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EVALUATION AND PRELIMINARY PROJECT DESIGN
FOR THE USAID/BOLIVIA
MICRO AND SMALL ENTERPRISE DEVELOPMENT PROGRAM

by
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INTRODUCTION

The DAI consulting team comprised of Henry Jackelen, Team Leader; Robert Blayney, Survey Specialist; and John Magill, Design Specialist began work in Bolivia on August 23, 1987. The task of the team, as defined by PIO/T #511-0472 and subsequently clarified after extensive discussions with USAID/B, was agreed to be as follows:

1) Evaluation of PRODEM: Institutional and financial performance as well as contractor performance (AITEC);

2) Preliminary beneficiary impact analysis of PRODEM borrowers;

3) Analytical paper describing options available to USAID/Bolivia for implementating a micro- and small-scale enterprise support project.

The first drafts of the report were presented on September 18 and 21 to USAID/Bolivia for comment. Suggestions, clarifications and additions were incorporated in the final draft that was left with USAID/Bolivia prior to team departure on September 25, 1987. Due to the complexity and importance of the document it was decided to use part (4 days) of the balance of work days remaining under the PIO/T to permit the Design Specialist complete final editing in the U.S. The final document was to be sent to USAID/Bolivia no later than October 2, 1987.

The team concentrated its efforts in La Paz, taking one trip to Cochabamba for additional interviews. The following is a list of people interviewed by the team:

<u>USAID/B</u>
Mr. J. Van Rolte
Mr. G. Wachtenheim
Mr. A. Diaz
Mr. D. Jessee
Mr. E. Garcia
Mr. E. Kadunc
Ms. C. Millikan
Ms. H. Arellano
Mr. M. Hoyos
Mr. G. Vega
Mr. O. Antesana

<u>CACEN</u>
Mr. Ernesto Wende
Mr. Eduardo Frias
Mr. Rodrigo Vera Vega
Mr. Robert Boni

<u>PRODEM/CEPB</u>
<u>PRODEM Board of Directors</u>
Mr. Carlos Ituraldi
Mr. Fernando Romero
Mr. David Blanco
Mr. Javier Gordillo

<u>PRODEM staff</u>
Mr. Francisco Otero
Ms. Monica Vellasco
Mr. Luis Gheng
and program staff

<u>FENACRE (Cochabamba)</u>
Mr. Alberto Montero Cossio

UCP/FOCAS/UCF
Mr. Peter Fraser, FOCAS
Mr. Luis Ampuero, RONCO
Mr. E.S. Guillen, UCF, La Paz
Mr. G. Guzman, UCF, Cochabamba

UDAPE
Mr. Arthur J. Mann, HIID
Mr. Freddy Valverde

At CEDLA
Mr. Roberto Casanovas
Mr. E. H. Kritz, ILO (Lima)
Mr. M. A. Castielia, IDESI (Lima)

At ASPIPAC (Cochabamba)
Mr. J.P. Balderrama
and 8 members of the
Directorio

FEBOPI/ADEPI (La Paz)
Mr. Fernando Fernandez, INASET
and Managers of FEBOPI and
ADEPI/La Paz

In addition, the Survey Specialist interviewed 35 beneficiaries of the PRODEM project.

The DAI team wishes to express its gratitude to the many people who helped in the preparation of this report through their information, guidance and constructive critiques of the initial drafts.

The attached final report is submitted in fulfillment of the requirements of PIO/T No. 511-0472.

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INSTITUTIONAL ANALYSIS OF THE FUNDACION PARA LA PROMOCION Y DESARROLLO DE LA MICROEMPRESA (PRODEM)

SECTION ONE. INSTITUTIONAL ANALYSIS OF THE FUNDACION PARA LA PROMOCION Y DESARROLLO DE LA MICROEMPRESA (PRODEM)

I. INTRODUCTION

A. Background

While the PRODEM program only became operational in February 1987, with its first loans to micro enterprises, efforts to create the program date back to 1984. Late that year members of the staff and Board of Directors of Accion International/AITEC made presentations to private and public sector entities in Bolivia in an effort to develop interest in initiating a credit and training program for micro-enterprises along the lines of AITEC-sponsored programs in 8 other Latin American countries.

As a result of these efforts a group of well-known Bolivian businessmen, in association with the Confederacion de Empresarios Privados Bolivianos (CEPB), agreed to form an ad hoc committee to create a new foundation that would provide training, technical assistance and credit to micro enterprises in the city of La Paz. By January 1985 the statutes of the new foundation had been drafted and the lengthy process of registration for the new entity begun.

In early 1985 AITEC conducted an extensive study of the informal sector in La Paz. This five-month effort resulted in a report on the status of the informal sector, and a feasibility study indicating the positive benefits that would result from a formal program to help the sector. However, AITEC, in conjunction with the prospective directors of the new foundation, decided to postpone initiation of the program until the economic instability and hyperinflation that characterized the Bolivian economy in 1985 had decreased to a level that would permit a viable credit program. The proposed project design was approved for future implementation, and the participants agreed that AITEC would be responsible for contracting the program director and providing on-going technical assistance to the new foundation.

A year later, in June 1986, when inflation levels were drastically reduced, AITEC and the PRODEM board began to seek the funding that would allow the program to start.

USAID/Bolivia had been involved in the AITEC effort since November 1985, when the Mission Director formally invited AITEC to investigate the possibilities of establishing a program. USAID/Bolivia was kept informed by AITEC and the Directors of the new foundation of all activities, as it was understood that USAID/Bolivia was predisposed to finance a micro-enterprise credit and training program if the feasibility could be demonstrated and a Bolivian entity found to undertake such a program.

In July 1986 AITEC presented a proposal for a pilot project consisting of technical assistance from AITEC, loan funds, and budget support for operating expenses and commodities for PRODEM. USAID/Bolivia and AITEC signed a grant agreement for $150,000 in September 1986 to establish the pilot program. The grant agreement, which provided funding through January 1988, included a $260,000 loan for revolving credit fund and a $150,000 grant for operating expenses and commodities from PL 480 Title III funds. Under the terms of the grant agreement, the CEPB was to provide $100,000 -- $77,000 for a revolving loan fund and $23,000 for equipment. The projected financial plan for PRODEM was as follows:

Table I-1

Projected Financial Resources for PRODEM
(in US Dollars)

	PRODEM/CEPB	PL 480	USAID	TOTAL
1. Rotating Credit Fund	77,000	260,000	-	337,000
2. Equipment	23,000	-	-	23,000
3. Operating Expenses	-	150,000	-	150,000
4. Technical Assistance	-	-	150,000	150,000
Totals	100,000	410,000	150,000	660,000
Percent of Total	15%	62%	23%	100%

B. Present Status -- Project Funding

The status of actual disbursements to the program, as of August 31, 1987, appears in Table I-2 below.

Table I-2

Actual Disbursements to PRODEM
(in US Dollars)

SOURCE	AMOUNT TO DATE	TOTAL BUDGET	% DISBURSED
PRODEM[1]	$70,000	$100,000	70%
PL 480 Loan[2]	71,000	260,000	27%
PL 480 Grant[3]	42,300	150,000	23%
USAID[4]	75,000	150,000	50%
Total	$258,300	$ 660,000	40%

1. The Board of Directors in fact only committed to provide $80,000.
2. Two disbursements have been made -- for approximately $30,000 in February 1987 and $40,000 in August 1987.
3. One disbursement made for approximately $42,300 in January.
4. Actual disbursements through March 1987 amounted to approximately $50,000, an estimated $25,000 in additional funds have been disbursed through the end of August 1987.

C. Present Status -- Credit and Training

The PRODEM program provides training and credit services to micro-enterprises in the city of La Paz. These micro-enterprises are divided into two distinct groups: Micro-Comerciantes (Micro-Sellers) and Micro-Productores (Micro-Producers) The program loosely defines a micro-productor as anyone who is able to add value of 50 percent to raw materials. Service enterprises are, for the most part, included in this category.

Credit and training activities began in February 1987 for micro-comerciantes and in June for micro-productores. Between February and August PRODEM disbursed $123,500 (approximately Bs247,000) in loans to 822 beneficiaries. Of these beneficiaries, 88 percent were women and 12 percent men. Micro- productores represented only 121 of the 822 beneficiaries (15 percent of the total). All but five of the 701 micro-comerciantes in the program are women; most of the micro-productores receiving loans were men.

Of the micro-comerciantes, 255 have received second loans, and 119 have received third loans under the program. With the exception of one group, all of the micro-productores are working with their first loans.

As all loans are working capital loans -- between 2 and 4 months in duration -- the turnover of loans is rapid. The program has recovered $65,500 (Bs131,000) in principal payments since inception, leaving a balance of loans outstanding of $58,000 (Bs116,000) as of August 31, 1987. At the present time the program has a 100 percent on-time recovery rate.

At the present time training consists primarily of sessions required to obtain loans. All borrowers have participated in one to three of these sessions, which last between one and two hours. Micro-comerciantes are required to attend three sessions, while micro-productores are required to attend only one. The sessions cover the terms and conditions of loans, the importance of group formation and group guarantees, the use of loans, and conditions for obtaining new loans. In addition, PRODEM runs three courses for micro-comerciantes covering group formation, use of money and leadership. PRODEM is presently designing courses for micro-productores in the areas of accounting, sales, marketing and production.

II. FINANCIAL ANALYSIS

A. Financial Policies and Mechanisms

PRODEM uses a computerized fund-based accounting system which presently consists of four funds, each with separate bank accounts:

1. Patrimonio (net worth) -- this fund comprises two bank accounts, one denominated in dollars and the other in local currency. All funds in those accounts are from the donations of PRODEM directors, their firms and the CEPB. The total amount deposited in this fund to date is approximately $70,000. It is used for fixed asset and equipment purchases as well as general operating expenses. Budget categories do not exist for this fund.

2. PL 480 (Grant) -- This fund comprises a single bank account where PL 480 grant disbursements are deposited. Budget categories approved by the PL 480 Secretariat are used in managing these funds. Categories approved for expenditure from this fund include: fixed asset and equipment purchases and general operating expenses. The total amount deposited in this fund through August 31, 1987, was $42,306 (Bs84,612).

3. PL 480 (Loans) -- This fund comprises a single bank account which is used for disbursements and receipts of loans; all loans made by the program have been disbursed and recovered in this account. As of August 31, 1987, the fund was capitalized by two PL 480 loan disbursements totalling some $70,000 (Bs140,000). Total PRODEM loan disbursements from the account have amounted to $123.325 (Bs 246,650); recoveries (including interest) have amounted to $66,655 (Bs133,310).

   This fund and account represent the revolving loan fund mechanism established by PRODEM. A special (informal) arrangement was established with a bank (the Banco Boliviano Americano) through which borrowers receive their loan disbursements from this account on checks signed by PRODEM. PRODEM also issues payment advises in three copies, which are stamped by the bank. Upon payment, one copy remains with the group and one with the bank. The bank sends the third copy to PRODEM on a daily basis. While some problems in loss of payment advises were reported, the mechanism appears to be working well.

4. PRODEM/AITEC - This fund comprises a single bank account for transfers of funds from AITEC under the USAID/Bolivia grant. Monthly transfers of approximately $2,500 (for a total of $15,500) were made to this account through August 1987. Funds are used for general program support. The grant which funds AITEC is budgeted PRODEM does not have this fund budgeted.

PRODEM's policy is to segregate expenses and revenues by these funds. Occasional short-falls, however, have caused PRODEM to make transfers between accounts. The computerized system accurately tracks these short-term transfers and adjusts when funds are available.

PRODEM's fund accounting system is fully computerized. The evaluation team was not able to make an audit of the system. However, several discrepancies were noted which, while natural in a new software package, could be problematic as the program grows. The system, as implemented, produces no consolidated income and expense report. This made the evaluation team's work difficult. In addition, the system produces no income/expense variance reports, does not produce a "balance comprobance de sumas y saldos", and apparently does not produce cost-center (administration, micro-productores, micro-comerciantes) reports.

B. Financial Situation and Net Worth

Table I-3 summarizes PRODEM's balance sheet as of July 31, 1987:

Table I-3

Reconstructed PRODEM Balance Sheet, as of 7/31/87
(In Bs)

	Itemized	Subtotals
Current Assets		
Petty cash	(191.35)	(191.35)
Cash in banks		
Local currency	10,676.71	
Dollar based	2,891.63	13,568.33
Loans		
Micro-Comerciantes	16,008.51	
Micro-Productores	38,193.87	54,201.87
Interest Receivable		1,579.81
Accounts Receivable		6,326.01
Donations Receivable		13,873.60
Phone Lines		5,249.13
TOTAL Current Assets		94,607.40
Fixed Assets		
Building	117,618.61	
Office Equipment	36,970.35	
Depreciation	(7,567.67)	147,021.29
Deferred Assets		
Legal and Incorporation expenses	10,132.47	
Pre-operation Expenses	5,832.57	
Software Development	10,880.76	26,845.80
TOTAL ASSETS		268,474.90
Liabilities and Net Worth		
Accounts Payable		341.00
Long Term Debt (PL 480)		60,228.00
TOTAL Liabilities		60,569.00
Net Worth		
Directors' Donations	153,600	
Current year Revenue	54,305	207,905.51
TOTAL LIABILITIES & FUND BALANCE		268,474.90

The above is based on a constructed balance sheet and team estimates; as a result, the values are approximate. Over 50 percent of PRODEM's assets consists of two floors of a building and the program's office equipment. Software development probably should have been expensed rather than capitalized.

Due to the rapid repayments of loans under the program, the outstanding loan balance, as of July 31, 1987, was only $27,100 (Bs54,201.87).

C. Profitability and Viability

1. Loan Terms

The program's sole source of earned income is interest on loans. PRODEM's revolving loan fund is currently capitalized by a loan from the PL 480 Secretariat under the following terms and conditions:

Amount: $260,000 (to be granted in partial disbursements as required by the program).

Interest rate: 8% per annum plus dollar devaluation (estimated by PRODEM to be 16% per annum).

Payment terms: Interest: payable annually. Principal: payable in 4 years subject to renewal.

The terms and conditions of PRODEM loans to project beneficiaries are as follows:

Amounts: 100 - 500 per individual given to groups of 4 - 7.

Interest rate: 2.5% per month calculated on the declining principal balance.

Payments: Equal installments on a weekly or monthly basis depending on group needs.

Guarantee: All loans are group guaranteed.

