
Change in Net Income	1,148,173	3,627,045	7,512,950	14,699,951	21,995,588	36,179,425	53,922,480
Change in Borrowing	13,650,000	27,676,000	54,348,000	92,560,000	124,155,000	148,050,000	215,765,000
Change in Other Donor Grants	0	0	0	23,140,000	13,795,000	16,450,000	19,615,000
Change in Interest Payable	1,549,997	3,446,080	12,475,761	11,186,164	14,466,813	17,251,111	31,388,515
TOTAL SOURCES	25,357,170	47,773,125	87,923,711	153,156,115	188,207,401	234,380,536	320,690,995
USES							
Change in Cash & Banks	950,295	2,570,336	11,240,141	7,037,323	8,702,341	10,357,316	15,413,525
Net Lending	20,219,063	40,852,116	69,115,095	131,440,620	161,437,380	197,417,621	265,455,586
Interest Receivable/Portfolio	2,295,933	4,638,875	7,848,218	14,925,460	18,331,678	26,860,724	40,035,753
Interest Receivable/Reserve Accts	15,791	18,729	25,971	56,918	38,336	46,824	81,581
Int. Receivable/Founder's Cap. CD	4,088	5,069	6,286	7,794	9,665	10,050	16,550
Int. Receivable/Equip. Rep. Acct.	0	0	0	0	0	0	0
Purchase Equipment	2,184,000						
Change Accumulated Depreciation	(312,000)	(312,000)	(312,000)	(312,000)	(312,000)	(312,000)	(312,000)
TOTAL USES	25,357,170	47,773,125	87,923,711	153,156,115	188,207,401	234,380,536	320,690,995

SCENARIO 11

FONDOMICRO'S PROJECTED INCOME STATEMENT

INCOME STATEMENT	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7
INCOME							
AID Op. Exp. Grant	3,071,154	3,808,232	2,833,324	2,342,215	1,452,173	0	0
Loan Origination and Renewal Fees	511,875	1,332,248	2,753,207	5,565,495	8,631,394	12,610,440	18,090,719
Accrued Portfolio Interest	3,458,430	11,521,052	25,651,196	51,927,118	86,838,530	134,088,610	205,466,621
Accrued Reserve Acct. Interest	30,713	66,081	117,394	226,625	300,583	391,918	542,638
Accrued Founder's Cap. Rev.	40,088	49,709	61,639	76,433	94,776	115,589	145,264
Accrued Equip. Rep. Acct. Interest	0	5,643	11,287	16,930	22,573	28,217	33,860
TOTAL	7,112,260	16,782,965	31,428,046	60,154,814	97,340,029	147,234,773	224,279,103
EXPENSES							
Operating Expenses	3,071,154	3,808,232	4,722,207	5,855,537	7,260,866	9,003,473	11,344,376
Bad Debts	255,938	766,575	1,409,052	2,543,015	3,733,963	4,592,189	5,844,231
Accrued Interest	2,324,995	8,269,113	17,471,837	36,744,311	64,037,613	97,147,686	152,856,015
Depreciation Expense	312,000	312,000	312,000	312,000	312,000	312,000	312,000
TOTAL	5,964,087	13,155,920	23,915,096	45,454,863	75,344,442	111,055,348	170,356,623
NET INCOME	1,148,173	3,627,045	7,512,950	14,699,951	21,995,588	36,179,425	53,922,480
RETURN ON RISK ASSETS	0.0754	0.0715	0.0665	0.0643	0.0575	0.0634	0.0659

SCENARIO II FONDOMICRO'S PROJECTED BALANCE STATEMENTS

BALANCE SHEET	YEAR 0	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7
ASSETS								
Cash & Banks	150,000	1,100,295	3,670,632	14,910,773	21,948,095	30,650,437	41,007,753	56,421,278
Interest Receivable/Portfolio		2,295,933	6,934,808	14,783,025	29,708,485	48,040,164	74,900,888	114,936,640
Interest Receivable/Reserve Accts .		15,791	34,520	60,491	117,409	155,746	202,570	284,151
Int. Receivable/Founder's Cap. CD	17,033	21,121	26,190	32,475	40,269	49,934	59,984	76,534
Loan Portfolio		20,219,063	61,071,179	130,186,274	261,626,895	423,064,275	620,481,896	885,937,483
Vehicles and Equip.		2,184,000	2,184,000	2,184,000	2,184,000	2,184,000	2,184,000	2,184,000
Accumulated Depreciation		(312,000)	(624,000)	(936,000)	(1,248,000)	(1,560,000)	(1,872,000)	(2,184,000)
TOTAL ASSETS	167,033	25,524,203	73,297,328	161,221,039	314,377,154	502,584,555	736,965,091	1,057,656,086
LIABILITIES								
Interest Payable		1,549,997	4,996,077	17,471,837	28,658,001	43,124,814	60,375,926	91,764,441
Borrowing		13,650,000	41,326,000	95,674,000	188,234,000	312,389,000	460,439,000	676,204,000
Founder's Capital	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
AID Grant Capital		9,009,000	22,033,000	35,620,000	47,190,000	60,985,000	77,435,000	77,435,000
Other Grant Capital		0	0	0	23,140,000	36,935,000	53,385,000	73,000,000
Surplus*	(132,967)	1,015,206	4,642,251	12,155,202	26,855,153	48,850,740	85,030,165	138,952,645
TOTAL LIABILITIES	167,033	25,524,203	73,297,328	161,221,039	314,377,154	502,584,555	736,965,091	1,057,656,086

*Surplus = profit or loss from income statement

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MASTER DRAFT
(INCLUDING TABLES)

ANNEX G

MICRO AND SMALL BUSINESS DEVELOPMENT PROJECT

: ECONOMIC ANALYSIS

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Economic Analysis

A. Macroeconomic Environment

1. Overview

The Dominican Republic is one of the poorest countries in the Western Hemisphere. In U.S. dollar terms, official World Bank calculations show that per capita Gross National Product (GNP) declined from \$1,330 in 1982 to \$680 in 1988. During this period, average annual economic growth averaged 2.3% a year in peso terms, but population growth averaged 2.9% a year, and the market value of the Dominican peso in terms of U.S. dollars depreciated, on average, 21.0% a year. GNP growth and exchange rate depreciation (parallel market) in 1989 were similar to averages for these indicators during the 1982-1988 period. Population growth, however, is estimated to have fallen to 2.2% a year.

In 1982, the economically active population was 39.4% of the total population. Unemployment was 22.0% of the work force. Over the period 1982-1989, population growth averaged 2.9% a year, and the economically active population increased, on average, 3.6% a year. By 1989, the country's work force was some 40% of the population, and unemployment exceeded 25% of the work force. The employed population rose, on average, 2.3% a year during the period. Non-traditional activities such as tourism and free trade zones have absorbed the bulk of net new jobs in recent years.

Gross domestic capital formation has averaged a strong 22.0% of gross domestic product (GDP) since 1982, rising to 25.0% for the three year period, 1987-1989. Over the seven year period, 1982-1989, capital investment spending increased 5.0% a year in real terms. Three quarters of new investment spending over the past seven years has been in the private sector.

High investment levels resulting in modest economic growth points to serious efficiency problems. These problems include recurrent destabilization of macroeconomic financial structures as indicated by periods of high inflation and exchange rate depreciation; government controls on interest rates and other key prices; paucity of trained management personnel and appropriate technologies in key economic activities; entrenched legal biases favoring inefficient import substitution activities over non-traditional agriculture and export activities; and massive deterioration of basic services such as electricity.

Evaluated at market exchange rates, the Current Account deficit of the Balance of Payments averaged 5.9% of GDP over the period 1982-1989. The best performance was in 1988 and 1989 when the deficits amounted to significantly less than 5.0% of GDP.

Over the three year period 1982-1984, the Current Account deficit of the Balance of Payments averaged 8.5% of GDP, and resulted in massive accumulation of external debt arrears that totalled \$527 million by the end of 1984. In 1985, under the aegis of a stand-by arrangement with the International Monetary Fund (IMF) and an A.I.D. ESF program, the GODR made cash payments of

\$126 million and rescheduled \$303 million of accumulated external debt arrears, reducing the stock of external debt arrears at the end of 1985 to just \$138 million. In 1985, net external loans and grants to the GODR and the Central Bank, including IMF resource flows and rescheduling, amounted to \$619 million.

Net financial flows in 1985, including interest payments, amounted to \$326 million. During the period 1986-1989, net financial flows have averaged negative \$329 million per year, on an obligation basis. Accordingly, despite lower current account deficits in recent years, adequate financing has not been available, resulting in a new build-up of external debt arrears. The stock of external debt arrears by the end of 1989 were on the order of \$800 million. Projected net financial flows for 1990 are on the order of negative \$500 million. The balance of payments financing gap in 1990, including elimination of external debt arrears, is estimated at \$1.2 billion, equivalent to 75% of projected exports of goods and non-factor services, or 16% of projected GNP.