2. Program Income

To analyze the profitability of the program it is important to carefully analyze the difference between the cost of PL 480 funds and the income of loans. PRODEM projects that devaluation for 1987 will be 16 percent which, when added to the 8 percent charged by PL 480, would bring the cost of these funds to 24 percent. Presently, according to the Central Bank, financing available in Bolivia is at an annual cost of between 48 and 58 percent. In this situation the cost of PL 480 funds do not seem excessive as long as the rate of devaluation does not exceed estimates.

The directors of PRODEM decided that a 6 percent spread over the estimated cost of PL 480 fund would be sufficient to cover the operating expenses of the program. For this reason an annual rate of 30 percent (2.5 percent per month) was established for the program. PRODEM has developed its own software to accurately charge borrowers the 2.5 percent per month using the standard bank method of declining balances. This method allows for equal installments, although the proportion of interest and principal changes in each payment. As an example, a group of 5 micro-comerciantes -- each receiving a loan for Bs100 -- will represent a single Bs500 loan in the PRODEM system. These loans usually have a two-month maturity, with weekly payments. The payment schedule for a such a Bs500 group loan would be as follows:

Table I-4

Sample Repayment Schedule

Date of Disbursement:	17/08/87
Amount:	Bs500
Payments:	8 weekly payments of Bs64.14

Payment Date	Principal	Interest	Total Payment
24/08/87	61.23	2.91	64.14
31/08/87	61.59	2.55	64.14
07/09/87	61.95	2.20	64.14
14/09/87	62.31	1.83	64.14
02/09/87	62.67	1.47	64.14
28/09/87	63.04	1.10	64.14
05/10/87	63.40	0.74	64.14
12/10/87	63.81	0.37	64.14
TOTAL	500.00	13.17	513.17

The ability of the program to make the planned 6 percent spread will be determined by the following:

1. Ability to immediately place loans once disbursements from PL 480 are made; and

2. Ability to immediately relend funds which have been repaid.

In the example, the program is paying 2 percent per month for funds lent. For the Bs500 loan this represents Bs10 per month, or Bs20 for the period. If the program is not able to immediately relend funds for whatever reason it will lose money. Possible loss in this case would be:

Bs13.17 Income of initial loan
-<u>Bs20.00</u> Cost of PL480 funds
(Bs 6.83) Possible loss on principal if reflows are not relent

As PRODEM is not a bank and is restricted in terms of its ability to earn interest on bank accounts funded by PL 480 disbursements, it is inevitable that funds will not be fully applied, substantially reducing PRODEM's effective earnings.

If the program is able to optimally reutilize all funds as repayments are received, the effective earnings on such funds could be 6 percent. As Table I-5 on the following page demonstrates, however, it is difficult for a program to maintain optimum utilization of roll-over funds.

Table I-5 illustrates the problems of gaps between long-term funding and short-term application of funds. In effect, PRODEM is required to operate under conditions which no financial institution would accept, as it is anathema to accept long-term funding costs without guaranteed applications. This negative gap has caused the program to already have an estimated accumulated loss from interest obligations of Bs3,500 during the first six months of operation.

It should be noted, however, that the table covers the start up period of the program and, as such, gives a distorted picture. This type of lending typically involves a slow initial disbursement period, followed by almost exponential growth. That this growth is beginning to occur for the program can be seen in the fact that disbursements increased from $21,750 (Bs43,500) in July to $56,325 (Bs112,650) in August.

B. Maximum Potential Income of PRODEM Under Present Arrangements

As it is presently structured, the maximum potential income for the Program is determined by its capacity to lend.

Under the PL 480 agreements with PRODEM, a revolving loan fund of $337,000 is projected to be capitalized by $260,000 from PL 480 Title III loan funds, and $77,000 from the directors of PRODEM, their companies and the CEPB. Although nearly $70,000 has been received from directors/CEPB, these funds have been expended on operating costs and fixed assets rather than being used to capitalize a loan program.

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Table I-5

PRODEM*

LOAN FUNDS AVAILABLE AND DISBURSED,
INTEREST INCOME AND COSTS
(Feb. - Aug. 1987)

	February	March	April	May	June	July	August
Funds Available (Begin.month)	0	58,260	53,258	46,031	33,176	14,162	(9,239)
PL 480 Disbursement	+ 60,000	+ 0	+ 0	+ 0	+ 0	+ 0	+ 80,000
Funds Applied	- 2,000	- 8,300	- 13,600	- 23,900	- 42,700	- 43,500	-112,650
Repayments	+ 260	+ 3,298	+ 6,373	+ 11,015	+ 23,686	+ 30,099	+ 57,916
Funds Available (Month End)	58,260	53,258	46,031	33,176	14,162	(761)	16,027
Interest Cost PL 480 - 2% p.m.	1,200	1,200	1,200	1,200	1,200	1,200	2,800
Interest Income	-	82.5	159.4	404.6	794	1,231	2,432
Profit/Loss-Month	(1,200)	(117.5)	(1,040.6)	(795.4)	(406)	31	(368)
Profit/Loss-Accumulated	(1,200)	(2,317.5)	(3,358.1)	(4,153.5)	(4,559.5)	(4,528.5)	(4,896.5)

* Team estimates based on PRODEM computerized reports. Due to software "debugging" problems with the PRODEM software, interest income figures should be considered as approximate.

In this situation, the maximum revolving loan fund would be the $260,000 from the PL 480 Secretariat. Maximum capacity to lend would be approximately Bs520,000., and the maximum possible income PRODEM could earn from the funds would be:

Size of fund:	520,000
Interest earned 2.5% p/month	13,000
Cost of funds 2% p/month	10,400

Maximum monthly net income	2,600

If the additional $77,000 had also been applied to capitalizing this fund, monthly net income would have been more than doubled, as there would have been no additional cost of funds.

Additional loanable funds	154,000 ($77,000 x 2)
Additional net monthly income	3,850 (2.5% per month)

If PRODEM had had access to these two funds, therefore, its maximum earning capability would be Bs6,450 per month (Bs3,850 + 2,600). There would be, however, a decapitalization of the fund provided by the directors/CEPB over time because of the erosion of the purchasing power of the fund. If a dollar maintenance cost (16 percent per annum) were deducted from that portion of the fund, the maximum income would be as follows:

Directors Fund:	154,000	
Interest earned	3,850	2.5% per month
Maintenance of value -	2,050	1.33% per month
	1,800	16% per annum

Maximum project income:

PL 480	Bs 2,600	per month
Directors Fund	1,800	

Total	Bs 5,400	

C. Program Costs and Profitability

PRODEM does not have a consolidated monthly statement that details all program costs. The evaluation team has approximated program costs by reviewing the bank statements of the program and funds received. On a monthly basis the estimated in-country costs of the program are as follows:

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Salaries	Bs	6,000
Other Operating Exp.		3,000
Total	Bs	9,000

These costs are incomplete, however, as the Program Director is paid separately by AITEC. If this salaried position were included, operating costs would increase by 20 to 30 percent.

With the present staff in place it would be possible to service an outstanding loan portfolio of $260,000, as projected for the project. As noted previously, the $260,000 (or Bs520,000) fund under the present policies of the program (i.e., a 6 percent per annum spread) could generate Bs2,600 in monthly income. For the program to be self sustaining at present spreads, PRODEM's loan portfolio would have to be increased by a factor of 3.5 to $910,000, which would not be possible at present staff levels.

The program is unlikely to become self sustaining at spreads of 6 percent per annum. With projected costs and loan volumes, PRODEM will require a spread of at least 10 - 15 percent over the full cost of funds to be able to cover all costs.

In its survey of borrowers, the team investigated the possibility of charging higher rates. All micro-productores were asked if they would accept a 10 percent discount on loans, half of the discount would be forced savings and the remaining would be used for administration costs. The micro-productores were almost unanimous in their acceptance of such a scheme, even though it would increase the effective cost of loans from 30 percent to 45 percent per year, even allowing for savings. This rate still compares favorably with present market rates (48 to 54 percent per annum) and, more importantly, to informal sector credit (10 percent per month). Instead of trying to cover costs through a spread between cost of funds and interest earned, therefore, a flat fee could be charged on all loans to cover administration costs. The 6 percent spread can be used to capitalize the loan fund and PRODEM.

That borrowers would accept such a dramatic cost increase is not surprising, as it has been proven in Latin America, Africa and Asia that the poor are willing to and able pay the real cost of loans and that they can generate savings. Real costs should always be defined to include the administration costs of programs like PRODEM.

A discount of 5 percent for administration costs is the maximum the program would need to be self sufficient. Over time this rate could be reduced to as low as 2.5 percent. PRODEM already discounts 5 percent on the first loans and 2.5 percent for subsequent loans to micro-productores. This discount is presently put in an emergency fund, although PRODEM is considering alternatives -- including using the funds to cover costs.

To summarize, PRODEM should assess charge a commission fee on all loans. In addition, a forced savings component be included in the program; borrowers have perceived as fair the proposition that they would have a net savings balance at the end of a loan equal to the cost charged by the program.

D. Sources and Uses of Funds

Due to the inadequacy of PRODEM reports, the evaluation team made a rough approximation of costs using bank statements and balance sheets. "Source of funds" refers only to funds expended through August 31, 1987, in Bolivia. Uses have only been broken down into three categories: operating costs, fixed assets and revolving loan fund.

With the exception of the revolving loan fund, which is well documented, the estimates presented in Table I-6 should be considered as approximations. PRODEM's principal asset is two floors of the building (with an estimated value of Bs113,000) where PRODEM has its offices.

Table I-6

Sources and Uses of Funds
(9/86 - 8/87)

Source		Use	
PRODEM Directors/CEPB	Bs 150,000	Operating Costs	Bs 20,000
		Fixed Assets	130,000
PL 480 Grant	81,000	Operating Costs	27,240
		Fixed Assets	53,760
PL 480 Loan	140,000	Rev. Loan Fund	140,000
AITEC (OPG)	33,000	Operating Costs	33,000
	Bs 404,000		Bs 404,000

Summary

Operating Costs	Bs 80,240	20%
Fixed Assets	183,760	45%
Revolving Loan Fund	140,000	35%
	Bs 404,000	100%

E. Quality of the Loan Portfolio

The project has two credit programs: micro-comerciantes and micro-productores. The former was initiated in February of 1987 while the latter only in June. Since repayments for micro-productores are on a monthly basis it is too early to evaluate the quality of this portfolio. Micro-comerciantes, on the other hand, have had sufficient time in the program to be able to conclude that the 100 percent recovery rate will be maintained as the program grows. The following table shows that the repayment of micro-comerciante loans is very rapid as loans are for 8-10 weeks with weekly repayments.

Table I-7

History of Disbursements and Recoveries
(Bs)

	Feb.	March	April	May	June	July	Aug.	Total
Micro-Comerciantes								
Disbursements	2,000	8,300	13,600	23,900	29,500	36,600	83,200	197,100
Recoveries	260	3,298	6,374	11,045	23,465	26,224	48,600	119,326
Micro-Productores								
Disbursements	-	-	-	-	13,200	7,900	29,450	50,550
Recoveries	-	-	-	-	221	3,815	9,318	13,354

The above table shows that, for micro-comerciantes, disbursements from February to July totaled Bs113,900 while recoveries to August were Bs119,326, confirming the 100 percent recovery rate. Disbursements for micro-comerciantes also shows the rapid growth of the program from month to month. Micro-productores have only recovered 26 percent of total disbursements to date, reflecting the longer terms (3-4 months) and slower payments (monthly).

II. Administrative Analysis

A. Organizational Structure

The following chart indicates the present organization and composition of PRODEM's staff:

PROGRAM DIRECTOR
(AITEC)

SECRETARY

ADMINISTRATION
- Chief Accountant
  Asst. Accountant
2 Computer Programmers
  Messenger

MICRO-COMERCIANTES
1 Manager
2 Asesores

MICRO-PRODUCTORES
1 Manager
3 Asesores

TRAINING
1 Manager

A total of 15 staff are involved in the program, of which seven are involved in credit and training activities. These program activities and organized into three departments: micro-comerciantes, micro-productores and training. Hired by AITEC in October 1986 to start the program, the program director was the first of the staff to be in place. The managers and chief accountant have been working with the program since late 1986. The two asesores (field workers) for micro-comerciantes were hired in May 1987, while two of the asesores for micro-productores were hired in June and one in August.

There are weekly staff meetings to insure maximum communication and coordination. In addition, the credit committee -- consisting of all field staff and department heads and the chief accountant -- meets weekly.

B. Credit Procedures and Methodology

The program has two distinct sets of procedures or methodologies for micro enterprises: one for micro-comerciantes and one for micro-productores.

1. Micro-Comerciantes

The program began lending to this group in February 1987 when 20 women, organized in 4 groups, received Bs2,000 in loans. As of August 31, 1987, there had been a total of 701 beneficiaries (696 of them women) organized into 171 groups.

The micro-comerciantes receive loans as follows:

1st. loan: Bs100 per group member for 2 months, with 8 weekly payments.

One week prior to the final payment of first loans, groups that are eligible begin the procedure for a second loan, which is received the same week as the last payment of the first loan.

2nd. loan: Bs200 per group member for 2 1/2 months, with weekly payments.

3rd. loan: Bs300 per group member for 3 months, with weekly payments.

4th. loan: Bs350 per group member for 3 1/2 months.

All loans are at 2.5 percent per month with equal installment payments. The only guarantee required is that the individuals must represent a group that is willing to guarantee one another.

Table I-8 illustrates the growth of the program for micro-comerciantes in terms of disbursements. As can be seen in the table, micro-comerciante borrowers and their groups graduate automatically to second and third loans. Over 50 percent of the borrowers have received second and third loans. To date practically 100 percent of borrowers who complete the first loans have continued to the next loan.

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Table I-8

Evolution of Micro-Comerciante Credit and Training Program

	Feb.	Mar.	Apr.	May	June	July	Aug.	Total
1st. Loan								
No. of Groups	4	17	15	22	22	16	41	137
No. of Borrowers	20	81	73	108	108	80	204	674
2nd. Loans								
No. of Groups	-	-	7	14	14	21	21	77
No. of Borrowers	-	-	33	69	69	103	100	374
3rd. Loans								
No. of Groups	-	-	-	-	4	6	15	25
No. of Borrowers	-	-	-	-	18	27	74	119
Cumulative								
No. of Groups	4	21	36	58	80	96	137	
No. of Borrowers	20	101	174	282	390	470	674	

* A difference of 27 borrowers exists between the computerized tracking system and the manual controls of the program due to month-end disbursements.