2. Inflation Trends

Official Central Bank estimates of inflation (basis: CPI, December over December) indicate an annual average of 25.2% during the period 1981-1989 as per the following:

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	%
1981	7.5
1982	7.2
1983	7.7
1984	38.8
1985	28.4
1986	6.5
1987	25.0
1988	57.6
1989	<u>41.2</u>
Average	25.2

For project design purposes, inflation has been projected at 42%/yr for 1990 and 1991; and 24%/yr after 1991. U.S. dollar inflation is projected at 4%/yr.

3. Exchange Rate Trends

During the period 1981-1989, the peso-U.S. dollar exchange rate depreciated 85%, an average annual depreciation of 20.6%/yr (based on average exchange rates in December of each year), as follow:

December Exchange Rates and Annual Depreciation 1981-1989

	<u>Free Market Rates</u>		<u>Official Rates</u>	
	<u>Pesos/Dollar</u>	<u>Appreciation(+) or Depreciation(-)</u>	<u>Pesos/Dollar</u>	<u>Appreciation(+) or Depreciation(-)</u>
1981	1.31	-6.1	1.00	0.0
1982	1.50	-20.7	1.00	0.0
1983	2.55	-41.2	1.00	0.0
1984	3.09	-17.5	1.00	0.0
1985	2.94	+5.1	2.94	-66.0
1986	3.06	-3.9	2.96	-0.7
1987	4.84	-36.8	4.84	-38.8
1988	6.41	-24.5	6.35	-23.8
1989	8.33	-23.0	6.35	0.0
Period Ave.	3.38	-20.6	2.90	-20.6

The official exchange rate was devalued to RD\$7.60/dollar sell and RD\$7.25/dollar buy at the end of April, 1990. The market exchange rate has averaged about RD\$10.50/dollar since devaluation, indicating over-valuation of the official rate on the order of 38%.

For project design and budgeting purposes, the official buy rate of RD\$7.25 has been assumed to persist through A.I.D. FY 1991. Analyses done under this assumption correspond to a "worst case" low portfolio alternative. For comparison purposes, a "best case" scenario, designated the high portfolio alternative, has been developed to illustrate the impact on/of the project were market exchange rates, rather than an over-valued official exchange rate available to the project.

The Project Paper exchange rate assumptions, corresponding to an over-valued official rate and market rates based on the Mission's inflation assumptions, are as follow:

<u>A.I.D. Fiscal Years</u>	<u>Low Portfolio Assumption</u>	<u>High Portfolio Assumption</u>
1991	7.25	13.65
1992	8.64	16.28
1993	10.30	19.41
1994	12.29	23.14
1995	14.65	27.59
1986	17.47	32.90
1997	20.83	39.23

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4. Income and Employment Trends

According to a 1984 study, income distribution in the Dominican Republic was not unusually skewed, compared to those of other developing countries. In 1984, the poorest 20% of households earned 5.4% of total income; the best-off 20% earned 49.8% of total income.

Income distribution has likely become somewhat more skewed since 1984. The minimum wage for public sector employees, for example, has declined 25% in real terms since 1984, as the following table indicates.

Minimum Monthly Wage
1980-1989

	Public Sector		Private Sector**	
	Pesos	U.S.Dollars(*)	Pesos	U.S.Dollars(*)
1980	812.41	97.53	812.41	97.53
1981	756.84	90.86	756.84	90.86
1982	706.23	84.78	706.23	84.78
1983	655.99	78.75	655.99	78.75
1984	665.21	79.86	665.21	79.86
1985	740.44	88.89	740.44	88.89
1986	695.03	83.44	695.03	83.44
1987	556.16	66.77	778.46	93.45
1988	564.63	67.78	705.79	84.73
1989(***)	500.00	60.02	650.00	78.03

(*) U.S. Dollar values calculated at free market exchange rate (December average).

(**) Larger companies.

(***) Includes increase in minimum wage implemented in June, 1989, but does not include additional amounts agreed to in October, 1989: large private sector companies - RD\$700; Free Trade Zones, Agroindustry - RD\$650; medium size private sector companies - RD\$500; small companies - RD\$450; and daily agricultural wage - RD\$15.

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Government employment accounts for about 10% of total employment. In 1989, fully 75% of the government workforce earned only the minimum wage. This reflects the fact that the public sector is often an employer of last resort, and the very high unemployment that has exceeded 25% of the workforce the past several years.

Estimates of GDP Growth Rates by Sources

Year	Central Bank		GODR Planning Office(ONAPLAN)		World Bank		USAID	IMF
	03/89	09/89	03/90	1/90	10/89	02/90(*****)	12/89	12/89
1984		0.3						0.3
1985		-2.6						-2.6
1986	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
1987	8.1	7.2	7.9	7.2	8.1	7.2	8.1	7.2
1988	0.5	1.1	0.7	1.1	0.5	1.9	0.5	1.1
1989	3.1*	3.9*	4.2	3.8	3.5*	5.8	1.0*	2.2*
Average 1984-1989 (**)	2.2	2.1	2.7	2.1	2.1	2.6	1.7	1.9
Average Per Capita Growth (***)	-0.3	-0.2	0.4	-0.2	-0.2	-0.2	0.6	-0.4
Average Household Income (****)	0.0	0.1	0.7	0.1	0.1	0.6	-0.3	-0.1

* Projection

** Central Bank estimates used for all sources for 1984 and 1985.
Average includes 1984 over 1983.

*** 2.3% /year.

**** 2.0% /year.

***** Unofficial; based on an unauthorized draft published in Listín Diario, a local newspaper in March, 1990; includes Free Trade Zone activity not included in official national accounts estimates.

As the foregoing table indicates, consensus estimates of economic growth since 1983 are on the order of an average 2% a year. Growth in household incomes, however, has been approximately zero. On the other hand, there is somewhat less consensus on growth during the three year period 1987-1989. World Bank estimates made in February, 1990, indicate average GDP growth of 4.9% a year (2.6% per capita; 2.9% for households). USAID December, 1989 estimates for the period are much more conservative: GDP growth of 3.1%; per capita income growth of 1.1% and income growth of households, 1.4%.

In any event, the numbers clearly indicate that lower income groups are receiving significantly less of the total income pie, since these groups comprise the bulk of the large pool of unemployed and persons earning only minimum wage.

5. Economic Growth Prospects

Recent scenarios for economic growth prospects over the medium term are set forth in the following table.

	GDP Growth Rates(%)			
	IMF 12/89	World Bank 10/89	Optimistic USAID 12/89	Pessimistic USAID 03/90
1990	2.2	3.5	2.5	-1.0
1991	2.8	4.5	2.9	0.0
1992	3.0	5.0	3.5	1.0
Ave.1993/94	3.8	5.6	4.5	1.0
Annual Average 1990-1994*	3.1	4.8	3.6	0.4

* Ave. includes 1990 over 1989.

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The USAID optimistic scenario and the scenarios outlined by the IMF and the World Bank are predicated on continued improvements in economic policy implementation. This would include rapid progress on reducing inflation to single digit levels. Otherwise, the USAID pessimistic scenario of approximately zero or even negative growth is likely.

B. Demand and Supply of Sector Credit

1. Demand for Credit by Microenterprises

The MSI study (see Bibliography) estimates that there were about 145,000 microenterprises in the Dominican Republic in 1988, and reports on the characteristics of microenterprises in Santo Domingo and Santiago, estimated to total 107,000 microenterprises. The MSI study did not include middle class neighborhoods and so did not include about 100,000 enterprises located in these areas, and near-by areas. The demand for credit will be estimated assuming that the characteristics of microenterprises throughout the country are generally similar to those for which sales and employment data were developed using MSI data. Value added estimates assume that value added by broad type of microenterprise in the Dominican Republic is not significantly different from that developed in sector studies elsewhere. The estimated 100,000 enterprises located in middle class neighborhoods are not taken into account.

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The breakdown of sales data for the three types of microenterprise described in the MSI study is roughly as follows, based on mean annual sales data for 1988:

TYPE OF ENTERPRISE	<u>DOMINICAN PESOS</u>						
	NON-LABOR INPUTS	VALUE ADDED			ADDL.OWNER COMPENSATION AND PROFIT	TOTAL VALUE ADDED	TOTAL SALES
		OWNER SALARIES	EMPLOYEES	TOTAL			
Services	5,211	13,2983	12,762	26,055	3,474	29,529	34,740
Commercial	104,436	16,835	35,373	52,218	17,406	69,624	174,060
Manufacturing	34,251	16,872	36,951	53,823	9,786	63,609	97,860
Total(ave.)	61,043	15,748	28,648	44,396	11,716	56,112	117,155
% of Sales	52.1	13.4	24.5	37.9	10.0	47.9	100.0

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Basing calculations on median annual sales data, representing a typical company of the three types, provides more conservative estimates:

DOMINICAN PESOS

TYPE OF ENTERPRISE	NON-LABOR INPUTS	VALUE ADDED			ADDL. OWNER COMPENSATION AND PROFIT	TOTAL VALUE ADDED	TOTAL SALES
		SALARIES OWNER	EMPLOYEES	TOTAL			
Services	2,855	7,283	6,991	14,274	1,903	16,177	19,032
Commercial	15,602	2,517	5,285	7,802	2,600	10,402	26,004
Manufacturing	4,568	2,235	4,896	7,131	1,297	8,428	12,996
Total(ave.)	9,664	3,944	5,743	9,687	2,150	11,837	21,501
% of Sales	44.9	18.4	26.7	45.1	10.0	55.1	100.0

Permanent working capital "requirements" can be calculated in terms of wage bill and non-labor input needs by type of enterprise. Working capital needs assume one week of salaries for services and commercial enterprises and one month of salaries for manufacturing operations; plus one week of non-labor inputs for services enterprises and two months of non-labor inputs for commercial and manufacturing operations. The following table indicates permanent working capital requirements based on mean and median sales survey results by type of enterprise:

DOMINICAN PESOS

TYPE OF ENTERPRISE	BASIS: MEAN DATA (HIGH)			BASIS: MEDIAN DATA (LOW)		
	SALARIES	OTHER	TOTAL	SALARIES	OTHER	TOTAL
Services	501	100	601	274	55	329
Commercial	1,004	17,406	18,410	150	2,600	2,750
Manufacturing	4,485	5,708	10,193	594	761	1,355
Total	1,475	9,936	11,411	268	1,480	1,748
Perm.WC as % of sales	1.3	8.5	9.8	1.2	6.9	8.1

The foregoing data provides a basis for estimating the ability of microenterprises to service credit were it to be made available to them in the context of credit for financing permanent working capital, independent of survey results indicating levels of desired financing.