The program has been revising its methodology based on experience. Perhaps the most fundamental change has been that the borrowers now go to the PRODEM office to request loans whereas before PRODEM staff had to go into the communities and identify borrowers. A word-of-month phenomenon has replaced the normal promotion efforts of the program. There are currently 260 potential borrowers registered to enter the program -- in effect, a waiting list of 40 percent of total present borrowers. It is estimated that 75 percent of these will receive loans.

The following is a summary of the steps to obtain credit from PRODEM under present procedures:

1. Potential borrowers go to the offices of PRODEM, where a staff member briefs them and fills out a short form for each individual. The rules of the program -- in particular the solidarity group mechanism -- are explained. Individuals are told that they will have to return with at least four others who will all agree to guarantee each other's repayments. The group will elect one coordinator to be responsible for loan payments. Finally, the individual, is told to come the following Tuesday between 12:30 and 16:00, with the other members of the group.

2. Groups showing up between 12:30 - 16:00 on Tuesdays are individually interviewed by field staff to fill out a 3-page form containing personal history and information on their businesses. At this session the field staff arrange to visit each individual in the group. This session is also used to further discuss the solidarity group concept. Groups are told to return the following Tuesday for an additional session.

3. Field staff visit each individual in the group to verify the data collected and the character of each potential borrower.

4. Groups then attend a course (Tuesday, 16:00 - 17:30) describing the amount of loans, their use and conditions. Groups fill out a formal request for credit as well as a document formally incorporating and stating the purposes of the group. Finally, groups elect a coordinator and a secretary who will be responsible for the group's payments. Groups are told to attend the following Tuesday, between 8:30 and 10:30, to sign the loan agreement and promissory note and receive the single group check.

5. The PRODEM Credit Committee meets every Wednesday. All groups (micro-comerciantes and micro-productores) are formally approved and registered for processing.

6. A payment book is issued by the program for each group. Payment deposit slips -- with 3 copies for each installment -- are included, as well as two separate notices: one concerning three courses available for micro-comerciantes on leadership objectives and group formation, and one (which is placed before the last payment deposit slip) inviting the group to come to a session the Wednesday prior to their last payment to begin the process for obtaining their next loan.

7. The group signs the loan agreement and promissory note, and receives its loan check. This takes place every Tuesday between 8 and 10:30.

Repeat Loans

1. Borrowers attend a session Wednesdays before the last payment and, after discussing their first loan, fill out a request for a new loan at an increased amount.

2. The following Tuesday, between 8:00 and 10:30, the borrowers receive their new loan check (no new loan agreement or promissory note is needed).

2. Micro-Productores

The program only began lending to micro-productores in June. As a result, the procedures and methodology are still evolving. Until August 31, 1987 a total of 121 beneficiaries had received Bs50,550, for average individual loans of Bs400.

The main differences between the micro-productor and micro-comerciante credit program are as follows:

1. Amounts are larger for producers: first loans start at Bs300 or more, three times the value of micro-comerciante loans.

2. Repayments are monthly, not weekly, and for longer periods -- first loans are generally for 3 months.

3. Loan amounts for producers are based on need and do not follow the automatic procedure of micro-comerciantes (i.e., 1st. loan 100 and 200, etc.).

4. Smaller groups (of 4 members) have, to date, been more frequent.

The present methodology used by PRODEM to service micro-producers is as follows:

1. Individuals interested in loans come to PRODEM offices and receive a written announcement, which states the basic conditions of the program:

   a) 4- to 7-member groups to guarantee each other;
   b) members of a group should have their premises in the same zone, within a 3 block radius;
   c) must be in business for at least one year; and
   d) must own their business.

   The announcement also sets the date and time in the following week (Mondays and Fridays) for a meeting that all prospective borrowers should come to.

2. Prospective borrowers attend an orientation session on group formation and responsibilities, and are asked to return -- in groups -- the following week (Tuesdays through Thursdays).

3. The groups return to PRODEM and fill out the same form as the micro-comerciantes (giving family information), and set up an appointment for PRODEM field staff to visit their production units.

4. Field staff visit the production units and fill out an analysis sheet, which details sales, costs, assets and credit requirements. A date is set for the following week for the group to come to PRODEM for a session.

5. The groups return to PRODEM and fill out a request-for-credit form, and another form which formally establishes their group.

6. The head of the department reviews and approves the request for credit.

7. The Wednesday credit committee meeting registers the group and approves the loan.

8. Documentation is prepared and payment deposit slips issued.

9. The group comes on the following Tuesday morning to signs the loan agreement and promissory note and to receive their loan checks.

Repeat Loans

To date only one group has received a second loan. Procedures for the present is that the group comes to PRODEM the week prior to final payment and follow the same steps as micro-comerciantes.

3. Loan Processing Time

Micro-comerciantes: In a program such as PRODEM processing time needs to be calculated in relation to all the requirements for receiving loans. Until June 1987 the time between the first visit to PRODEM and the receipt of a check varied between 4 and 5 weeks, which is natural in a group based methodology. Since June a waiting list has been forming as the number of people seeking loans through the program exceed PRODEM's processing capacity. The present 260-person waiting list represents an additional month of processing prior to receiving a check.

Micro-Productores: The team estimates that the processing time for micro-productor loans is between 6 and 7 weeks.

Once a group has successfully completed its first loan, all subsequent loans (for both micro-comerciantes and micro-productores) are processed in one week or less.

It should be noted that PRODEM takes only 12-14 days to disburse loans once groups have filled in their requests. The additional time noted above represents the various steps in the methodologies described. The total time required for first loans should be considered as an investment made by borrowers to become a part of the program. The pay off of this investment is that once borrowers are in the program subsequent loans are issued automatically with almost no paperwork in one week or less. Additionally, any program based on group formation, peer pressure or character must carefully screen potential borrowers which requires the steps noted above.

4. Appropriateness of Credit Procedures

Of the two sets of procedures, the most tested and proven has been for micro-comerciantes. This group is approaching its fourth round of loans and, to date, there have been no defaults. Another measure of appropriateness is the program's drop-out rate -- that is, the difference between the number of potential borrowers initially seeking assistance and the number of those that actually receive loans. In the case of micro-comerciantes it is estimated that only 25% of those initially interested in the program do not receive loans, either by failing to meet program standards or through their own choice.

The appropriateness of procedures for micro-productores is far less evident for two reasons:

1) This program only began in June and, as such, is still in the "developmental" stage as far as the methodology is concerned.

2) In reviewing the methodology with project staff it was disclosed that, in the period June to August, as many as 400 individuals came to the first orientation session (see step 1). However, only 121 of these received loans. A review of PRODEM's files revealed that of the 280 "drop-outs, only some 90 were either rejected or put on hold by the program. The remaining 190, or close to 50 percent of those initially interested, had apparently self-selected themselves out. The reasons for this may be varied, including the need for larger credits than the program is willing to give.

The above estimate of 400 individuals coming to the first orientation session is highly indicative as the program does not keep records of attendance. At the present time it is safe to say that the drop out rate for micro-productores is substantially higher than micro-comerciantes. A possible reason for the higher drop out rates may be that producers are less inclined to form solidarity groups. While micro-comerciantes have an active day-to-day involvement with each other -- through savings ("Pasanacu") groups, emergencies, and buying and selling from each other -- micro-productores tend to be centered on their production units and are more individualistic.

Another reason that many of the micro-productores may be unwilling to join the program is that the group conditions are too strict. Among the most restrictive conditions are that family members may not be in the same group. The family restriction is understandable if all were involved in the same business; however, if two brothers (or father and son) own separate businesses and have a natural reliance on each other, this may be more of a help than a hindrance for a solidarity group.

As the methodology for micro-productores is still being developed, it would be important for the program to carefully monitor the effect of different changes.

C. Internal Inspection and Control

PRODEM has successfully designed and implemented a computerized system which tracks the individual payments of groups. The system also tracks the groups according to the individual field staff member responsible for servicing the group. All payments of loans are made on a Monday or Tuesday at the bank. Late Tuesday afternoon PRODEM sends its messenger to the bank to collect all copies of payment deposit slips. Tuesday evening and Wednesday these payments are processed into PRODEM's computer. Wednesday afternoons the computer issues a statement of delinquent payments, if any. Field staff members visit any delinquent groups the following day to identify the causes for late payments.

From February to August 18, 1987, the micro-comerciante program made 177 loans -- representing over 1,300 installments -- to participating groups. Of these 1,300 installments, 9 (or less than 1 percent) were paid late (between 1 and 9 days). Of these, 2 or 3 were cases where the bank had misplaced the payment deposit slip. More recently two groups showed up as delinquent. In both cases one of the members was unable to pay and the bank would not accept a partial payment. PRODEM is presently determining how to deal with these delays (including any requirements for payment of penalty interest).

The key element to efficient and effective management in any credit program is the immediate flagging of problem loans. Achieving this is difficult for programs such as PRODEM, as they are not banks and usually develop somewhat ineffective systems. This task becomes doubly difficult when the majority of loans represent small, weekly payments. PRODEM has been remarkably successful in developing a reporting system which almost immediately flags problem loans.

This system should be given credit for maintaining the 100 percent recovery rate of the program. Information circulates rapidly in any community- or group-based program. If any delinquent cases had gone without notice it is quite possible that many others would have assumed that the program was unable to monitor repayments and taken advantage of this fact.

PRODEM's program staff also hold weekly meetings to review all problems and activities. A personnel evaluation system is currently being designed which will give performance bonuses to field staff.

D. Staff Productivity and Efficiency

Due to the recent nature of the program it is not possible to accurately analyze staff productivity. The main determinant of a program's productivity is the capacity of field staff to process individuals or groups. In PRODEM's case, field staff are a recent addition. Field staff for the micro-comerciante activity (2 women) were hired by the program in May; for the micro-productor section, two men were hired in June, and a third in August. All of these staff members can still be considered to be in training. The age of this field staff is between 20 and 35, with monthly salaries ranging from Bs250 to 350. They were recruited from applicants responding to newspaper advertisements in the La Paz press. One series of the advertisements (3 days) generally results in 120 to 150 applicants.

The present portfolio of some 700 micro-comerciantes and 120 micro-productores has been, for the most part, the work of senior staff. From the beginning of the program it was decided that, instead of hiring field staff immediately, the department heads (including the chief accountant) should work directly with the first groups while developing and adapting AITEC's methodology to Bolivia.

The program does have fixed targets for field staff: each field worker in micro-comerciantes is expected to reach 60 groups, or 300 individuals, and each field worker in micro-productores is expected to reach 35 groups, or 175 to 200 individuals. With the present three field staff for micro-productores and two for micro-comerciantes, the estimated capacity of the program would be 600 micro-comerciantes and between 525 and 600 micro-productores.

At present the methodologies for both programs do not require ongoing visits once borrowers have received loans. Visits are required for loan problems and in some cases for repeat loans. The effective capacity for this staff under these circumstances will probably be a lot higher than program estimates.

Figures for the month of August, the highest level of processing the program has achieved, show that between 58 - 69 new groups were financed.

Using the lower estimate of the 58 new groups 41 were micro-comerciantes and 17 micro-productores. Since the 2 field staff members for micro-comerciantes are already productive (having been with the program 3 months) the amount of new groups financed shows that they are currently handling only one third of their estimated capacity in a month. As long as delinquencies remain at present, almost non-existent levels, this staff will probably be able to process the same amount of groups indefinitely.

E. Administrative Costs per Loan

The biggest reporting weakness of the program is that there is no detailed monthly report which accurately shows all expenses by budget categories. This is in part due to normal difficulties of software implementation and in part to the program's philosophy, which segregates costs so that certain costs (program publicity, new project development, etc.) are not counted as administrative costs of the program. From what the team could observe this policy has led to the understating of administrative costs. In particular, the program maintains an account where part of the USAID grant to AITEC is remitted. Since February 1987 some $15,000 have been spent from this account, which has not been accounted for as administrative costs of the program.

PRODEM should maintain a consolidated monthly expense report showing all expenses, including fixed assets, by categories. From this consolidated report a report segregated by funds could easily be produced.

For the purpose of analyzing administrative costs per loan the following estimates have been used:

Salaries:	Bs 6,000 per month *
General Operating Expenses:	3,000 per month
	Bs 9,000

With a total disbursement of Bs112,650 in August, administrative costs amounted to 8 percent of total amount disbursed. The average administrative costs for an average loan of Bs960 would be Bs77.

If the cost of the Program Director, presently paid by AITEC, is also included, administration costs increase by Bs4,400 per month to Bs13,400, or 12% of total loans granted.

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* Consists of all present staff except the Program Director.

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The above cost relationship between loans granted and administration costs is acceptable, and better than many programs achieve in their first year.

From inception to August the program has spent an estimated Bs80,000 in operating costs while disbursing Bs246,650 in loans -- a 30% cost. This cost will reduce as a proportion as the loan disbursements continue to grow. For example, the same comparison for inception to July showed loan disbursements of only Bs134,000 and costs of approximately Bs70,000, a 50 percent relationship. Again, if the AITEC-funded position is included in the costs, this relationship between costs and loans would have been 45 percent for August and 70 percent for July.

Due to the short term nature of PRODEM loans (between 3 and 4 months) it should be noted that comparing costs and loans disbursed is somewhat misleading. In standard financial terms overhead costs are normally compared to loans outstanding. Because of PRODEM's rapid repayment rate this would have markedly increased the costs-to-loan ratio.