Assuming maximum credit on the order of 70 percent of permanent working capital requirements, the range of total potential credit demand, by type of enterprise in 1988 can be established:

TYPE OF ENTERPRISE	NUMBER OF ENTERPRISES	MILLIONS OF PESOS	
		LOW TOTAL DEMAND ESTIMATE	HIGH TOTAL DEMAND ESTIMATE
Services	44,950	10.3	18.9
Commercial	73,950	142.4	953.0
Manufacturing	26,100	24.8	186.2
All microenterprises	145,000	177.5	1,158.1

NOTE: Excludes credit needs for capital investment and temporary working capital.

As can be seen, the range of potential demand is extremely wide. Moreover, the MSI survey results were not tabulated to easily facilitate reducing this range. Nevertheless, potential credit demand is on the order of 6 percent of sales, and available tabulations of sales data indicate that about 83 percent of microenterprise sales are less than the calculated mean sales. Many of the larger enterprises that pull up the mean sales estimate may not, in fact, be microenterprises, and may qualify for formal sector credit. Excluding the four percent of surveyed enterprises with sales exceeding RD\$50,000 a month, the high total demand estimate is reduced to RD\$695.7 million. The survey

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indicates that only 60% of surveyed enterprises indicated a desire for credit, averaging RD\$8,000.00 each. Although this yields RD\$696 million, it includes the credit requirements of relatively large enterprises. Assuming that the percentage of all enterprises desiring credit is distributed proportionately among all enterprises, the potential demand estimate can be further reduced to RD\$417.4 million.

A portion of the demand for loans of RD\$8,000 (1988 pesos) or more can probably be obtained from finance companies, suppliers, and even commercial banks. Were the credit indicated for these enterprises reduced by, say, 50%, then total credit demand of microenterprises for 1988 amounted to RD\$276 million, equivalent to some RD\$548 million in 1990 pesos.

Only about 48% of the 155,000 microenterprises estimated for 1990 can be expected to qualify for NGO credit, were it available. This demand is roughly as follows:

SIZE OF LOAN (PESOS)	NUMBER OF LOANS	AVE. SIZE (PESOS)	TOTAL (MILLIONS OF PESOS)
Less than 3,000	26,800	1,500	40.2
3,000 - 4,999	22,300	4,000	89.2
5,000 - 9,999	12,400	7,500	93.0
10,000 - 19,999	5,700	15,000	85.5
20,000 or more	8,000	30,000	240.0
TOTAL	75,200	7,285	547.9

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Demand for loans of less than RD\$3,000 constitutes over one-third of the total demand for credit. However, the cost of servicing loans of this size is prohibitive; accordingly, this demand is expected to be met only for microenterprise projects of exceptional quality and potential.

Tables 1 and 2 indicate high and low demand projections, and the distribution of demand over the life of the project, A.I.D. Fiscal Years 1991-1997.

2. With and Without Project NGO Credit Availabilities

Tables 3 through 10 summarize NGO capabilities to meet the demand for credit to microenterprises with and without the project during the period 1991-1997. Without the project, the system's potential portfolio would be limited to real annual growth on the order of 3% /yr., rising from about RD\$79 million in 1991 to RD\$343 million in 1997, expressed in current pesos. In constant 1990 pesos, NGO portfolios without the project would be constrained to RD\$56 million in 1991 and RD\$66 million in 1997. With the project, including the expected improvement in NGO technical and administrative capabilities due to the technical assistance component of the project, as well as substantially increased availability of credit resources expected to be mobilized by FONDOMICRO, the potential ability of the NGO system to effectively deliver and administer credit is expected to increase by a factor of ten, compared to the without project alternative.

By 1997, actual system portfolios with the project under the low portfolio alternative is shown to be 80% higher than potential without the project, and 135% higher under the high portfolio alternative. Without the project, the NGO system would be able to meet only about 9% of system demand by 1997, compared to 10% in 1990. With the project, by 1997 the NGO system will be capable of servicing 25% of projected demand under the low portfolio assumption and 40% of projected demand under the high portfolio assumption. Credit available due to the project in 1997 is projected at 16% of projected demand under the low portfolio assumption and 31% under the high portfolio assumption.

Of the additional credit provided due to the project, direct credit represented by the end-of-project FONDOMICRO portfolio will meet 13% of total demand under the low portfolio assumption and 24% of total demand under the high portfolio assumption. The remaining credit availabilities due to the project will be from the build-up of NGO portfolios indirectly transferred by FONDOMICRO based on the built-in concessional element of FONDOMICRO credit policies to NGO's and the assumption that none of this concessional element will be passed on to end-users of system credit. By 1997, for example, 22% of project related financing will result from these intra-system transfers.

The distribution of credit to end-users by type of enterprise is expected to be initially similar to portfolio composition without the project. In 1989, analysis of the sector's portfolios indicated that 51% of all credit corresponded to manufacturing enterprises, even though these enterprises

constituted only about 18% of all sector businesses. Some 30% of NGO portfolios were made up of businesses engaged in service activities, which corresponded roughly to the incidence of this kind of business in the sector as a whole (31%). Only 19% of total NGO lending was found to correspond to commercial enterprises, compared to an over-all sector incidence of commercial enterprises of 51%, due to 1) the greater loan risk resulting from very high turnover in the sub-sector, 2) the relatively low employment generation history of this type of enterprise compared to manufacturing activities, and 3) the relatively low value added to sales characteristic of commercial activities, compared to other activities.

Due to scale considerations, the distribution of NGO portfolios in 1997 for the low and high portfolio alternatives will differ. Under the low portfolio assumption, the distribution will change little from relative portfolio compositions before the project. But under the high portfolio assumption, the 1997 distribution will change, resulting in a relative increase in credit to commercial enterprises, to 34% (vs. 19%) and a decrease in services to 15% (vs. 30%). This will occur because the demand for credit from the services sub-sector is significantly less than that of other sector activities and an effective cap on NGO credit to the sector corresponding to about 40% of total demand due to 1) the high cost of servicing very small loans, and 2) the difficulty of physically lending to services enterprises in all locations.

C. Employment Due to the Project

Microenterprise activities employ relatively labor intensive technologies. Credit to microenterprises is a fast, economically efficient way to stimulate the creation of new jobs and productive economic activity. Studies of the impact of credit on creating new jobs in the microenterprise sector for the period 1985-1987 indicate that roughly US\$1,000 (1986 prices) in new credit resulted in one new, permanent job. In 1990 prices, this is equivalent to about US\$1,150, or RD\$11,500.

This paper uses these findings to project new jobs with and without the project. Projections also assume that reflows, which largely sustain a new activity, as opposed to actually generating it, are assumed to create further jobs at about 17% of the efficiency of new credit, based on the assumption that project beneficiaries will accumulate capital roughly at a rate equivalent to the opportunity cost of capital implicit in the incremental capital-output ratio of ICOR=6 characteristic of the economy as a whole; thereby freeing up one sixth of reflows for completely new activities. The cycle for a given amount of credit is assumed to repeat at six year intervals, less a modest 2.5% reduction for bad debts and other system losses.

In addition to efficiently generating new jobs, credit also allows for employing technologies that raises labor's marginal product, thereby increasing output per unit of labor employed. A modest improvement in labor productivity on the order of 2.0% /yr has been assumed. For a given amount of credit, this reduces new jobs created in return for higher incomes to labor

and increased profits to the businesses affected. Accordingly, by 1997, the cost of a new job in terms of credit provided will rise about 15% to RD\$13,250 (1990 prices). This means that new jobs generated by new infusions of system credit will be 13% less than a scenario with no change in productivity, but will result in increased average value added by financed activities commensurate with the increased cost, in credit terms, of a new job; that is, 15%. Over a 20 year period, actual new jobs created will be one-third fewer, but average incomes will be 50% higher.