F. Adequacy of Reports to USAID

As mentioned previously, accounting for costs is the biggest weakness in PRODEM's accounting system. As most of the present costs of the program are derived from PL 480 or USAID OPG funds, these costs should be properly consolidated and reported. The present reporting format has led to some confusion, and should be simplified. The team was unable to reconcile several items of the report (particularly number of beneficiaries). The following is recommended as the monthly reporting format for USAID:

	Micro-Com.	Micro-Prod.	Total
A. Borrowers in the Month			
<u>1st. Loan</u>			
1. Number of Groups			
2. Borrowers			
3. Loans (Amount disbursed)			
4. Av. Loan			
<u>2nd. Loan</u>			
1. Number of Groups			
2. Borrowers			
3. Loans (Amount disbursed)			
4. Av. Loan			

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3rd. Loan
1. Number of Groups
2. Borrowers
3. Loans (Amount disbursed)
4. Av. Loan

4th Loan
1. Number of Groups
2. Borrowers
3. Amount
4. Ave. Loan

5th. Loan or more
1. Number of Groups
2. Borrowers
3. Loans (Amount disbursed)
4. Av. Loans

B. Totals for the Month
1. Groups
2. Borrowers
3. Amount disbursed
4. Amount recovered
5. Total Loans outstanding month end.
6. Recovery rate

C. Borrowers in the Program (Total)
1. Male borrowers in the program
2. Female borrowers in the program
3. Total borrowers in the Program

Total

D. Income & Expenses of the Prog.
1. Interest received
2. Est. Int. Cost (PL 480 8% + M.V.)
3. Income available to program
4. Administration & Operating costs
5. Fixed asset costs

E. Self Sufficiency/ Efficiency
1. Income available/Prog Admin. Costs
2. Prog. Admin. & Oper. costs/ Loans disbursed
3. Prog. Admin. Oper. Costs/ Loans Outstanding

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F. Training

Courses offered	No. of Participants
1.	
2.	
3.	
4.	

This report format is suggested because of the nature of the program. Due to the constant graduation of borrowers from first loan to further loans it is important to see the ageing of these borrowers. In particular, this report will help pinpoint when the program is reaching maximum capacity, as the number of new groups will begin to drop off.

Self-sufficiency of the program is defined by income available divided by total administrative operating costs. The efficiency of the program can be defined in two ways: cost of the program for the month divided by loans disbursed, and monthly costs divided by loans outstanding. The latter indicator will be the key determinant due to the rapid repayment of loans. With a 6 percent spread between cost of funds and interest charged, as is now the case, program administration and operating costs would have to be less than 0.5 percent of loans outstanding on a monthly basis for the program to be self-sufficient.

Training courses given in a month should be listed by subject matter and number of participants.

IV. TECHNICAL EFFECTIVENESS

A. Promotion and Outreach

PRODEM staff devoted considerable time and effort during the initial phases of the program to identifying the types of economic activities in the areas where the program would operate. In some cases, particularly with the micro-comerciantes, leaders were identified and efforts made to interest them in the programs. With the support of these leaders individuals began coming to the program. Slowly a snow-ball effect occurred through word-of-mouth, which has brought more potential borrowers to the program than PRODEM can handle. This has resulted in a waiting list of 260 potential borrowers.

More work was necessary in the case of micro-productores, as there were no established leaders the program could work with. However, once 10 to 12 groups had been financed word-of-mouth has again been sufficient to maintain a constant flow of interested borrowers. Presently 30 groups (150 individuals) are in the final stages of appraisal or approval for receiving loans.

To summarize, in both credit programs the method for promotion and outreach has been to slowly build interest among potential beneficiaries. Once the program is under way word-of-month communications among borrowers and potential borrowers maintains a constant inflow of new clients. This method is cost effective, as all staff are free to engage in the various stages of loan processing approval and supervision.

This method has also been successful in reaching the target group -- the smallest producers and sellers. PRODEM does not establish size-of-business, assets of number-of-employee limits for participation. In effect, the conditions for participating in the program -- forming solidarity groups and maximum first loans of Bs100 for micro-comerciantes and Bs300 to 500 for micro-productores -- result in only the poorer producers and sellers being interested. A change could occur in regard to micro-productores, as PRODEM is considering granting first loans of Bs1,000 if their activity justifies the amount. At present, PRODEM's credit regulations allow for maximum first loans of Bs1,000 and subsequent loans of Bs3,000. However, the program has kept to much smaller amounts (Bs300-500) while it develops and tests it's methodology.

The program is also considering increasing the maximum loan of the micro-productor program from Bs3,000 to Bs5,000. Both of these measures may interest larger producers.

B. Technical Assistance and Training

Since programs of this nature were initiated in the early 1970s, an intense debate has been ranging in development circles: should micro enterprise assistance programs be credit- or training-driven. PRODEM, and the "AITEC" model from which it emanates, is unabashedly credit driven. As such, training and technical assistance are not given priority, at least for the beginning stages of the program (1 - 2 years).

PRODEM does offer training; however, for the most part it is required for credit and only covers the policies and procedures of the program and group formation. Before receiving their loans micro-comerciantes receive a "course" of between 4 and 6 hours dealing with these subjects. For the present micro-producers receive less (2 hrs.).

The program does have plans to introduce training for micro-productores in areas such as simple accounting, sales, etc. PRODEM estimates that only in 1988 would courses be initiated for micro-productores, as they will be on their third and fourth loans and will be more receptive. PRODEM maintains that training will become a major focus of the program once the credit program is operating automatically (graduation from loan to loan).

PRODEM presently offers micro-comerciantes three courses of one session each in the general areas of leadership, motivation and group formation. PRODEM believes, and the evaluation team, concurs, that extensive training for this category of borrower would not be a productive use of resources. The principal reason is that micro sellers 1) have low levels of literacy; (2) have limited growth potential, and 3) have been fairly efficient in conducting their businesses in their own manner.

Another aspect of training and technical assistance often overlooked when discussing credit-driven programs such as PRODEM is the fact that disciplined credit and group formation are in themselves a type of training. Cases have occurred in similar programs where groups begin to aggregate and form associations that substantially benefit the beneficiaries.

Savings programs offer a different type of benefit to the participants in that they increase the financial stability of the saver. PRODEM is currently studying method for creating savings from both types of borrowers.

Finally, the evaluation team does not wish to enter into the merits of credit- versus training-driven programs. There is little doubt, however, that a program should offer a variety of courses for micro-productores. The problem is that this requirement means a substantial increase in costs and overheads for any program. Maximum efforts should be made by PRODEM to coordinate the need for training services with the programs of existing institutions -- like IDEA, INASET and Fundacion Carvajal -- instead of starting its own training program.

V. PROSPECTS FOR PROGRAM EXPANSION

In late August PRODEM received preliminary approval from the Fondo Social de Emergencia to expand its program to El Alto, a city adjacent to La Paz. A branch of the program is scheduled to be in operation by the end of 1987. The request under consideration by the fund is for a total of $230,000; $160,000 for a loan program and $70,000 for fixed and operating expenses for the first 18 months of the program. In addition, AITEC will donate $20,000 for technical assistance.

PRODEM is also actively planning further expansion to other cities. Its board of directors, through the CEPB, have been in contact with various businessmen in Santa Cruz and Cochabamba to interest them in

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starting programs. Due to the difficulties of registering new legal entities in Bolivia these new programs will probably be established under a PRODEM "umbrella", but will have their own board of directors and sources of funds.

There appears to be ample prospect for expanding PRODEM to other cities. Private businessmen, members of the CEPB, have indicated that local contributions would be available. There is a substantial small and micro enterprise sector in all of the major cities of the country. And there is apparently a high level of demand for both training and credit services.

Whether or not PRODEM should be encouraged to expand, however, and whether USAID/Bolivia should fund such expansion efforts, is largely dependent on other factors. A variety of additional programs for micro-enterprise assistance will probably be initiated in the near future. The Fundacion para Iniciativas Economicas has already received approval from the IDB ($500,000 loan fund and $90,000 expenses) for a program and the Fundacion Carvajal from Colombia is in the planning stages of starting a program (possibly with USAID-funded IDEA) which would probably receive a similar amount of funding from IDB. The team also was able to identify a third large initiative being designed with technical assistance from the ILO for possible CIDA funding with CEDLA which may have a lending component of as much as $1,000,000 and $400,000 for operating costs. All these initiatives are substantially larger than PRODEM and can conceivably lead to redundancy if all programs picked the same geographic areas to work in. Most of these programs would be attempting to raise local funding from the same individuals, and would be attempting to serve the same small enterprise clients.

The team also notes that a wide variety of smaller NGOs are also beginning to operate in this field -- some of which may even be receiving AID/Washington funding.

While the team is of the opinion that the informal sector is vast and all the above programs and more would not be sufficient to cover it's needs in considering expansion of PRODEM USAID should take into account these new effort to ensure that redundancy is minimized.

VI. CONCLUSIONS AND RECOMMENDATIONS

A. Conclusions

1. PRODEM has, in a short period of time, developed an impressive outreach to micro-enterprises (especially micro-comerciantes) in La Paz.

As of August, after less than six months of operation, over 800 micro-enterprises have received loans; over half of these are on their second or third loans. Furthermore, the program shows signs of growing exponentially and in another six months could conceivably be reaching over 2,000 micro enterprises.

2. Of the two credit programs -- micro-comerciantes (701 borrowers) and micro-productores (121 borrowers) -- the former has existed for sufficient time to confirm that the methodology employed by the program is cost-effective, efficient and that a recovery rate of nearly 100 percent will, in all probability, be maintained. The micro-productor credit program, while also achieving a 100 percent recovery rate to date, is too recent to verify in the same fashion, as lending only began in June. However, the indications and prospects are good that this group will continue to achieve the same rates of recovery as micro-comerciantes.

3. The present spread of 6 percent per annum between the estimated costs of PL480 loan funds (24 percent) and interest charged to borrowers (30 per cent) is insufficient to allow PRODEM to become self-financing, even on the long term. At the present time the program has approximately Bs. 120,000 in loans outstanding. When it reaches its maximum potential under the present PL 480 loan this total will increase to approximately Bs.520,000, and maximum income will be Bs.2,600 per month. Current operating costs are estimated to be Bs.9,000 per month and will increase once the program director is paid locally.

4. PRODEM's computerized system has proven effective in tracking a myriad of small loans with multiple repayments which, in turn, has allowed the program to adequately supervise loan repayments. This ability is an important factor in explaining the continued 100 percent recovery rate achieved to date.

5. The greatest weakness of the program is the lack of a properly functioning accounting system. PRODEM needs a monthly consolidated report summarizing all income and expenses by budgeted category and noting variances to budget. This problem could be a major obstacle to program growth.

6. The program has developed a competent core of committed professionals who will be able, over time, to manage a much larger program and assist in the replication of the program to other cities.

B. Recommendations

1. PRODEM's long term objective is to concentrate a majority of its loan funds with micro-productores. The team agrees with this objective, as the possibilities for economic growth and employment are far greater for this

group than with micro-comerciantes. The methodology for reaching this important group is still evolving, and plans for training and technical assistance are being developed. In developing this methodology PRODEM should carefully experiment with techniques to bring in the largest number of viable borrowers. It appears that many prospective borrowers are self-selecting themselves out of the program due to conditions for participation. While not all of these would be viable borrowers for the program, the possibility exists that small dynamic producers with good prospects for growth are avoiding the program because of the requirement for group guarantees.

2. The program is considering reaching loan limits per individual micro-productor of Bs.5,000 for working capital and fixed asset financing. The team endorses this limit and recommends that PRODEM, in developing its methodology for micro-productores, consider the size of enterprises that can absorb this level of credit, as it will influence the design of training and technical assistance requirements. As PRODEM develops more expertise with micro-productores, even higher levels of credit -- possibly reaching Bs. 10,000 -- should be considered.

3. In designing its training and technical assistance program for micro-productores, PRODEM should coordinate and make use of existing facilities -- such as IDEA and, more importantly, Fundacion Carvajal once its program is initiated in Bolivia.

4. Instead of using the spread between cost of funds and interest charged, a flat fee should be charged on all loans to cover program costs. Interest spreads should be used to capitalize the loan fund and PRODEM, and to build a bad debt reserve. Based on the response from beneficiaries interviewed as part of this evaluation, as well as experience from programs around the world, the team is of the firm opinion that borrowers would accept this increase in cost due to their lack of access to credit from financial intermediaries and the exorbitant rates of informal sector credit.

5. A forced savings component should also be included as part of the flat fee charged for each loan. This should be for the same amount as the administration fee. Under the present rate structure a 10 percent deduction (5 percent for program costs and 5 percent as forced savings) the effective cost of a loan to borrowers would increase from 30 percent per annum to 45 percent, which would still be well below the prevailing market interest rates (48-58 percent) and a fraction of informal sector credit (120 percent or more). These deductions should be held as a reserve (or guarantee) until each loan is fully paid, after which the program could realize the income and the beneficiary have his/her savings account established or increased.

6. A complete audit of the computer system should be conducted by a specialist to verify that the software developed in house and standard packages adapted are functioning properly. In addition, a complete review of the accounting system should be conducted. From these two reviews it should be possible to correct present discrepancies noted by

the evaluation team, especially relating to program costs and the balance sheet. These exercises will require a detailed reconcilement with all program bank statements. Once these audits and reviews are completed the program should be able to produce a monthly consolidated income and expense statement.

7. The program will be replicable to other cities, and substantial support should be available from the CEPB for this effort. Contacts have already been made in Santa Cruz and Cochabamba by program staff and Directors and all indications are very favorable. However, the CEPB may also be supporting a similar expansion to the same cities by a combined program of the Carvajal Foundation and IDEA, which may reduce the need for an expansion of the PRODEM program. USAID/Bolivia should support this effort if requested by PRODEM, but only after accounting systems have been rectified and the micro-productor loan program has proven a 95 percent or better recovery rate after 6 to 8 months of operation with at least 3 times the present level of borrowers (121). These conditions could be met by late 1987 or mid 1988 at the latest.

SECTION TWO

CONTRACTOR ANALYSIS

SECTION TWO. CONTRACTOR ANALYSIS (AITEC)

I. INTRODUCTION

AITEC has been instrumental in establishing the PRODEM program in three basic ways:

1. Interesting well-known businessmen and the CEPB in the project and securing their subsequent contribution of $80,000 to the funding of PRODEM (over $70,000 of which has already been realized);

2. Securing USAID funding for the project and an OPG to support technical assistance from AITEC;

3. Providing for the design of the project, recruiting and supervising the resident advisor (Program Director); and implementing the program and ongoing technical assistance as needed.

AITEC has had well over a decade of experience establishing programs along the lines of PRODEM in various countries. Indications to date are that PRODEM has been successfully implemented, given the large number of borrowers (over 800) the program has achieved since inception in February and the 100 percent recovery rates achieved.

II. THE RESIDENT ADVISOR

The key element in any program of successful implementation is the leadership abilities of the professional hired to oversee the establishment of a program. AITEC's selection appears to have been fortuitous in particular, since the Program Director is a Bolivian national with a high level of commitment. The Program Director has extensive experience in Bolivia and is sensitive to the cultural realities of the country. These qualities allowed for successful adaptation of the AITEC "model" to the Bolivian scenario. In regard to management style, interpersonal relationships and overall abilities, the evaluation team feels that the program is developing well. The team was also able to have considerable interaction with all program staff and, while some unevenness exists, these are more than compensated for by the abilities and commitment of some senior staff which were successfully attracted to the program by the Program Director.

The only flaw the team noted -- which was discussed at great length with the Program Director -- is the unacceptable levels of reporting on program costs and the lack of proper budgeting procedures. A little too much zeal has been exercised in lowering administrative costs in reports by classifying certain costs into funds considered as "non-administrative". A complete, consolidated report of all costs, regardless of source of funds, will easily resolve this problem.

II. SHORT-TERM TECHNICAL ASSISTANCE

From November of 1986 to August 1987, AITEC, at PRODEM's request, fielded a total of 6 short-term technical assistance missions. These missions -- mostly staffed by members of AITEC programs in Costa Rica, Paraguay, Guatemala and Panama, along with senior staff from AITEC headquarters in Cambridge -- covered start up problems and orientation, training program, review of project status and trouble shooting.

In addition, there are continual contacts with AITEC headquarters in Cambridge, and both the Program Director and manager of the microcomerciantes program have traveled to Honduras and Colombia for courses and observation.

The evaluation form kept on all of these activities indicates that all technical assistance and training services were well timed and used.

Representatives from other AITEC programs, in particular Accion Communitaria in Peru, have visited PRODEM to assess the possibilities of computerization. In a sense, PRODEM appears to have also been giving technical assistance.

Finally, the team noted that PRODEM is probably the most computerized of any AITEC program which has resulted in a fairly successful program for controlling a complex loan portfolio. On the other hand, this system has also been the source of inconsistent management reports. AITEC should consider contracting specialized services to review all software, especially the accounting.

IV. HOME OFFICE SUPPORT

By all reports, AITEC has been responsive to PRODEM needs and has efficiently provided short term assistance. It was stated that AITEC, due to its extensive experience, was particularly effective in foreseeing implementation insecurities or problems and providing the right type of support.

In addition, AITEC has been contributing some $2,500 per month from January to August to PRODEM which has been used for general program support. This amount has been recently increased to $8,500 a month, as PRODEM is planning an expansion to a city adjacent to La Paz, El Alto.

Some reporting problems were noted in regard to the OPG grant to AITEC. USAID/Bolivia has requested documentation to authorize expenses under an AITEC Federal Reserve Letter of Credit. The team is of the impression that this documentation is with AID Washington, which is responsible for monitoring this grant, as it was included in an existing FRLC covering several AITEC projects.

In reviewing the grant to AITEC, the team was unable to determine budget categories for the $2,500 remitted monthly by AITEC from January through August, and the $8,500 remitted in September. The following shows the budget for AITEC's OPG, with actual expenses through March 1987.

Table II-1

Budget and Expenditures, AITEC OPG

	Budget	Actual	
Category	9/86-1/88	9/86-12/86	1/87-3/87
Salaries	$56,250	$10,799	$9,237
Fringe Benefits	12,375	1,766	1,326
Allowances	19,980	0	0
Travel	7,500	3,113	0
Transfer/Relocation	10,540	7,534	789
Per Diem	7,176	2,404	0
Other Direct Costs	1,882	1,020	862
Home Office	14,200	2,500	2,925
Overhead	17,156	2,894	2,028
Contingencies	2,941	0	598
Totals	$150,000	$32,030	$17,765

Allowances of $19,980 had been budgeted for a foreign national in the position of resident advisor. As the post is currently held by a Bolivian national, these funds will not be required, and should be reallocated.

In addition to the $2,030 and $17,765 listed as expenditures in the AITEC reports that were available to the team, it is estimated that an additional $25,000 to $27,000 has been spent by AITEC for the April to

August period. Total actual and estimated expenses to date are $75,000, or 50 percent of the budgeted grant funds. As it appears that funds will not have been expended by the termination of the grant period on January 9, 1988, it may be possible to extend the implementation period of the grant.

V. CONCLUSIONS AND RECOMMENDATIONS

Conclusion

AITEC has played a fundamental role in the design, establishment and on-going operation of the program. With the exception of the accounting problems mentioned earlier, AITEC has provided excellent back-up and technical assistance to the program. In particular, the choice of program director, a Bolivian national with a high level of commitment and experience, has proved to be the most important element of AITEC assistance and the program's present success.

Recommendations

1. AITEC should assist PRODEM in resolving the accounting problems. In the present OPG the budget category for allowances ($19,980) will not be used, as the position is held by a Bolivian citizen. These funds should be used, in part, to pay for the cost of developing a functioning accounting system.

2. While PRODEM has made substantial progress during a short period of time, it is not able to be totally independent and will require continued technical assistance from AITEC for at least an additional 18 months after the conclusion of the present OPG. The principal justification for a continued OPG would be to assist in the projected expansion efforts to EL Alto and other cities in Bolivia.

SECTION THREE

BENEFICIARY IMPACT ANALYSIS

SECTION THREE. BENEFICIARY IMPACT ANALYSIS

I. INTRODUCTION

A. Background

As part of the scope of work, the evaluation team was to assess the impact of the PRODEM project on beneficiary groups. Of specific concern to USAID/Bolivia were the issues of: (a) alternative sources of financing, (b) impact of the program on income, employment generation and financial viability, (c) impact of the program on improving business practices in micro enterprises, and (d) the social impact of the solidarity group concept.

B. Methodology for Impact Research

Attributing impact to a given project is far from an exact science. In the case of the PRODEM project, a one-time measurement of the outputs is even further distorted because of the short time-frame of the project. The micro-comerciantes (market women) interviewed had only been involved with the program for approximately seven months. The micro-productores (micro and small producers) had been involved for less than two and one-half months.

Valid conclusions can only be drawn after a program has been in operation for an extended period of time. Access to capital -- even in the short-term, and even with limited amounts -- tends to produce immediate results, skewing financial impact performance (working capital management and sales) in a positive direction. With cash on hand (the loan) micro entrepreneurs can secure larger amounts and better quality inventories for sale or production purposes. Examining the same enterprise after a year or two of operations will usually produce very different results.

On the other hand, the measurement of outputs in terms of management assistance, social learning through membership in solidarity groups, and on-site technical assistance, is skewed negatively in short-term evaluations, as it takes a longer time for training to be internalized and adopted. PRODEM has only recently initiated management and technical assistance courses.

At the end of August 1987, when the research team began its field work, PRODEM was working with 822 micro enterprises. Of the total number of enterprises, 701 (just over 85 percent) were micro-comerciantes and 121 (just under 15 percent) were micro-productores.

A random sample of 36 micro enterprises was selected, batched to select from each enterprise type (micro-comerciantes and micro-productores), and drawn from the PRODEM project participants that had the longest time within the project. The micro-comerciantes initiated project activities in February 1987, the first micro-productores started in June 1987.

The sample represents just under 5 percent of the project participant universe at the end of August 1987. Twenty six micro-comerciantes and ten micro-productores were interviewed. All replacement interviews were randomly drawn in the same manner, favoring the longest term project participants.

An Aymara-speaking research assistant -- with extensive social science research experience in Bolivia -- assisted in interviewing the micro-comerciantes. All project participants interviewed were first introduced to the interviewer and explained the reason for the field work by a PRODEM staff member.

All micro-comerciantes interviewed had participated in the project for approximately seven months. Each of them had, as a member of a solidarity group, received her third loan of Bs300, (approx. US$150). The loans have a term of three months, with weekly payments of Bs26.

The micro-productores interviewed had all participated in the project since June 1987, and were on their first loans. Five had loans of Bs400 and five had loans of Bs500. The four-month loan terms required monthly payments of Bs106 and Bs175 respectively for the BS400 and Bs500 loans.

All interviewees were met at their place of work. There was interest on the part of the research team to estimate current and future production capacity. A spot check was made at micro-productores' sales outlets to confirm reported total monthly sales figures.

All available baseline data was collected from project files. While socio-economic data on project beneficiaries was adequate, business finance information was very weak.

II. Rationale for Investment in Support of Small Sector Enterprises1/

Support of the urban, informal sector is a relatively new project arena for the Private Sector Office of USAID/Bolivia. To place the results of the PRODEM evaluation into context, it is useful to be aware of AID and other donor experiences with the sector in other Latin American countries.

Policy analysts and program planners do not argue the importance of investment in small-scale enterprises. The debate centers on how to justify the returns to the economy of small-scale enterprise project investments. Recent studies provides empirical evidence that investment in the sector can be justified using conventional financial and economic measures. Such investments are justified primarily on the basis of income enhancement, savings mobilization, and employment creation.

Income Enhancement

Project beneficiaries improve their income in real terms as a result of the expansion of small and micro enterprises. Time series data confirm that incomes improve with the length of time in the project (Colombia and the Dominican Republic). In addition, it was discovered that project beneficiaries and their families improve their standard of living over that of non-project participants (control group data). Production enterprises, as a sub-sector, create the most real income growth and invest the most in fixed assets -- machinery and equipment as compared to the market and street vendor sub-sectors (Blayney, manuscript, 1987).

Employment

Virtually all of the aggregate studies, and most industry studies, reveal that small-scale industries generate more employment per unit of

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1. For the purposes of this study in Bolivia, small-scale enterprises include micro enterprises with employment of less than 5 workers and movable fixed assets of US$5,000 or less, as well as small enterprises with employment of less than 20 workers with movable fixed assets of US$25,000 or less.

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scarce capital than their larger-scale counterparts. The available evidence on relative capital productivity is somewhat limited and more mixed. In the majority of countries where such comparisons have been made, however, the overall output generated by small industry exceeds that generated by large industry (Liedholm, Mend, 1986).

The Fundacion Carvajal's project in Cali, Colombia, surveyed 236 firms that received credit through the project. Among these firms, employment increased 33.4 percent, an average in-firm increase from 3.8 to 5.8 workers. The increase varied according to sub-sector; commerce registered a 75 percent increase, while industrial firms showed a 27 percent increase in jobs (IDB, 1985). Survey results of the Industrial Bank of Peru showed that 6,150 jobs were generated through loans to small entrepreneurs. This figure translates into an average of 2.5 jobs created per firm. Of these, 65 percent were full-time paid jobs (Goldmark, et. al., 1983).

These figures underestimate the true employment impact of the projects, project support of small-scale enterprises also helps sustain the jobs of owners and family members. In many cases, especially among the smallest and most tenuous enterprises, job sustainability is as important a consideration as job creation. Avoiding the dissolution of a micro enterprise that generates family income and the resulting unemployment of its owner, while not "job additionality" is nevertheless an important consideration for projects with goals of employment generation (Blayney, Otero, 1985).

Job maintenance is critical in Bolivia. It is estimated that the level of total unemployment increased from 5.8 percent in 1980 to over 18 percent in 1985, or more than 200 a percent increase. Estimates for 1987 suggest unemployment levels of around 25 percent.2/

Savings Mobilization

Small and micro enterprises are an untapped source of savings mobilization. Based on a worldwide survey beneficiaries who had never saved before in a formal institution were able to accrue surprising levels of savings through a mandatory voluntary savings program (Kahnert, 1983).

This finding in reinforced by recent experience in Honduras and the Dominican Republic. For example, in five months of operation (August - December 1986), 475 micro entrepreneurs enrolled in ASEPADE programs in Honduras have generated over US$18,000 in savings (ASEPADE Quarterly Report, 1986). In the Dominican Republic, ADEMI was able to enroll 662 micro entrepreneurs in a savings for the first time. Savings

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2. La Presencia. "El Problema del empleo en Bolivia, "Conferencia Episcopal Boliviana. La Paz, Bolivia, Domingo 13 de septiembre de 1987.

accounts totaled over US$100,800 during a two-year period (ADEMI Annual Report, 1984).

An unknown, and potentially major, financial-economic benefit to the Bolivian economy from investment in small-scale enterprises and their savings mobilization capacity is the potential for reinvestment in the domestic economy. Capital flight is a serious problem in Bolivia. Small and micro entrepreneurs do not have the means to make foreign investments; neither do they have access to foreign bank accounts. Their savings and earnings are re-invested in the domestic economy. As an example, the single largest use of additional income and savings among Inter-American Foundation small-scale enterprise project participants was reinvestment in the enterprise, followed by education for their children and home improvements (Blayney, manuscript, 1987).

III. Socio-Economic Characteristics of PRODEM Project Beneficiaries

Basically the target population of PRODEM is the informal sector entrepreneurs or semi-entrepreneur. The informal sector in Bolivia is made up to people and their households who could be broadly categorized as the working poor. Currently it is estimated that nearly 60 percent of the economically active population of Bolivia works in the informal sector.

At the time of the PRODEM evaluation, 701 (85 percent) of the 822 PRODEM project participants were market women -- semi-entrepreneurs earning net monthly incomes that are less than half of the base or minimum wage in Bolivia (Bs220/month). The mean average number of people living in these market women households is 5.3.

Micro-productores (Carpentry, Shoemaking, Artisans) made up 15 percent of the total PRODEM project beneficiary population at the end of August -- 121 of the 822 total. These all-male headed firms were realizing net monthly profits at the time of the field research of just over twice the minimum monthly income. Their mean average net income, after 2.5 months in the project, was Bs443 per month.

The working poor throughout Latin America, as well as, the project beneficiaries of PRODEM have very low levels of formal education. Micro entrepreneurs, semi-entrepreneurs register the lowest literacy rates within the grouping of the working poor or small-scale enterprises in general. Most people in the small-scale enterprise sector also lack any formal vocational training. Their skills are acquired through practice, through apprenticeship, or are passed down in the family. Business ownership and management in the sector has traditionally been a male preserve, but women are increasingly represented in these businesses.

Women in all Latin American countries represent a growing percentage of the urban labor force and are concentrated in home-based, cottage, type industries, or the informal small-scale enterprise sector.

Of the PRODEM micro-productores (all male), 70 percent had their wives involved in the production process at equal or greater time than the men. Second, in all cases the women were in charge of finished product commercialization at specific locations in La Paz and market days on the Altiplano. The men and their wives had other sources of income in many cases but clearly the micro-productor businesses were family-managed enterprises. In Colombia these vertically integrated enterprises are tagged "famiempresas".3/

As throughout Latin America, the major cities of Bolivia are experiencing rapid increases of in-migration (rural-urban). The formal sector is unable to absorb this dramatic influx of labor. The commence, services and own-account work sub-sectors of the economy has shown considerable growth of the economically active population (PEA) increasing from just over 36 percent in 1982 to well over 40 percent in 1986.4/ Characteristically, rural-to-urban and urban-to-urban migrants are single women with children. In El Salvador and Honduras women make up over 50 percent of the informal sector.