Table 11 through 15 detail with and without the project new job creation based on the foregoing assumptions. Without the project, NGO credit programs can be expected to create about 875 jobs/yr, or 6,100 jobs during the period 1991-1997. Additional jobs due to the project under the low portfolio assumption are indicated at 1,776 jobs/yr, or 12,435 during the period 1991-1997. Under the high portfolio assumption, job creation rises to 3,345 new jobs/yr, and totals 23,417 new jobs during the period 1991-1997. For the NGO sector over-all, nearly 30,000 new jobs will be generated during the period.

D. Impact of Project Credit on Sector Sales and Value Added

Value added is projected as a function of sales, based on the sub-sector relationships indicated in the text of Section B where the parameters for estimating credit demand are discussed. These relationships are:

Value added in commercial activities - 40% of sales

Value added in manufacturing activities - 65% of sales

Value added in service activities - 85% of sales.

Tables 16 through 24 show with and without project forecasts of sales and value added by type of microenterprise and project portfolio size assumption. The potential impact of the project on sales and value added during the life of the project, 1991-1997, is dramatic. Under the low portfolio assumption, total sector value added is expected to grow 3.8% /yr, compared to 3.5% /yr without the project. Value added from services activities will grow 4.2% /yr with the project low portfolio compared to 3.5% without the project; negligible impact on commercial activities is indicated; and manufacturing output will grow 3.7% /yr with the project low portfolio compared to 3.0% /yr without the project.

Under the high portfolio assumption, total sector value added is shown to grow 4.1% /yr over the period 1991-1997, compared to 3.5% without the project: services activities 4.4%, compared to 3.5%; commercial activities 3.9%, compared to 3.7%; and manufacturing 4.5%, compared to 3.0%.

E. Economic Viability of the Project

The design framework for the project, the financial and economic analyses, the technical analysis and the social analysis were all developed simultaneously. The benefits and costs projected in the economic analysis are based strictly

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on the credit portfolios analyzed in the purpose level financial analyses, with additional projections at the goal level over a 20-year period as compared to the 7-year life-of-project analysis that pertains to the purpose level analyses. The economic and financial costs are identical for the high portfolio alternative, since the financial analysis of the high portfolio alternative assumed competitive, market exchange rates. The economic and financial costs corresponding to the "worst case" low portfolio assumption, however, are different. All U.S. dollar funded project components were priced at market exchange rates, rather than the assumed over-valued official exchange rate. In addition, the cost of the import content of project financed investment, additional self-financed investment, and inputs of raw materials and supplies were adjusted to reflect market exchange rates.

Tables 25 through 36 detail all economic benefits and costs, and the basis for their development. Net benefits are projected through A.I.D. Fiscal Year 2011. The Economic Internal Rate of Return for the "worst case" low portfolio alternative is just under EIRR=18%, which is roughly equivalent to the opportunity cost of capital in the Dominican Republic. The high portfolio alternative yields an Economic Internal Rate of Return greater than 50%.

Conclusion: the project is economically viable, yielding benefits substantially greater than alternative uses of the inputs employed with any outcome better than the assumed "worst case" low portfolio alternative. Even the "worst case" scenario yields economic benefits sufficient to justify the project based on the opportunity costs of the inputs employed.

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Table 1
Demand for Credit
by Microenterprises

	<u>Millions of 1990</u> <u>Pesos</u>		
	<u>Low</u>	<u>Expected</u>	<u>High</u>
1991	484	570	656
1992	500	593	686
1993	515	617	719
1994	530	641	752
1995	546	667	788
1996	561	693	825
1997	577	721	865

Note: demand projections are independent of whether the project goes forward. A viable project may have the effect of increasing demand by the mid-1990s. Low/High estimates, + 15% in 1991; + 20% in 1997. Assumed growth rate for: projected expected value, 4.0%; low projections, 3.0%; high projections, 4.7%.

Table 2

Estimated Credit Demand by
 Type of Microenterprise Beneficiary
 1991 ' 97

Millions of constant 1990 pesos

	Services	Commercial	Manufacturing	Total
1991	70	277	223	570
1992	72	291	230	593
1993	74	306	237	617
1994	76	321	244	641
1995	80	336	251	667
1996	82	352	259	693
1997	86	368	267	721

Table 3

Percent of Credit Demand Met
Due to the Project by
Type of Microenterprise Beneficiary

Year	<u>Percent of Sector Demand</u>							
	Low Portfolio Assumption				High Portfolio Assumption			
	Services	Commerc.	Manufact.	Total	Services	Commerc.	Manufact.	Total
1991	2.9	0.7	1.8	1.4	5.7	1.1	3.1	2.5
1992	8.3	1.0	4.3	3.2	13.9	2.4	7.4	5.7
1993	13.5	2.3	14.3	5.5	24.3	3.6	13.1	9.7
1994	22.4	3.4	11.9	8.9	36.8	5.6	19.7	14.7
1995	28.8	4.5	15.9	11.7	38.8	11.0	27.9	20.7
1996	35.4	5.4	19.3	14.1	39.0	16.5	36.3	26.6
1997	39.5	6.2	22.5	16.2	39.5	20.4	42.7	30.9

Table 4
 NGO System Credit Portfolios
 With and Without the Project
 1990-1997

Millions of Current Pesos

Year	Potential System Portfolio		Low Portfolio Assumpt.		High Portfolio Assumpt.	
	w/o Project (3% real growth)	w/Project (30% real growth)	Project Financing	Due only to the Project	Project Financing	Due only to the Project
1990	54	54	-	-	-	-
1991	73	100	11	11	20	20
1992	101	161	33	33	62	60
1993	129	259	74	74	139	130
1994	164	418	153	153	289	254
1995	210	673	261	261	491	343
1996	268	1,065	408	408	767	567
1997	343	1,709	616	616	1,150	850

Table 5
Credit Supply and Demand Summary:
Quantification

Millions of 1990 Pesos

	Expected Credit Demand	Credit Provided by NGOs			Credit Provided due to Project	
		w/o project Reference	w/project low portfolio	w/project high portfolio	low portfolio	high portfolio
1991	570	56	64	70	9	14
1992	593	57	76	91	19	34
1993	617	59	93	111	34	60
1994	641	61	113	133	57	94
1995	665	63	141	154	74	118
1996	693	64	162	187	98	154
1997	721	66	183	219	117	203

Table 6

Credit Supply and Demand Summary:
Distribution of
Supply by Origin

Percent of Demand

	w/o Project Reference	Credit Provided by NGOs		Credit Provided due to Project		Credit Provided Directly by FONDOMICRO	
		w/Project Low Portf	High Portf	Low Portf	High Portf	Low Portf	High Portf
1991	9.8	11.2	12.3	1.4	2.5	1.4	2.5
1992	9.6	12.8	15.3	3.2	5.7	3.0	5.7
1993	9.7	15.1	14.3	5.5	9.7	5.2	9.7
1994	9.1	18.4	24.2	8.9	14.7	8.0	15.1
1995	9.4	21.1	29.1	11.7	20.7	10.0	18.0
1996	9.2	23.4	35.8	14.1	26.6	11.4	21.1
1997	9.2	25.4	40.1	16.2	30.9	12.6	23.0

Table 7

Project Credit Portfolio by Type of
Microenterprise Beneficiary

Year	<u>Millions of constant 1990 Pesos</u>							
	Low Portfolio Assumption				High Portfolio Assumption			
	Services	Commerc.	Manufact.	Total	Services	Commerc.	Manufact.	Total
1991	2	2	4	8	4	3	7	14
1992	6	3	10	19	10	7	17	34
1993	10	7	17	34	18	11	31	60
1994	17	11	29	57	28	18	48	94
1995	23	15	40	78	31	37	70	138
1996	29	19	50	98	32	58	94	184
1997	34	23	60	117	34	75	114	223

Table A
 Source of NGO Financing
 Low Portfolio Assumption

Millions of 1992 Pesos

Year	Own Capital and Other Non-Project Sources	Portfolio Transfers	Direct FONDOMICRO Credit	Total
1991	56	-	8	64
1992	57	1	18	76
1993	59	2	32	93
1994	61	6	51	118
1995	63	11	67	141
1996	64	19	79	162
1997	66	26	91	183

Table 9
 Source of NGO Financing
 High Portfolio Assumption

Millions of 1990 Pesos

Year	Own Capital and Other Non-Project Sources*	Project Sources		Total
		Portfolio Transfers from FONDOMICRO	Direct FONDOMICRO Credit	
1991	56	-	14	70
1992	56	1	34	91
1993	55	4	60	119
1994	48	10	97	155
1995	55	20	126	201
1996	64	35	149	248
1997	66	51	172	289

*Reduced, relative to low portfolio assumption, due to FONDOMICRO activities and portfolio transfers, 1992-1997.