Informal sector activities attract women because they require little education, few skills, and only a small capital investment, and are often compatible with household responsibilities, especially if the enterprise is operated out of the home. Women's participation in the informal sector is concentrated in enterprises with less growth potential and less income (White, 1986). Small and micro enterprises in the informal sector have played an important role in providing self-employment opportunities for women and in contributing to the household incomes of the urban poor where the woman is often the sole income earner in the family.

For the market women, the mean average time invested in their business was 15 years. The micro-productores had an average of 9 years invested in theirs.

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3. Roberto Casanovas, Centro de Estudios para el Desarrollo Laboral y Agrario (CEDLA), is about to complete an in-depth research study on the famiempresa in Bolivia. While the sub-sector semi-empresarial of the informal sector has remained constant at 18 percent of the PEA 1976 - 1984, the sub-sector familiares has increased 29 - 40 percent respectively.
4. La Presencia "El Problema del empleo en Bolivia", Conferencia Episcopal Boliviana. La Paz, Bolivia, Domingo 13 de septiembre de 1987.

IV. FINANCIAL IMPACT

Great care is required, in any size enterprise, in directing investment so that only the current assets that can be justified by a sufficient contribution to profits are chosen. So too, care is required in establishing a current liability structure so as to be reasonably confident that the claims (short-term debts) can be met as they fall due.

The term working capital refers to the total current assets of the enterprise. The primary current assets are cash on hand (or in a bank), accounts receivable, and inventory.

A. Inventory Investment

All of the PRODEM project participants interviewed utilized their loans to invest in more and better quality inventory. All of the participants interviewed immediately transferred the newly acquired inventory or primary materials into sales or production for sale. Total sales increased. The true business acumen comes in balancing (managing) inventory carrying costs and the opportunity cost of lost sales due to the lack of inventory.

It is important to point out that nearly 70 percent of the micro-comerciantes and 90 percent of the micro-productores, when using their loan to purchase inventory, did so in cash. When the micro-comerciante has cash she can select more and better produce from the "minorista." True profit margins are extremely thin for the micro-comerciante and having cash for inventory purchase is very important. The micro-productores pointed out too that they could (with cash) buy dry lumber rather than green, and better quality, or more inventory when the price was right.

When discussing short-term management and investment decisions, nearly 12 percent of the micro-comerciantes asked how they used their loans answered, "to invest in other business". This is a portion of just US$150 over three months. Nevertheless, decisions are being made that portions of the capital might have a better return in another enterprise. It is assumed that the other business was a family enterprise.

Finally, 20 percent of both the micro-comerciantes and micro-productores also answered that they utilized the loan capital to "pay debts".

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B. Economic Impact: Sales, Income, Employment and Savings

1. Sales and Income Enhancement

While all the micro-productores interviewed claimed they could sell more of their product, only 85 percent of the market women said they could sell more: 4 of the 26 market women interviewed admitted to the problems of competition and market saturation of their product or variety of products.

Examining PRODEM baseline data and comparing this information to the field research findings, micro producers (e.g., artisans, furniture makers) increased total sales per month approximately 56 percent in 2 1/2 months. Total current assets (inventory) increased 77 percent in the same time period.

The market women improved net income (per week) on the average of 20 percent, over a seven months period.

To obtain a more accurate reading of the micro-comerciantes' and micro-productores' operations and financial management capabilities, a profit and loss statement was developed for each interviewee. For the market women the accounting period was weekly, for the micro-productores a monthly statement was developed.

When comparing net weekly earnings for the micro-comerciantes at their start-up and net weekly earnings based on the evaluation teams profit and loss statement, mean average net earnings rose from Bs27.89 per week to Bs33.58 for an increase of just over 20 percent, in seven months.5/

When examining the individual project and loss statements it was discovered that 7 of the 26 micro-comerciantes interviewed were, in fact, losing money. Incidentally, only one of the market women who utilized a portion of her loan capital for another business was among the seven losing money.

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6. Initial PRODEM credit application forms ask for net weekly income of micro-comerciantes; developing a profit and loss statement is considered a more reliable indicator of net income, and PRODEM is now going to solicit this information at the outset.

It is difficult to understand why some of the market women would put in the grueling hours they do each day and not show a profit one weak to the next. Clearly, there are a myriad of reasons including:

1. the problems of obtaining accurate data as an outsider and/or concern that the interviewer is actually from the government;

2. dramatic fluctuations in sales one week to the next depending in part on seasonal availability of produce and money to purchase products, etc.;

3. women use earnings to support their families and/or family enterprises and do not account for this spending; and finally,

4. women are working in the market place based on family tradition, sometimes regardless of overall real earnings.

Sales for the micro-productores interviewed were up 56 percent from their start-up in the project 2.5 months earlier. While all of the micro-productores interviewed had positive monthly net incomes (mean average of Bs443.21), two artisans had extremely marginal net profits of only Bs18.50 and 61.50 for the previous month.

Again, as with the market women, there could be a number of valid reasons why a given monthly sales performance could be an unfair representation. For this reason the evaluation team carried out an individual productivity analysis for each of the randomly sampled enterprises.

2. Job Creation

As yet, the PRODEM project supported enterprises have not created any new, full-time jobs. However, with increased inventories and sales activity, several of the micro- productores interviewed added a part-time employee (paid on a piece - work basis). Further, it is assumed, based on the field research of the micro-comerciantes, a large number of women kept their businesses operating (their jobs) due to the credit accessibility of PRODEM.

3. Savings Mobilization

As yet, the PRODEM project has not initiated a savings program for small-scale enterprise project participants. Interestingly however, nearly all (86 percent) of the project participants interviewed responded "Yes" when asked if they were interested in having PRODEM assist them in starting a savings program. When asked why they were interested a

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weighted average of the two groups interviewed (49 percent) described their need for access to cash at particular times (liquidity) to realize savings when purchasing raw materials or produce. Micro-productores were further queried about their willingness to have 5 percent of their loan request discounted to open a savings account. All respondents agreed.

C. Productivity and Future Profits

Productivity in any business is tied closely to efficiency and competitiveness.

In tandem with visiting an enterprise to qualitatively evaluate operational efficiency and current production capacity, a break-even analysis was carried out derived from the profit and loss statements developed for each enterprise. The break-even point provides a useful tool in estimating current and future operational productivity.

The break-even point (punto de equilibrio) is the sales level necessary to just cover costs, after which the entrepreneur will realize a profit on every additional unit sold. Generally speaking, lower break-even points suggest cost efficiency, higher productivity and profits to the entrepreneurs.7/

The break-even points illustrated in Table III-1 were calculated at present levels of production. For the micro-productores the top five net-income ranking enterprises, with their corresponding break-even points (B.E.Pts.) are compared, utilizing mean B.E.Pts., to the second net-income ranking micro-productores.

The highest profit makers had B.E.Pts. ranging from 19.3 percent to 33.9 percent, with a mean average of 26 percent. The next five enterprises averaged 49 percent, an increase of just over 88 percent. The second five micro-productores started making a profit for themselves only after approximately 50 percent of their current production capacity.

Of the 26 micro-comerciantes interviewed, the second and third net income ranking groups of five were selected due to unjustifiable high incomes of the first five and the lowest ranking group of seven were all losing money. The lowest group of money losers all had B.E.Pts. well in excess of 100 percent.

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7. The fundamental break-even point analysis was chosen instead of internal-rate-of-return (IRR), return on assets (ROA) or inventory turn over studies due to the extremely small size of these enterprises and to lack of a minimum of one year of operations after loans were provided.

As shown in Table III-1, the highest profit makers of the micro-comerciantes had B.E.Pts. with a mean average of 36 percent. The standard deviation for this group was 3.3. Note too, that the next level of net-income earners averaged 49 percent, on just over a 36 percent higher break-even-point.

Table III- 1

Production Ranking by Type of Enterprise

(Micro-Productores)

Questionnaire Number	Monthly Net Income	Net Income Rank	Break-Even Point (%)
2	1,057.00	1	19.3
9	849.25	2	21.6
8	502.00	3	33.9
4	471.50	4	30.7
3	361.82	5	25.3

Mean Ave. B.E.Pt. 1st. Five: 26 percent
Mean Ave. B.E.Pt. 2nd. Five: 49 percent

(Micro-Comerciantes)

Questionnaire Number	Weekly Net Income	Net Income Rank	Break-Even Point (%)
6	76.95	6	31.7
24	69.05	7	40.7
11	66.10	8	35.9
4	63.38	9	36.2
26	61.55	10	37.8

Mean Ave. B.E.Pt. 2nd. Five: 36 percent
Mean Ave. B.E.Pt. 3rd. Five: 49 percent

1. Micro-Productores Current and Future Capacity

With only one exception, all of the micro-productores visited, working to full plant capacity. The exception was one carpenter who had a lathe and joiner sitting idle. Machinery and equipment for the most part was limited, very basic and apparently in constant use. A number of the micro-productores have extremely cramped working quarters and generally poor production or flow.

The mean average fixed assets (machinery and equipment) of the micro-productores interviewed is Bs2,123. Although a very low average asset base for current production and future expansion, all stated that they could expand. Again, all stated that their major constraint to increased sales was access to increased amounts of working capital.

Seven of the ten micro-productores interviewed could increase production capacity for an estimated average of nearly 30 percent. With additional working capital this group could lower their break-even point and increase future profits.

2. Micro-Comerciante Prospects for Future Profits

As discussed earlier, 85 percent of the market women said they could sell more. Just over 15 percent were concerned about the high degree of competition and lack of sales (market saturation).

To help determine the potential capacity of micro-comerciantes to make future profits an examination was made of current sales mark-ups or margins. The mark-up in sales is the ratio of gross margin to price (GM/price = mark-up), and indicates the degree of flexibility the seller has to remain competitive. Basically, the higher the current mark-up the more room the seller has to decrease this mark-up, bring down the final price and stay in business.

Utilizing the same sample of micro-comerciantes illustrated in Table III-1, removing the unrealistically high net-income earners (5) and those that lost money, the mark-up or margin of the moderate net-income group (20) appear in Table 2 below.

The mean average mark-up of the first group of five micro-comerciantes is 16.7 percent, a very comfortable margin in the produce sales business. The following group of the micro-comerciante sample have a combined average mark-up of 12.2 percent.

Table III-2
Sales Mark-Up for Middle-Ranked Net-Income Market Women

Questionnaire Number	Net Income Rank	Mark-Up or Margin
5	6	19.2
24	7	26.9
11	8	6.1
4	9	10.2
26	10	21.1

Mean Ave Margin 2nd. Five: 16.7 percent
Mean Ave Margin 3rd. Five: 12.1 percent

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Combining the indicators for business competitiveness -- including: (a) a mean average experience in business of 15 years, (b) over 25 percent of the sampled population have moderate break-even points, and (c) high sales mark-ups among the moderately- ranked profit makers -- it appears that with adequate access to working capital a conservative estimate of 40 percent of the micro-comerciantes in the PRODEM project have very good prospects for increased future profits.

Although the mark-ups illustrated appear very generous in the highly competitive market place in which the micro-comerciantes operate, it is important to know that when the women have cash to purchase their produce, they then can sell on credit which increases effective mark-ups.

D. Liquidity

The ability of the micro-productores to meet short-term debt obligations with current assets (cash, inventories, accounts receivable) is 2.7 (current ratio), well within conservative business finance standards. Seventy percent of the micro-comerciantes had no fixed costs other than their weekly credit cuota to PRODEM. There have been no late payments to date by any of the market women.

E. Fiscal Impact - State and Municipal

The common myth is that small and micro enterprise of the informal sector do not pay government or municipal taxes. They do in Bolivia. Further, micro-comerciantes pay nearly twice the combined tax per month that the micro-productores pay.

All entrepreneurs interviewed pay value-added (IVA) taxes to the government and sales location tax (sentaje) to the municipality. The average total tax bite for the micro-productores was Bs12.40 per month. For the micro-comerciantes it worked out to Bs5.50 per week, or Bs22.00 per month, 1.8 times as much as the micro-productores.

F. Alternative Costs of Money

It is important to recognize that all enterprises need timely access to working capital to stay in business, develop productivity, and grow.

B

A financial impact clearly attributable to the project is the interest cost savings of their capital. As demonstrated in Table III-3, compare PRODEM's 2.5 percent interest charges on a monthly basis to the costs of alternative sources of capital.

Table III-3

Alternative Sources of Credit for Small-Scale Entrepreneurs

Source	Number Using MCs (%)	Number Using MPs (%)	Ave. Interest Rate/Month	Motive for Use
Family	4	40	0	No paper work No interest charge
Pasanacu	73	30	10% commission	Cash on hand/
Distributor	39	50	Unknown	Products to sell
Coop.	0	0	-	-
Bank	0	0	-	-
Prestamista	19	30	15 - 20%	No paper work cash on hand/ Products to sell

The "Pasanacu", which actually operates as a negative rate forced savings system, charges the 10 percent commission on the amount paid in each designated time period (day, weekly) and is often played every 15 days. Distributors (mayoristas) hide the real interest rate by charging a higher price for goods paid for on credit. In addition, the market women cannot choose their produce but must accept what the distributor offers her, there is more spoilage and the woman cannot allow their clients to buy on credit. Many of the micro-productores claim that there is no interest or additional charge when buying on credit from their distributors.

The money lenders charge 15 - 20 percent a month to micro-productores. Their charge to the market woman ranges from 5 percent over a 3-day period to 15 percent over a 15-day period.

III. SOCIAL IMPACT

When asked "why was it that you formed or joined the solidarity group?" All micro-comerciantes and nine of ten micro-productores answered, "For the Credit". The second most cited response to the question was to obtain "the credit guarantee," of the other group members. A few individuals mentioned that group members could help one another.

At the initiation of the project PRODEM had large numbers of people self-select themselves out of the program, or at least they did not return with groups organized to solicit credit. Based on impressions derived from the field research, it appears that groups were formed only among people that had a real trust and confidence in each other that each member would uphold his/her end of the deal.