Table 10

Distribution of System
Sources Funds for NGO's

	<u>Percent of Total</u>						
	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
<u>Low Portfolio Assumption</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Own Capital and Other Non-Project Sources	87.5	75.0	63.4	51.7	44.7	39.5	36.1
Indirect FONDOMICRO Portfolio Transfers	-	1.3	2.2	5.1	7.8	11.7	14.2
Direct FONDOMICRO Credit	12.5	23.7	34.4	43.2	47.5	48.8	49.7
<u>High Portfolio Assumption</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Own Capital and Other Non-Project Sources	80.0	61.5	46.2	31.0	27.4	25.8	22.8
Indirect FONDOMICRO Portfolio Transfers	-	1.1	3.4	6.5	10.0	14.1	17.6
Direct FONDOMICRO Credit	20.0	37.4	50.4	62.6	62.6	60.1	59.6

Table 11

Summary: New Jobs from NGO Credit Programs:
With and Without the Project

	W/O Project		Due to the Project				Cumulative Number of Jobs			
			Low Portfolio		High Portfolio		Low Portfolio		High Portfolio	
	No Change In Production	2% Annual Incr. In Production								
1991	922	905	696	682	1,237	1,212	1,618	1,586	2,159	2,116
1992	1,876	1,802	1,766	1,696	3,174	3,048	3,642	3,498	5,050	4,850
1993	2,855	2,687	3,338	3,142	5,923	5,575	6,193	5,829	8,778	8,262
1994	3,868	3,568	5,818	5,366	9,745	8,988	9,686	8,934	13,613	12,556
1995	4,907	4,436	8,449	7,637	14,929	13,495	13,356	12,073	19,836	17,931
1996	5,980	5,297	11,290	10,001	20,925	18,536	17,270	15,298	26,905	23,833
1997	7,060	6,129	14,324	12,435	26,974	23,417	21,384	18,564	34,034	29,546

1/29/91

Table 12

W/O Project Job Creation by
NGO Credit Programs

		<u>Number of New Jobs</u>						
W/O Project Change in System Portfolio Millions of 1990 Pesos		W/O Project New System Jobs w/o Change in Productivity						
		1991	1992	1993	1994	1995	1996	1997
1990	Portfolio	783	783	783	783	783	783	763
1991	1.6	139	23	23	23	23	23	22
1992	1.7		148	25	25	25	25	25
1993	1.7			148	25	25	25	25
1994	1.8				157	26	26	26
1995	1.8					157	26	26
1996	1.9						165	26
1997	1.9							165
Annual Total	12.4	922	954	979	1,013	1,039	1,073	1,080
Cumulative Total	12.4	922	1,876	2,855	3,868	4,907	5,980	7,060
4/2% Productivity Growth								
Annual Total		904	898	885	881	868	861	8,321
Cumulative Total		904	1,802	2,687	3,568	4,436	5,297	6,129

See Note 1 to the Project
2000-2001

Year	Part of Project Change for Various Assumptions in Millions of Dollars	See Note 1 to the Project 2000-2001															
		1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002				
1991	8	696	110	113	113	113	110	110	110	110	110	107	107	107	107	105	105
1992	11	957	155	155	155	155	155	155	155	155	155	152	152	152	152	152	152
1993	15	1,304	212	212	212	212	207	207	207	207	207	207	207	201	201	201	201
1994	21	2,000	377	377	377	377	377	377	377	377	377	377	377	377	377	377	377
1995	21	1,277	207	207	207	207	207	207	207	207	207	207	207	207	207	207	207
1996	20	1,710	281	281	281	281	281	281	281	281	281	281	281	281	281	281	281
1997	19	1,277	207	207	207	207	207	207	207	207	207	207	207	207	207	207	207
Total	117	696	1,070	1,572	2,440	2,601	2,641	2,641	2,641	2,641	2,641	2,641	2,641	2,641	2,641	2,641	2,641
Contingency	117	696	1766	3118	5018	8429	11299	12922	15021	16613	18217	19821	21422	23028	24630	26235	27839

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Table 14

Summary of Net New Jobs
Created by the Project
Low Portfolio Assumption

	Change in Productivity		Productivity Increase: 2%/Yr.	
	Annual	Cum.	Annual	Cum.
1991	696	696	682	682
1992	1,370	1,766	1,014	1,696
1993	1,572	3,338	1,446	3,142
1994	2,480	5,818	2,224	5,366
1995	2,631	8,449	2,271	7,637
1996	2,341	11,290	2,364	10,001
1997	3,034	14,324	2,434	12,435
1998	1,647	15,971	1,153	13,588
1999	1,742	17,613	1,097	14,685
2000	1,634	19,247	1,041	15,726
2001	1,626	20,873	988	16,714
2002	1,619	22,492	936	17,650
2003	1,610	24,102	885	18,535
2004	1,606	25,708	840	19,375
2005	1,600	27,308	794	20,169
2006	1,592	28,900	749	20,918
2007	1,585	30,485	706	21,624
2008	1,578	32,063	664	22,288
2009	1,569	33,632	623	22,911
2010	1,565	35,197	587	23,498

Table 15

New Jobs Created by the Project
High Portfolio Assumption

	Due to Project Change in High System Portfolio 1993 Prices Millions of Pounds	Net New Jobs: No Change in Labor Productivity																			
		1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1991	14	1,217	198	198	198	198	198	193	193	193	193	193	188	188	188	188	188	188	188	188	188
1992	7		1,710	293	293	293	290	290	283	283	283	283	283	283	276	276	276	276	276	276	276
1993	26			2,261	377	377	377	377	377	367	367	367	367	367	367	358	358	358	358	358	358
1994	14				2,957	441	441	441	441	431	431	431	431	431	431	431	431	431	431	431	431
1995	14					1,825	638	638	638	638	638	622	622	622	622	622	622	622	622	622	622
1996	455						4,000	667	667	667	667	667	659	659	659	659	659	659	659	659	659
1997	89							1,391	565	565	565	565	565	565	551	551	551	551	551	551	551
Annual Total		1237	1937	2729	3822	5184	5996	6049	3216	3206	3193	3177	3160	3141	3134	3125	3113	3097	3081	3062	3055
Cumulative Total		1237	3174	5923	9745	14929	20925	26974	30190	33396	36589	39776	42926	46067	49201	52326	55439	58536	61617	64679	67734
		Net New Jobs: 2% Change in Productivity																			
Annual Total		1212	1836	2527	3413	4507	5041	4881	2268	2159	2052	1946	1843	1742	1653	1566	1481	1394	1311	1229	1159
Cumulative Total		1212	3048	5575	8988	13495	18536	23417	25685	27844	29896	31842	33685	35427	37080	38646	40127	41521	42832	44061	45220

Table 16

Forecast Microenterprise Sales: 1990

Type	Number of Enterprises (thousands)	Average Sales (thous. of Pesos)	Total Sector Sales (millions of Pesos)
Services	48.2	69.5	3,349.9
Commercial	79.5	348.1	27,674.0
Manufacturing	27.7	195.7	5,429.9
Total	155.4	234.5	36,444.8

Table 17

W/O Project Sales Projections by
Type of Microenterprise
1991-2010

Millions of constant 1990 pesos

Year	Services (3.5%/Yr.)	Commercial (3.7%/Yr.)	Manufacturing (3.0%/Yr.)	Total
1991	3,467	28,698	5,584	37,749
1992	3,588	29,760	5,751	39,099
1993	3,714	30,801	5,924	40,439
1994	3,848	31,941	6,101	41,890
1995	3,979	33,123	6,284	43,386
1996	4,118	34,348	6,473	44,939
1997	4,262	35,619	6,667	46,548
1998	4,411	36,937	6,867	48,215
1999	4,566	38,304	7,073	49,943
2000	4,725	39,721	7,285	51,731
2001	4,891	41,191	7,504	53,586
2002	5,062	42,715	7,729	55,506
2003	5,239	44,295	7,961	57,495
2004	5,422	45,934	8,200	59,556
2005	5,612	47,634	8,446	61,692
2006	5,809	49,396	8,699	63,904
2007	6,012	51,224	8,960	66,196
2008	6,222	53,119	9,229	68,570
2009	6,440	55,085	9,506	71,031
2010	6,666	57,123	9,791	73,580

Table 18

Impact of Credit Due to Project
on Sales by Microenterprises:
Low Portfolio Assumption
1991-1997

Millions of constant 1990 pesos

Year	Services	Commercial	Manufacturing	Total
1991	9	8	17	34
1992	27	15	43	85
1993	52	28	80	160
1994	88	52	138	278
1995	128	75	202	405
1996	171	102	269	542
1997	214	132	343	689

Table 19

Impact of Credit Due to Project
on Sales by Microenterprises:
High Portfolio Assumption
1991-1997

Millions of constant 1990 pesos

Year	Services	Commercial	Manufacturing	Total
1991	19	12	29	60
1992	48	30	75	153
1993	91	52	142	285
1994	148	85	234	467
1995	201	170	368	739
1996	228	308	543	1,079
1997	251	455	720	1,426