Twelve of the market women interviewed (46 percent) had had to cover one of more cuotas for other group members. None of the micro-productores interviewed had had this experience.

The solidarity group mechanism, at least at this stage of the PRODEM project, is viewed by the beneficiaries primarily as an instrument for obtaining credit. One solidarity group of carpenters, however, that was led by a much older man who was very successful in his business, does meet frequently to discuss (trade) problems. All of the micro-productores either stated there was "help among socios", or a sense of "union among us". Nearly half of the market women commented that the group served them for "help from my friends".

The positive spin-offs associated with solidarity group formation including improved self-esteem, better communication skills (among members and in business matters) and the concept of group cooperation takes time.

IV. MANAGEMENT AND TECHNICAL ASSISTANCE

Management assistance courses have not begun for the micro-productores.

Of the micro-comerciantes interviewed 77 percent have assisted courses at PRODEM. Asked what they had learned, in addition to responses of learning to be responsible and being on time (for the orientation courses), the largest single response was "money management" (28 percent).

The market women were asked the follow-up question "how do you utilize what you learned in your business?" The lead responses were:

- being on time (0 percent)
- customer relations (31 percent)
- administration of money (19 percent)
- no answer (23 percent)

Finally, the last question tried to elicit what the micro-productores and micro-comerciantes would like to have the opportunity to learn in future courses.

For the micro-productores the responses were:

- accounting, working with money, money management (40 percent)
- technical assistance, use of updated techniques, use of machinery, maintenance, design assistance, quality control, and marketing (40 percent)
- do not know (20 percent)

For the micro-comerciantes the responses were:

- accounting, working with money (31 percent)
- marketing, savings program, do not know (17 percent)
- (start) new business (7 percent)
- customer relations (7 percent)

V. LESSONS LEARNED

The micro-productores were asked if there were no PRODEM project, would they be capable and willing to pay a higher interest rate? Nine of the ten micro-productores interviewed said, "Yes." When pursued in the questioning to determine how much higher an interest they would support, the responses were:

- 3 percent interest rate (2)
- 5 percent interest rate (1)
- 6 percent interest rate (1).

The remaining six stated that it would depend on the term of the loan and levels of interest available in the market.

Eighty percent of the market women and all of the micro-productores interviewed are interested in having PRODEM establish a savings program. The major reasons given for wanting to save were:

- the need for liquidity, cash on hand to purchase goods at the opportune time (35 percent)
- confidence in PRODEM (14 percent)
- need to save, low income (14 percent)

In the interest of determining how this future savings program might be constructed, the micro-productores were presented the following scenario:

> As with today a 5 percent commission (discount) on the loan amount would be collected to cover administrative costs, and an additional 5 percent commission (discount) would be collected to open a savings account under an individual name. It was understood that access to the savings would depend on loan pay-back performance.

All respondents indicated interest in such a program.

VI. CONCLUSIONS AND RECOMMENDATIONS

A. Conclusions

1. PRODEM's department heads and staff have developed confidence and a business-like working relationship with their clients.

2. PRODEM credit recipients are investing their own funds in inventories for production and sales.

3. Project beneficiaries have increased sales and net income due to PRODEM credit support.

4. The vast majority of project beneficiaries are operating viable businesses.

5. The majority of project beneficiaries can expand production and sales for increased future profits.

6. PRODEM project beneficiaries are willing and financially capable of supporting higher costs for capital.

7. The project beneficiaries are in accord with developing a forced savings program through PRODEM.

8. PRODEM needs to diversify its portfolio and develop better performance for future growth capacity.

9. PRODEM's training courses have apparently had little impact on project beneficiaries.

B. Recommendations

1. PRODEM should continue to expand while maintaining the health of the loan portfolio.

2. PRODEM should continue to diversify its client base, reducing the percentage of beneficiaries in the market-commerce sector and increasing services to micro-productores.

3. Family enterprises appear to ba an important subset of the informal sector. PRODEM should investigate this phenomenon further, and look into the possibilities of coordinated loans and services to husband-wife enterprises.

4. Because of increased awareness in PRODEM of family enterprises, and because of the rapidly expanding portfolio, the two sectors of PRODEM (micro-comerciantes and micro-productores) should work more closely together. For example, all loan applications should have both the husband and wife's names and id numbers. PRODEM staff should periodically check to see if the different departments are supporting the same enterprise.

5. PRODEM should develop profit-and-loss statements and baseline data for all of its clients, and a balance sheet for all micro-productor clients. These should be stored on the computer and used for follow-up evaluations.

6. PRODEM staff needs to acquire skills in and apply basic business analysis tools such as break-even analysis, projections of future unit production and sales capacity and sales margins in analyzing client businesses.

7. The program should chart monthly sales performance for a sample of clients, to gain a better understanding of production and sales cycles.

8. With business cycles in mind, PRODEM could be more flexible and effective in tailoring loan programs to their clients' needs.

9. Basic courses in money management, costing, pricing and marketing need to be offered soon.

10. USAID/Bolivia should build in strong incentives to graduate multiple loan recipients to regular financial institutions.

SECTION FOUR

STRATEGIES FOR FUTURE USAID/BOLIVIA SUPPORT TO MICRO AND SMALL ENTERPRISE DEVELOPMENT

SECTION FOUR. STRATEGIES FOR FUTURE USAID/BOLIVIA SUPPORT TO MICRO AND SMALL ENTERPRISE DEVELOPMENT

I. SUMMARY

The micro and small enterprise sector in Bolivia -- comprised of both formal and informal businesses -- provides employment for nearly half of the non-agricultural economically active population of the country. This sector expanded rapidly during the economic depression and hyperinflation of the 1982 to 1985 period, as large numbers of urban poor and unemployed, established small commercial, service and production enterprises.

Studies in Bolivia, as well as in other countries of Latin America, confirm that this sector is growing in importance in the economy, that it is an efficient user of capital, that it is more efficient in creating jobs than larger enterprises, and that large numbers of disadvantaged persons, including women, are found in the sector. Supporting the growth and development of this sector appears to offer a high potential for contributing to two of USAID/Bolivia's long-term goals: economic development and improving the distribution of income and benefits.

Even though the sector is growing rapidly, it is plagued by a number of constraints, including lack of access to working capital and investment credit, low technical skill levels and a general absence of rudimentary business skills. The preliminary project design contained in this section is an attempt to address some of those constraints, and provide a positive framework for future USAID/Bolivia support to the sector.

There are distinct tradeoffs involved in working with the private enterprise sector in Bolivia. USAID/Bolivia must decide on whether to limit the project to micro enterprises or whether to extend support to small- and medium-scale enterprises as well. It must also decide if the primary goals of the project are to expand economic output and employment creation, or if the goals are to work with the relatively more disadvantaged sectors of the society. The DAI team recommends that USAID/Bolivia concentrate the resources of this project on the micro and

small enterprise sectors. The team also recommends that greatest emphasis should be placed on those sectors of the micro and small enterprise sector that offer that greatest potential for employment creation and income enhancement. In the context of the Bolivian small enterprise sector, this means a concentration of effort on the service and small producer sectors, with less emphasis on small commercial activities.

Although there are innumerable strategies that could be used to support micro and small enterprise development in Bolivia, this report outlines three major alternatives -- a simple grant arrangement through one or more local institutions, a standard credit program through one or more financial intermediaries, and a combined strategy involving both financial institutions and non-financial intermediaries. The DAI team recommends strongly that USAID/Bolivia adopt a strategy based on the combined approach for its next project in the micro and small enterprise field. Such an approach would encourage the participation of several client-oriented intermediaries (PVOs as well as established small business intermediaries such as PRODEM, FEBOPI and IDEA), ensure a wide range of non-financial support services for beneficiaries, strengthen existing financial intermediaries and provide the basis for coordinating strategies with other international donor agencies.

Project management and funds management are two of the most important issues facing project implementation. In all but the simplest approaches, the team recommends the creation of a project management unit (PMU) to manage the project. This unit could be formally established, with the intention of continuing its role after the conclusion of the project, or it could be viewed as a temporary function, valid only during the life of the project. It could be established as an AID-directed PMU or, preferably, under the umbrella of an existing institution. In all but the simplest models the team also recommends the establishment of a Trust Fund to manage disbursements, capitalize an on-going small-enterprise credit fund and exercise financial management supervision over participating financial intermediaries.

II. PROGRAM FACTORS

A. Conformity with Recipient Country Strategies and Programs

The proposed project conforms with the Government of Bolivia's (GOB's) strategies and programs in the areas of economic recovery, emphasis on economic development through the private sector, privatization, and small scale enterprise development.

B. Relationship to CDSS and Other Strategy Statements

Projects in small and micro enterprise development conform with USAID/Bolivia's program emphasis on economic recovery, employment creation and long-term growth through support for the private sector. This would be a high visibility, high impact project that addresses a serious problem (unemployment and underemployment) that is currently plaguing the Bolivian economy, and can be expected to have a positive effect on the GOB's economic recovery program in a relatively short period of time. The proposed project also supports AID's objectives of supporting the development of relatively disadvantaged participants, especially women.

The proposed project directly supports two of the four Mission goals identified in the CDSS:

1. Economic Recovery and Development

2. Equitable Distribution of Income and Benefits

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The project would contribute to these goals by stimulating the sector of the economy that:

1. Has been found to be the largest employer of low-income wage labor in the country:

2. Is the most dynamic and rapidly expanding sector of the economy;

3. Has the lowest capital/jobs-created ratio among Bolivia's economic sectors; and

4. Is the largest employer of women in the society.

The specific contribution of the project to the two Mission goals will be in the areas of job creation and job maintenance (income enhancement) among relatively low-income sectors of the society.

III. PROJECT SETTING

From 1952 to 1985 Bolivia's economic development policies favored heavy state involvement in the creation and operation of productive enterprises. During this period the government intervened in most aspects of the economy: all major industries were nationalized, and the government was the major participant in the establishment and operation of new industries. As the government became increasingly involved in the production process, larger numbers of Bolivians came to depend on the government for goods, services and employment. Public opinion became increasingly supportive of an expanded role in the production process. The private sector, while tolerated, was not supported actively by either the government or the poorer sectors of the society.

During the 1982-1985 administration of President Hernan Siles Zuazo, ineffective and often counterproductive economic policies resulted in an economic collapse that was characterized by severe inflation, decapitalization of the formal financial sector, seriously reduced productive activity and greatly increased unemployment.

The Bolivian government that was elected in 1985 embarked on an ambitious economic recovery program, which includes austere economic measures and a greater reliance on the private sector's role into the economy. Under current policy the allocation of productive resources in being determined largely by market forces, there is a strong push toward the privatization of state-owned enterprises, and much of the emphasis of the recovery program will be directed toward stimulating private sector enterprises.

While the austerity measures imposed by the Bolivian government are necessary for the long-term rehabilitation of the economy, in the short run they are having a negative impact on employment and income among the lower classes. Unemployment is currently estimated at around 20 percent, and another quarter of the work force is considered to be significantly underemployed. Most of this unemployment is in urban areas. Exacerbating the problems of unemployment caused by the austerity measures has been the drop in international mineral prices, which has led to the closing of a number of Bolivian mines and the resultant migration of many unemployed miners to urban areas.

Stimulating Bolivia's economic recovery, especially in terms of creating employment and income opportunities for low income sectors of the population, is therefore a major priority of the Bolivian government and USAID/Bolivia.

B. The importance of Small-Scale Enterprises

Small scale private enterprises play a potentially important role in the economic recovery program, and an even more important role in the creation of employment and income possibilities for low-income and disadvantaged sectors of the population. In Bolivia, as in other developing countries, the small enterprise sector is important both in terms of the number of people engaged in the sector and the sector's potential for employment creation: over half of the jobs in the economy are found in small scale enterprises, small scale enterprises are generally more efficient users of capital than larger ones, and small scale enterprises are more efficient creators of jobs than larger scale enterprises.

This can be seen clearly in the statistics gathered by various groups on the informal sector.1/ Fifty-two percent of the economically active population (exclusive of domestic servants) is employed in the informal sector. In La Paz, for example, the informal sector accounts for 74.2 percent of manufacturing jobs, 56.6 percent of construction jobs, 43.3 percent of jobs in transportation and 86.2 percent of jobs in commerce. Throughout Bolivia there are an estimated 144,000 establishments in the informal sector, employing 202,000 persons, or 48.4 percent of the non-domestic-service workforce. Some 65,000 establishments employ less than 5 persons.2/

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

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1. Although there are important legal distinctions, the terms informal sector and micro-enterprise sector refer to essentially the same establishments.
2. CEDLA, El Sector Informal de Bolivia, La Paz, Bolivia, 1986 pp. 151-160.

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As in other developing countries, Bolivia's small enterprise sector tends to be:

1. labor intensive;
2. involved mostly in the provision of basic goods and services;
3. run by relatively more disadvantaged persons, including women; and
4. characterized by the use of simple technologies.

The fact that such businesses require little initial capital and are relatively easy to establish accounts for the high percentage of urban poor engaged in them.

Given this situation, projects aimed at improving the productivity and output of this sector offer the prospect of making a significant contribution, not only to the level of employment and income among the project beneficiaries, but to the economic recovery efforts of the GOB as well.

C. Project Antecedents

In 1985 ten members of the Bolivian Confederation of Private Businessmen (CEPB) each contributed $10,000 to create an indigenous PVO called the Fundacion para la Promocion y Desarrollo de la Microempresa (PRODEM), to channel assistance and credit to small and micro entrepreneurs in La Paz. Their contribution financed the start-up costs of the institution and provided initial seed capital for a loan program.

The following year the CEPB and USAID/Bolivia initiated a pilot project of assistance to micro enterprises with assistance from Accion Internacional Tecnica (AITEC). AITEC provided technical assistance to PRODEM, and the initial funds provided by the members of CEPB were augmented by a loan under the PL-480 Title III program to PRODEM.

Although this is a relatively young program, an interim evaluation conducted in August-September, 1987, (see sections 1, 2 and 3 of this report) concluded that it has generally achieved its objectives and is worthy of consideration for future support. Modifications based on this experience have been included in the design of this project.

D. Other Relevant Experiences

The proposed small and micro enterprises project in Bolivia would reflect a consolidation and synthesis of previous experience with similar projects, both Bolivia and other Latin American countries.