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Table 20

W/O Project Sector Value Added Projections
by Type of Microenterprise
1990-2010

Year	<u>Millions of constant 1990 pesos</u>			
	Services	Commercial	Manufacturing	Total
1990	2,847	11,070	3,524	17,441
1991	2,947	11,479	3,630	18,056
1992	3,050	11,904	3,738	18,692
1993	3,157	12,320	3,851	19,328
1994	3,271	12,776	3,966	20,013
1995	3,382	13,249	4,085	20,716
1996	3,500	13,739	4,207	21,446
1997	3,623	14,248	4,334	22,205
1998	3,479	14,775	4,464	22,988
1999	3,881	15,322	4,597	23,800
2000	4,016	15,888	4,735	24,639
2001	4,157	16,476	4,878	25,511
2002	4,303	17,086	5,024	26,413
2003	4,453	17,718	5,175	27,346
2004	4,609	18,374	5,330	28,313
2005	4,770	19,054	5,490	29,314
2006	4,938	19,758	5,654	30,350
2007	5,100	20,490	5,824	31,424
2008	5,289	21,258	5,999	32,536
2009	5,474	22,034	6,179	33,687
2010	5,666	22,849	6,364	34,879

Table 21

With Project Sector Value Added Projections
by Type of Microenterprise
1990-1997

Millions of Constant 1990 Pesos

Year	Low Portfolio Assumption				High Portfolio Assumption			
	Services	Commerc.	Manufact.	Total	Services	Commerc.	Manufact.	Total
1990	2,847	11,070	3,524	17,441	2,847	11,070	3,524	17,441
1991	2,955	11,482	3,641	18,078	2,963	11,484	3,649	18,096
1992	3,094	11,910	3,795	18,749	3,091	11,916	3,787	18,794
1993	3,201	12,331	3,903	19,435	3,234	12,341	3,943	19,518
1994	3,346	12,797	4,056	20,199	3,397	12,810	4,118	20,325
1995	3,491	13,279	4,216	20,986	3,553	13,317	4,324	21,194
1996	3,645	13,780	4,382	21,807	3,694	13,862	4,560	22,116
1997	3,805	14,301	4,557	22,663	3,836	14,430	4,802	23,068
Average Annual Growth (%): w/o Project	3.5	3.7	3.0	3.5	3.5	3.7	3.0	3.5
w/project	4.2	3.7	3.7	3.8	4.4	3.9	4.5	4.1

Table 22

Impact of Credit Due to Project
on Value Added: Low Portfolio Assumption
1991-1997

Millions of constant 1990 pesos

Year	Services	Commercial	Manufacturing	Total
1991	8	3	11	22
1992	23	6	28	57
1993	44	11	52	107
1994	75	21	90	186
1995	109	30	131	270
1996	145	41	175	361
1997	182	53	223	458

Table 23

Impact of Credit Due to Project
on Value Added: High Portfolio Assumption
1991-1997

Millions of constant 1990 pesos

Year	Services	Commercial	Manufacturing	Total
1991	16	5	19	40
1992	41	12	49	102
1993	77	21	92	190
1994	126	34	152	312
1995	171	68	239	478
1996	194	123	353	670
1997	213	182	468	863

Table 24

Sector Value Added Due to Project
1990-2010

Millions of constant 1990 pesos

Year	Low Portfolio Assumption		High Portfolio Assumption	
	Annual	Cumulative	Annual	Cumulative
1990	-	-	-	-
1991	22	22	40	40
1992	57	79	102	142
1993	107	186	190	332
1994	186	372	312	644
1995	270	642	478	1,122
1996	361	1,003	670	1,792
1997	458	1,461	863	2,655
1998	511	1,972	966	3,621
1999	564	2,536	1,069	4,690
2000	616	3,152	1,171	5,861
2001	668	3,820	1,273	7,134
2002	720	4,540	1,374	8,508
2003	772	5,312	1,475	9,983
2004	823	6,135	1,575	11,558
2005	874	7,009	1,675	13,233
2006	925	7,934	1,770	15,003
2007	976	8,910	1,869	16,872
2008	1,026	9,936	1,967	18,839
2009	1,076	11,012	2,065	20,904
2010	1,126	12,138	2,163	23,067

Table 25

U.S. Dollar Value of A.I.D. Grants to Project
1991-1997Thousands of Current U.S. Dollars

Year	A.I.D. Non-Credit Grants	A.I.D. Credit Grants	Total A.I.D. Grants
1991	756.1	500.0	1,256.1
1992	805.0	800.0	1,605.0
1993	707.0	700.0	1,407.0
1994	554.9	500.0	1,054.9
1995	371.2	500.0	871.2
1996	124.0	500.0	624.0
1997	279.2	-	279.2
Total	3,597.4	3,500.0	7,097.4

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Table 26

Dominican Peso Value of A.I.D. Grants to Project
1991-1997

Thousands of Current Pesos Evaluated
at Average Market Exchange Rates

Year	Ave. Mkt. Exchange Rate Pesos/Dollar	A.I.D. Non-Credit Grants	A.I.D. Credit Grants	Total A.I.D. Grants
1991	13.65	10,320.8	6,825.0	17,145.8
1992	16.28	13,105.4	13,024.0	26,129.4
1993	19.41	13,722.9	13,587.0	27,309.9
1994	23.14	12,840.4	11,570.0	24,410.4
1995	27.59	10,241.4	13,795.0	24,036.4
1996	32.90	4,079.6	16,450.0	20,529.6
1997	39.23	10,953.0	-	10,953.0
Total	21.21	75,263.5	75,251.0	150,514.5

Table 27

Inputs to Project of Other Donor Dollar Funded Resources
1991-1997

Year	Thousands of Current U.S. Dollars	Ave. Mkt. Exchange Rate Pesos/Dollar	Thousands of Current Dominican Pesos Equivalent at Average Market Exchange Rate
1991		13.65	-
1992		16.28	-
1993	2,000.0	19.41	38,820.0
1994	3,000.0	23.14	69,420.0
1995	2,500.0	27.59	68,975.0
1996	2,500.0	32.90	82,250.0
1997	500.0	39.23	19,615.0
<hr/>			
Total	10,500.0	26.58	279,080.0

Table 28

Counterpart Inputs of Local Currency by FONDOMICRO
 Founders, GODR and Commercial Lenders:
 Low Portfolio Assumption
 1990-1997

<u>Thousands of Current Pesos</u>				
Year	FONDOMICRO Founders	GODR	Commercial Lenders	Total
1990	300.0	-	-	300.0
1991	-	7,250.0	-	7,250.0
1992	-	8,640.0	6,048.0	14,688.0
1993	-	-	8,248.0	8,248.0
1994	-	-	24,580.0	24,580.0
1995	-	-	36,625.0	36,625.0
1996	-	-	43,675.0	43,675.0
1997	-	-	114,565.0	114,565.0
<hr/>				
Total	300.0	15,890.0	233,741.0	249,931.0

Table 29

Counterpart Inputs of Local Currency by FONDOMICRO
 Founders, GODR and Commercial Lenders:
 High Portfolio Assumption
 1990-1997

Thousands of Current Pesos

Year	FONDOMICRO Founders	GODR	Commercial Lenders	Total
1990	300.0	2	-	300.0
1991	-	13,650.0	-	13,650.0
1992	-	16,280.0	11,396.0	27,676.0
1993	-	-	15,528.0	15,528.0
1994	-	-	46,280.0	46,280.0
1995	-	-	68,975.0	68,975.0
1996	-	-	82,250.0	82,250.0
1997	-	-	215,765.0	215,765.0
Total	300.0	29,930.0	440,194.0	470,424.0

Table 30

Unfunded Operating Costs
1991-1997

Thousands of Current Pesos

Year	FONDOMICRO	NGOs*		Total	
		Low Portfolio Assumption	High Portfolio Assumption	Low Portfolio Assumption	High Portfolio Assumption
1991	-	2,576.9	4,851.8	2,576.9	2,576.9
1992	-	7,959.6	14,993.8	7,959.6	7,959.6
1993	1,888.9	17,719.2	33,368.4	19,608.1	21,497.0
1994	3,513.3	36,826.3	69,346.1	36,831.9	40,345.2
1995	5,808.7	62,578.1	117,842.4	68,386.8	74,195.5
1996	9,003.5	97,803.4	184,177.9	106,806.9	115,810.4
1997	11,164.3	147,873.1	276,087.4	159,037.4	170,201.7

* 24% of project related portfolio. Costs associated with non-project portfolio excluded.

Table 31

Total Project Inputs: Low Portfolio Assumption*
1990-1997

Millions of Pesos

Year	CURRENT PESOS				Total	Constant 1990 Pesos Total
	A.I.D. Funding	Other Donor Funding	Counterpart & Commercial Funding	Unfunded Operations Costs		
1990	-	-	0.3		0.3	0.3
1991	17.1	-	7.2	2.6	26.9	18.9
1992	26.1	-	14.7	8.0	48.8	27.7
1993	27.3	38.8	8.2	19.6	93.9	43.0
1994	24.4	69.4	24.6	36.8	155.2	57.3
1995	24.1	69.0	36.6	68.4	198.1	59.0
1996	20.5	82.3	43.7	106.8	253.3	60.8
1997	11.0	19.6	114.6	159.0	304.2	58.9
Total	150.5	279.1	249.9	401.2	1,080.7	325.9

* Excludes non-project inputs provided by project beneficiaries.

Table 32

Total Project Inputs: High Portfolio Assumption*
1990-1997

Millions of Pesos

Year	A.I.D. Funding	CURRENT PESOS			Total	Constant 1990 Pesos
		Other Donor Funding	Counterpart & Commercial Funding	Unfunded Operations Costs		
1990	-	-	0.3		0.3	0.3
1991	17.1	-	13.6	2.6	33.3	23.5
1992	26.1	-	27.7	8.0	61.8	35.1
1993	27.3	38.8	15.5	21.5	103.1	47.2
1994	24.4	69.4	46.3	40.3	180.4	66.6
1995	24.1	69.0	69.0	74.2	236.3	70.4
1996	20.5	82.3	82.2	115.8	300.8	72.3
1997	11.0	19.6	215.8	170.2	416.6	80.7
Total	150.5	279.1	470.4	432.6	1,332.6	396.1

Excludes non-project inputs provided by project beneficiaries.

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Table 33

Sales, Value Added and Costs of
Project Beneficiaries: 1991-1997

Millions of constant 1990 pesos

	1991	1992	1993	1994	1995	1996	1997
<u>Low Portfolio Assumption</u>							
Sales	34	85	160	278	405	542	689
Value Added	22	57	107	186	270	361	458
Raw Mtls & Supplies	11	25	48	83	121	163	208
- Local Origin	(5)	(10)	(19)	(33)	(48)	(65)	(84)
- Import Content	(6)	(15)	(29)	(50)	(73)	(98)	(124)
Capital Consumption	1	3	5	9	14	18	23
<u>High Portfolio Assumption</u>							
Sales	60	153	285	467	739	1,079	1,426
Value Added	40	102	190	312	478	670	863
Raw Mtls & Supplies	18	46	87	139	237	375	520
- Local Origin	(7)	(18)	(36)	(55)	(104)	(181)	(263)
- Import Content	(11)	(28)	(51)	(84)	(133)	(194)	(257)
Capital Consumption	2	5	8	16	24	34	43

Note: Assumptions

Capital consumption equivalent to 5% of value added; import content of raw materials and supplies, 18% of sales, unadjusted for Market Exchange Rates. Table excludes capital investment and permanent working capital requirements.

Table 34

Non-Project Inputs and Costs: Low
Portfolio Assumption
1991-1997

Millions of constant 1990 pesos

Year	Exchange Rate Adjustment Project Financed Inputs *	Add'l Capital Investment and Working Capital not Project Financed (at actual cost)	Exchange Rate Adjustment Add'l Capital and W/C not Project Financed	Raw Mtls. and Supplies (at actual cost)	Exchange Rate Adjustment Raw Mtls. and Supplies	Total
1991	3	8	3	11	5	20
1992	6	12	6	25	12	61
1993	9	18	9	48	25	109
1994	13	28	13	83	42	179
1995	14	31	14	121	61	241
1996	15	33	15	163	82	208
1997	19	43	19	208	104	394

*To reflect market exchange rates for import content:
capital investment and
working capital - 50%;
Raw mats and supplies - see Table 33

Table 35

Non-Project Inputs and Costs: High
Portfolio Assumption
1991-1997

Millions of constant 1990 pesos

Year	Additional Investment and Working Capital not Project Financed	Raw Mtls. and Supplies	Total
1991	14	18	32
1992	22	46	68
1993	31	87	118
1994	43	139	182
1995	59	237	296
1996	67	375	442
1997	81	520	601

Table 36

Project Cash Flows: Economic Benefits and Costs
1990-2011

Millions of constant 1990 pesos

Year	Low Portfolio Assumption				High Portfolio Assumption			
	Annual Value Added	Project Inputs	Non-Project Inputs and Costs	Net Cash Flow	Annual Value Added	Project Inputs	Non Project Inputs and Costs	Net Cash Flow
1990	-	-	-	-	-	-	-	-
1991	22	19	20	-17	40	24	32	-16
1992	57	28	61	-32	102	35	68	-1
1993	107	43	109	-45	190	47	118	25
1994	186	57	179	-50	312	67	182	63
1995	270	59	241	-30	478	70	296	112
1996	361	61	308	-8	670	72	442	156
1997	458	59	394	5	863	81	601	262
1998	511	24	434	53	966	32	676	258
1999	564	24	479	61	1,069	32	759	278
2000	616	24	524	68	1,171	32	831	308
2001	668	24	568	76	1,273	32	910	331
2002	720	24	612	84	1,374	32	989	353
2003	772	24	656	92	1,475	32	1,069	374
2004	823	23	700	100	1,575	31	1,150	394
2005	874	23	743	108	1,675	31	1,231	413
2006	925	23	786	116	1,770	31	1,310	429
2007	976	23	830	123	1,869	31	1,383	455
2008	1,026	23	872	131	1,967	31	1,475	461
2009	1,076	23	915	138	2,065	31	1,559	475
2010	1,126	22	957	147	2,163	30	1,644	489
2011	1,178	22	1,001	155	2,265	30	1,732	503

LAC-IEE-90-20

ENVIRONMENTAL THRESHOLD DECISION

Project Location : Dominican Republic
Project Title : Micro and Small Business Development
Project Number : 517-0254
Funding : \$7 million (G)
 \$4.025 million LC Counterpart
Life of Project : 7 years (FY 90-97)
IEE Prepared by : Peter W. Amato, PDO
 USAID/Dominican Republic
Recommended Threshold Decision : Categorical Exclusion
Bureau Threshold Decision : Concur with Recommendation
 Comments : None
 Copy to : Thomas Stukel, Director
 USAID/Dominican Republic
 Copy to : Peter W. Amato, USAID/DR
 Copy to : Dianne Blane, LAC/DR/CAR
 Copy to : Andre DeGeorges, REA/CAR
 Copy to : IEE File

ACTION PED	
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John O. Wilson Date APR - 6 1990

John O. Wilson
Deputy Environmental Officer
Bureau for Latin America
and the Caribbean

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INITIAL ENVIRONMENTAL EXAMINATION

Project Location: Dominican Republic
Project Title: Micro and Small Business Development
Project Number: 517-0254
Funding: US\$7.0 Million Grant
US\$4.025 Million Equivalent Local
Currency Counterpart
Life of Project: . 7 years - FY 90 - 97
Environmental Action Recommended: Categorical Exclusion Sought
(Section 216.2 (c)(2)(x) of 22 CFR
Part 216)

IEE Prepared by: Peter W. Amato
USAID/DR
Project Development and
Implementation Support
Office



Signature

Date: 3/16/90



Rafael Genao, Mission
Environmental Officer

Date: 3/20/90

Justification: The proposed project seeks to increase employment and incomes of the poor by improving access to credit and technical assistance by the informal micro and small business sector of the Dominican Republic. The purpose of the Project is to develop the Fund for the Financing of Microenterprise (FONDOMICRO) into a viable, financially self-sustaining organization directly servicing the informal micro and small business sector. The project will include technical assistance and commodities and provide operational support and lending capital to FONDOMICRO which will channel project resources to its client organizations who in turn provide technical services and credit directly to small/microbusinesses. The project should be considered for a categorical exclusion in accordance with 22 CFR Section 216.2(c)(2)(x) which relates to, "support for intermediate credit institutions when the objective is to assist in the capitalization of the institution or part thereof and when such support does not involve reservation of the right to review and approve individual loans made by the institution."

A major objective of the project is to capitalize FONDOMICRO and at the same time strengthen its clients who will sublend funds obtained by FONDOMICRO to small/micro businesses. Due to the large number of loans contemplated, A.I.D. will not review or approve individual loans FONDOMICRO makes to its clients or the subloans the clients make to the small/micro businesses. Further, it is not expected that the loans/subloans financed under the project will negatively affect the environment to any extent. The majority of the small/micro-business targetted under the project are in the service subsector. Approximately one-half of these loans will go to street/food vendors, with most of the remainder divided among beauty shop owners, cabinet makers, tailors and "públicos" (public service buses/cars) for vehicle repair. A few subloans may go to small, cottage-industry type businesses. The principal use for the subloans will be for working capital. Such loans will average \$400-500 in size and be given for periods of four-six months. Some subloans will be provided to finance production machinery such as electric generators and sewing machines in amounts up to \$30,000. During preparation of the Project Paper, guidelines to protect the environment will be developed for the approval of such loans. These guidelines will include provisions to ensure that the subloans do not finance activities which negatively impact on the environment. For example, due to the overall size of the project, it already has been decided that construction of new plants or similar physical infrastructure will be excluded. Also, due to the nature of the intended target groups, procurement of pesticides will be excluded as an eligible subloan purpose under the project. Finally, although reviews of individual loans/subloans will not be made, A.I.D. will: (A) as part of its overall project monitoring responsibilities observe the types and kinds of loans financed under the project to assure that none are provided for activities that will have a negative environmental impact; and (B) include in each project evaluation a review of the client organizations' sublending practices to determine both how effectively project funds were utilized and to assure that the subloans have not funded any activities that may be detrimental to the environment. It is, therefore, recommended that this project be categorically excluded from further consideration of environmental impact in accordance with the Agency's Environmental Procedures as stated in 22 CFR Section 216.2 (c)(2)(x).

CONCURRENCE: Raymond F. Rifenburg, Acting Mission Director

Raymond F. Rifenburg Date March 22, 1990

Clearance:

PED: ABeasley AB Date 3/15/90

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PDS: RPSMathia: pg: 3-15-90

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?

The required country checklist for FY 1990 is attached as Annex C to the Private Initiatives in Primary Education Project Paper (Project No. 517-0251).

YES

A. GENERAL CRITERIA FOR PROJECT

1. FY 1990 Appropriations Act Sec. 523; FAA Sec. 634A. If money is sought to obligate 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). 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
3. FAA Sec. 611(a)(2). If legislative action is required within recipient country with respect to an obligation in excess of \$500,000, 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

4. FAA Sec. 611(b); FY 1990 Appropriations Act 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
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. Project will encourage development and use of credit unions and savings and loan associations for lending to NGO's through FONDOMICRO for on lending to informal small and micro enterprises. As such the Project also will foster private initiative and competition.
8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise) Project will indirectly encourage U.S. private trade and investment to the extent that the Informal Small and Micro Enterprise (ISME) sectors demand U.S. goods and products as a result of increased capacity under the Project.

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.
- The Project Agreement will require that counterpart contributions (GODR and FONDOMICRO) be used in the implementation of project activities.
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?
- There is no excess U.S. owned local currency available for this project.
11. FY 1989 Appropriations Act 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?
- N/A
12. FY 1990 Appropriations Act Sec. 547. 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?
- N/A
13. FAA Sec. 119(g)(4)-(6) & (10). 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
- N/A

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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?

14. FAA Sec. 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 1990 Appropriations Act, Title II, under heading "Agency for International Development." 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 1990 Appropriations Act Sec. 537. 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 1990 Appropriations Act Sec. 514. If funds are being obligated under an appropriation account to which they were, not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures? N/A

18. 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). N/A
19. Trade Act Sec. 5164 (as interpreted by conference report), amending Metric Conversion Act of 1975 Sec. 2. Does the project use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? a) NO
b) N/A
20. FY 1990 Appropriations Act, Title II, Under heading "Women in Development." Will assistance be designed so that the percentage of women participants will be demonstrably increased? Women constitute more than half of the ISME sector and will be direct beneficiaries of credit made available under the project.
21. FY 1990 Appropriations Act Sec. 592(a). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies, has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account? N/A

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Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

- a. FY 1990 Appropriations Act Sec. 546 (as interpreted by conference report for original enactment). 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 (1) 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 (2) in support of research that is intended primarily to benefit U.S. producers? N/A
- b. FAA Sec. 107. Is special 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
- c. 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 recognizes the particular needs, desires, and capacities of the D.R. by concentrating on providing credit to the ISME sector through existing NGO's. It aims to increase the NGO's technical capacity and to assist them to be able to borrow funds from private banks for on-lending to their clients.

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- d. FAA Sec. 101(a). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth? YES
- e. FAA Secs. 102(b), 111, 113, 281(a). Describe extent to which activity will (1) 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 insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (2) 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; (3) support the self-help efforts of developing countries; (4) 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. The fundamental problem addressed by the project is the high unemployment in the D.R. The project will increase employment in the ISME sector by providing credit to small and micro enterprises which can then expand production.
- f. FAA Secs. 103, 103A, 104, 105, 106, 120-21; FY 1990 Appropriations Act, Title II, under heading "Subsaharan Africa, DA," (Development Fund for Africa). Does the project fit the criteria for the source of funds (functional account) being used? N/A

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- g. FY 1990 Appropriations Act, Title II, under heading "Sub-Saharan Africa, DA." Have local currencies generated by the sale of imports or foreign exchange by the government of a country in Sub-Saharan Africa from funds appropriated under Sub-Saharan Africa, DA been deposited in a special account established by that government, and are these local currencies available only for use, in accordance with an agreement with the United States, for development activities which are consistent with the policy directions of Section 102 of the FAA and for necessary administrative requirements of the U.S. Government? N/A
- h. 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)? See b. above
- i. 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
- j. 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

- k. 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 skill required for effective participation in governmental processes essential to self-government. See c. above
1. FY 1990 Appropriations Act, under heading "Population DA", and Sec. 535.
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 made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization? NO
- Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a abroad range of family planning methods and services? N/A
- In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning? N/A
- 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

- m. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? YES
- n. FY 1990 Appropriations Act, Sec. 579. What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, will be historically black colleges and universities, colleges and universities having a student body in which more than 40 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)? No funds are specifically set aside. However, inclusion of such minorities and disadvantaged groups encouraged during the project's procurement process.
- o. 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: (1) stress the importance of conserving and sustainably managing forest resources; (2) 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; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase N/A

production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) 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; (10) seek to increase the awareness of U.S. government agencies and other donors of the immediate and long-term value of tropical forests; and (11)/utilize the resources and abilities of all relevant U.S. government agencies?

- p. FAA Sec. 118(c)(13). 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 (1) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land, and (2)/take full account of the environmental impacts of the proposed activities on biological diversity?

N/A

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q. FAA Sec. 118(c)(14). Will assistance be used for (1) 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 (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas? NO

r. FAA Sec. 118(c)(15). Will assistance be used for (1) activities which would result in the conversion of forest lands to the rearing of livestock; (2) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands; (3) the colonization of forest lands; or (4) the construction of dams or other water control structures which flood relatively undergraded 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? NO

s. FY 1990 Appropriations Act Sec. 534 (a). If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry? N/A

NO

t. FY 1990 Appropriations Act Sec. 534(b).

If assistance relates to energy, will such assistance focus on improved energy efficiency, increased use of renewable energy resources, and national energy plans (such as least-cost energy plans) which include investment in end-use efficiency and renewable energy resources?

N/A

Describe and give conclusions as to how such assistance will: (1) increase the energy expertise of A.I.D. staff, (2) help to develop analyses of energy-sector actions to minimize emissions of greenhouse gases at least cost, (3) develop energy-sector plans that employ end-use analysis and other techniques to identify cost-effective actions to minimize reliance on fossil fuels, (4) help to analyse fully environmental impacts (including impact on global warming), (5) improve efficiency in production, transmission, distribution, and use of energy, (6) assist in exploiting nonconventional renewable energy resources, including wind, solar, small-hydro, geo-thermal, and advanced biomass systems, (7) expand efforts to meet the energy needs of the rural poor, (8) encourage host countries to sponsor meetings with United States energy efficiency experts to discuss the use of least-cost planning techniques, (g) help to develop a cadre of United States experts capable of providing technical assistance to developing countries on energy issues, and (10) strengthen cooperation on energy issues with the Department of Energy, EPA, World Bank, and Development Assistance Committee of the OECD.

N/A

- u. FY 1990 Appropriations Act Title under heading "Sub-Saharan Africa, DA." (as interpreted by conference report upon original enactment). If assistance will come from the Sub-Saharan Africa DA account, is it (1) 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; (2) being provided in accordance with the policies contained in section 102 of the FAA; (3) 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; (4) 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; (5) 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

N/A

and restore the renewable 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?

- v. International Development Act Sec. 711, FAA Sec. 463. If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (1) the world's oceans and atmosphere, (2) animal and plant species, and (3) parks and reserves; or describe how the exchange will promote: (4) natural resource management, (5) local conservation programs, (6) conservation training programs, (7) public commitment to conservation, (8) land and ecosystem management, and (9) regenerative approaches in farming, forestry, fishing, and watershed management.

N/A

- w. FY 1990 Appropriations Act Sec. 515. If deob/reob authority is sought to be exercised in the provision of DA 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

For purposes of this project, which is completely DA grant-funded, Sections 2, "Development Assistance Project Criteria (Loan Only)" and 3, "Economic Support Fund Criteria" are not applicable.

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ANNEX K

(5) ACTION: AID-2
 INFO: AMB DCM AC
 VZCZCDG0247
 PF RUEHDG
 FF RUEHC #1280 0882342
 ZNR UUUUU ZZH
 P 292339Z MAR 90
 FM SECSTATE WASHDC
 TO AMEMBASSY SANTO DOMINGO PRIORITY 2133
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LOC: 368 711
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 CN: 14964
 CHR: AID
 DIST: AID

SILE

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E.O. 12356: N/A

TAGS:

SUBJECT: MICRO AND SMALL BUSINESS DEVELOPMENT (517-0254)
 - DELEGATION OF PID APPROVAL AUTHORITY

REF: SANTO DOMINGO 02328

1. ON MARCH 28, 1990 ACTING AA/LAC REAFFIRMED THE AA/LAC'S EARLIER DELEGATION OF PID APPROVAL AUTHORITY TO THE MISSION FOR THE SUBJECT PROJECT, AS IT HAS BEEN REVISED TO AN ESTIMATED LIFE-OF-PROJECT FUNDING LEVEL OF DOLS 7.0 MILLION FOR IMPLEMENTATION OVER A PERIOD OF SEVEN YEARS.

2. APPROVAL MEMO HAS BEEN FAXED TO MISSION. PLEASE POUCH COPIES OF APPROVED PID TO LAC/DR FOR DISTRIBUTION. PAKER

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