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Within Bolivia the Mission will have had direct experience with two other efforts to promote small and micro enterprise development:

1. IDEA -- USAID/Bolivia helped establish the Instituto para el Desarrollo de Empresarios y Administradores, and funds a large share of its training activities. A portion of its work has been with small scale entrepreneurs.

2. FEBOPI/ADEPI -- USAID/Bolivia has arranged for these institutions to receive PL-480 funds for a pilot effort in small- and medium-scale enterprise assistance. No activities have, as yet, been carried out under the arrangement, though some experience should be available during the project paper development effort.

The proposed project would also reflect the experiences of similar projects in other Latin American countries, particulary:

1. The Accion/AITEC programs in Peru and several other countries;
2. The Carvajal Program in Colombia; and
3. The IDESI program in Peru.

The results of these and other worldwide small-scale enterprise projects were synthesized in the Williamsburg conference on small-scale enterprise development, December 1986, which concluded that:

1. Small-scale enterprises are an important factor in the long-term development of the LDCs;

2. Small-scale enterprise generally generate over half of the employment in LDCs, are more efficient users of capital than larger firms, and are more efficient and more efficient job creators than larger firms;

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

4. Technical assistance programs have generally failed to become self-sufficient; and

5. PVOs usually have natural advantages in promoting small-scale enterprise development, screening applicants, and building local participation into the programs.

These and other findings are being taken into consideration in the design and recommendations for the new project.

E. Institutions Working in the Small and Micro Enterprise Sector

There is currently a plethora of institutions working (or planning to work) in the small scale enterprise sector in Bolivia. Any future project design must understand the involvement and role of the various institutions, as well as their potential for integration into a broader sector strategy.

These institutions can be grouped according to their major function: donors, financial intermediation and client servicing:

1. The Donor Agencies

The following donor agencies are either already funding small-scale enterprise projects in Bolivia, or are likely to do so in the near future:

Canadian International Development Agency
International Labour Organisation
InterAmerican Foundation
Interamerican Development Bank
U.S. Agency for International Development
World Bank

2. The Financial Intermediaries

Generally referred to as Intermediate Credit Institutions (ICIs), this group includes:

Private Commercial Banks
Savings and Loan Societies (Mutuals)
Credit Unions

Of less immediate involvement are the government financieras established by various international donor programs, non-financial institutions (such as PRODEM) that are acting as financieras, and the informal credit sector that currently provides most of the credit used by the micro-enterprise sector.

3. The Client Servicing Organizations

This group encompasses a wide variety of institutions, many with very specialized roles and capabilities. They share a common characteristic in that their primary function is to provide non-financial (recognizing that some may include a financial component) services for end beneficiaries of the programs. These generally include:

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a. PVO/NGO organizations -- such as CRS, CARE, Save The Children, IVS, and many others. There are currently some 250 such organizations in the country, many of whom have either already initiated small enterprise programs or plan to do so in the near future. These groups generally work with specific subsectors of the population, and many have solicited funding from AID/W to embark on their small-scale enterprise programs.

b. Educational institutions -- such as IDEA, INASET and the Carvajal Foundation -- whose primary role is to provide educational services to the business sector. Some of these institutions have expanded to include technical assistance and credit services.

c. Associational institutions -- such as CEPB, CNI, FEBOPI and the ADEPIs -- which primarily function as interest-group associations for their membership, but which have recently begun to branch out into other activities.

d. Special purpose organizations -- such as PRODEM -- which are created specifically to provide a package of service (including basic training,technical assistance and credit services) to a specific sector of the small enterprise sector.

e. Governmental or Quasi-governmental agencies -- such as the Unidad de Coordinacion de Proyectos, the Unidades Crediticias y Financieras and the regional development corporations.

During the next year a large number of small projects in the micro enterprise sector are likely to be initiated by these institutions. Among the specific projects the team identified during this assignment are: (a) a training, technical assistance and credit program for small-scale enterprises by Carvajal Foundation and IDEA, financed by IDB; (b) a micro enterprise program for marginal populations by FIE, with Inter-American Foundation funding; (c) a potential micro-enterprise program sponsored by IDESI (of Lima, Peru) and CEDLA, with Canadian CIDA funding; and (d) private PVO initiatives by CRS, OFASA and others. The project paper development phase will have to carefully examine these initiatives to avoid redundancy.

IV. SOCIAL CONSIDERATIONS AND BENEFICIARY CHARACTERISTICS

A. Social and Economic Characteristics of Proposed Project Beneficiaries

Bolivia's micro and small enterprise sectors are overwhelmingly comprised of low-income sectors of the populations, engaged in marginal production, service and vendor activities. A large percentage -- 88 percent in the case of market vendors -- are women. The evaluation of PRODEM found that in 70 percent of the male-owned small industry enterprises the wives were involved in the production process as much as the men. While accurate data on income are not available, people engaged in these enterprises are, without exception, below the median income for the country.

In Bolivia, as in the rest of Latin America, the working poor that comprise the micro and small enterprise sector are characterized by low literacy rates and a lack of technical training. Skills are acquired through practice and apprenticeship, or are passed down through the family.

A program aimed at this sector of the population is indeed reaching one of AID's primary target groups.

B. Scale of Enterprises to be Supported

There is a large universe of enterprises in Bolivia that do not fall into the category of large private businesses or public-owned corporations. These private enterprises can be divided into formal and informal sectors, or they can be viewed in terms of the scale of the enterprise -- i.e., micro, small and medium. Unfortunately, while the informal sector has been widely studied,3/ relatively little is known about the distribution and characteristics of the formal sector, which includes small and medium-scale enterprises. A survey of industries being conducted jointly by the CNI, FEBOPI and IDEA, with funds from USAID/Bolivia, should provide valuable information on formally registered businesses.

One of the issues facing USAID/Bolivia in the design of the new project is the question of whether to focus resources on one specific component of the micro-, small- and medium-scale sector, or whether to spread resources among the sectors. There is no empirical answer to that issue, and the decision must ultimately be a judgmental one reflecting Mission policy and interests. Nevertheless, there are some substantial differences among the three sectors that might provide a basis for such a judgement decision.

As can be seen in Table IV-1 on the following page, which summarizes the basic differences among the three sectors, the medium-scale enterprises4/ tend to be well-established businesses requiring a substantial capital involvement. Ownership benefits accrue to a relatively few individuals. These enterprises are capable of absorbing relatively large amounts of capital, and the technical assistance needs tend to be highly specialized.

Smaller units, especially in the micro sector, are usually home-based businesses, frequently utilizing other members of the family. There is little differentiation between owners and workers, requirements for capital inputs are relatively small, and training/technical assistance needs tend to be more standardized around basic business concepts, pricing, marketing and finance.

The scale of operation also has an effect on the ability of the project to achieve specific results. As can be seen in Table IV-2, the potential for achieving specific objectives varies considerably according to the sector. If the goals of the project are to create jobs and enhance income, emphasis should be placed on small-scale enterprises. If, on the other hand, the primary goals are to reach and have an impact on the largest number of people, to work with disadvantaged groups and to support women in development, greater emphasis should be placed on micro enterprises. Although little data on the medium-scaled enterprises

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3. For all practical purposes the micro enterprise and informal sectors are synonymous: few micro enterprises are registered, and lack of formal registration is the primary definition of the informal sector.
4. Definitions of the various levels are not standardized. The units we are calling "medium-scale" enterprises are referred to by FEBOPI as "small-scale" enterprises.

Table IV-1

Basic Characteristics of Micro-, Small- and Medium-Scale Enterprises

Characteristic	Micro Enterprises	Small Enterprises	Medium Enterprises
Legal Status	Vast majority are not formally registered.	Some registered, some not.	Most registered, very few not.
Location	Most are home-based	Most are not home-based	Vast majority are not home based.
Assets	Less than $5,000	$5,000 to $10,000	Over $10,000
Annual Sales	Less than $5,000	$5,000 to $10,000	Over $10,000
Number of Employees	0-5	5-10	Over 10
Owner/worker relations	Management-worker status is usually not differentiated	Some differentiation between owner and workers	Strong differentiation between owner and workers
Market	Highly competitive market with little product differentiation	Usually some product and market differentiation	Strong product and market differentiation
Ease of Entry	Very Easy	Moderately Difficult	Difficult
Capital Required to Begin Business	Minimal	Small-Medium	Substantial
Stability	Highly volatile, large turnover, high rate of failure.	More stable	Relatively stable, established businesses
Current Capital Requirements	Small amounts of working capital	Larger amounts of working capital and some investment capital	Large amounts of investment and working capital
Average Size of Loan Requested	$500 to $5,000	$5,000 to $10,000	$10,000 to $50,000
Technical Assistance Required	Rudimentary business skills	More advanced business skills and some technical support	Specialized management, finance and technical support

exist, the general consensus is that working with this scale of enterprises will produce fewer results in terms of jobs created, number of people impacted, income enhancement and improving the status of disadvantaged groups.

TABLE IV-2

Beneficiary Characteristics,
According to Scale of Enterprise

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

Because medium-scaled enterprises also have the capability of absorbing large amounts of capital rapidly, and because the technical assistance and training requirements are less addressable by a project approach, the team recommends that USAID/Bolivia restrict its focus to micro- and small-scale enterprises in the proposed project. In addition, the medium-scale businesses are enterprises that, under normal circumstances, would be able to meet normal loan worthiness and collateral requirements. At the present time the UCF's have at least $20,000,000 in pending applications from this sector, and although most will go unfunded because of restrictions placed on the UCF's by the FOCAS program, it is conceivable that many could receive funding from other credit lines, particulary reactivation funds.

C. Sector Considerations

Micro- and small-scale enterprises are generally classified in three distinct sectors: production, services and commerce. The commerce sector can be further broken down between market-place and retail stores. Potential benefits differ substantially among the three sectors, as can be seen in Table IV-3. If USAID/Bolivia's primary objectives in the sector are to foster job creation and income enhancement, emphasis in the program should be placed on the production and service sectors. If, on the other hand, the objectives are to work with disadvantaged groups and support women-owned businesses, emphasis should be placed on the commerce sector, where at least 85 percent of the establishments are women-owned and operated.

The team recommends that USAID/Bolivia place primary emphasis on the production and service sectors, with secondary emphasis on commerce.

TABLE IV-3

Beneficiary Characteristics
According to Productive Sector

	SECTOR		
Potential For:	Commerce	Services	Production
Job Creation	Minimal	Moderate	Moderate-High
Income Enhancement	Minimal	Moderate	Moderate
Working with Disadvantaged Groups	High	High	Moderate
Role of Women	Predominantly women-owned and operated businesses	Mixed, though a majority are owned and operated by men	Predominantly male ownership, though women participate in operations, sales and work force

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D. Major Problems Facing the Micro and Small Enterprise Sector

While the small enterprise sector offers a good potential for growth in Bolivia, a number of key factors are inhibiting the realization of that potential. Perhaps the largest single factor has been the economic depression and hyperinflation that plagued the country from 1982 through 1985. These two events threw large numbers of people into the informal sector, drained formal financial institutions of resources and reduced the purchasing power of the Bolivian population (and, hence, the potential markets for micro- and small-scale producers and vendors).

As a consequence, the micro- and small-scale enterprise sector is today characterized by:

1. Poor access to financing for working capital and investments, due primarily to a lack of collateral and little contact with established intermediaries (ICIs) and to the general retrenchment of lending by ICIs;

2. High levels of competition with other local producers and vendors, and with contraband importations. This is exacerbated by an absence of product and market differentiation among both producers and vendors;

3. Low income levels due to limited inventories and products, yielding a low return on labor;

4. High marginal profitability and return on capital;

5. Inadequate knowledge of basic business, management and technical operations, especially those skills necessary to expand businesses, enter new product lines and enter new markets;

6. Lack of access to needed training and technical assistance in rudimentary business practices, marketing, pricing and technical aspects of their businesses; and

7. Certain legal impediments (or absence of incentives) to formalizing businesses and employing workers.

The proposed project directly addresses most of the above impediments to the development and expansion of the sector. In particular, the project addresses the major issues of access to capital, training and technical assistance, with some research into the identification and solution of legal impediments.

E. Preliminary Estimates of Credit Demand

Perhaps the major impediment facing the micro and small enterprise sector is the lack of access to formal credit markets. With the retrenchment of the formal financial institutions, the amount of credit available has been reduced significantly since 1982. Micro and small enterprises are systematically excluded from most formal credit markets in Bolivia, and the small amounts of credit reaching the sector through credit unions and informal systems does not begin to meet the working capital needs of the sector. As mentioned earlier, micro- and small-scale enterprises in Bolivia have demonstrated high returns on capital. Increasing access to capital should, therefore, be a high priority of any program dealing with the sector.

While a detailed "demand-for-credit" analysis would be necessary (and should be conducted as part of the Project Paper development exercise) to establish the absorptive capacity of the micro -and small-scale enterprise sectors, preliminary estimates based on past program performance, estimates of credit needs supplied by FEBOPI/ADEPI, an examination of UCF loan request and ACCION/AITEC's original feasibility study indicate that there is sufficient effective credit demand to justify the proposed scope of the USAID/Bolivia program.

Not all of the credit demand identified during the evaluation would be eligible for funding under the proposed project. The two UCFs visited, for example, had pending loan applications in excess of $8,000,000. The average size of these loans, however, was $80,000, with few loan requests for less that $40,000. With a proposed loan ceiling of $10,000 and a desire to have loans in the under-$5,000 range, none of the loans pending in the UCF's would be eligible for the program.

FEBOPI projects a high level of credit demand among its 1,000 affiliated members. A survey of its membership indicated an immediate demand for $5,000,000 in credit and a projected demand of some $2,500,000 per year. These entrepreneurs are organized, and capable of absorbing large amounts of credit rapidly. It must be pointed out, however, that most of FEBOPI's members would not fall in the commonly accepted definition of micro or small enterprises. FEBOPI uses "less than 50 employees" as a definition of a small enterprise, yet under World Bank and IDB guidelines most of these would be classified as medium -scale enterprise. FEBOPI's membership is certainly on the larger end of the small enterprise scale, and USAID/Bolivia may wish to restrict the amount of lending under the proposed project to that scale of enterprise.

A more relevant estimate was provided by FENACRE. Between 5 and 10 percent of the credit union loan portfolio in Bolivia is estimated to be in small enterprise and artisanry projects. In addition, FENACRE estimates a potential demand of about $1.5 million per year in urban-oriented production through its own direct-membership activities. Three of the seven ADEPIs have already established credit unions in order to gain access to credit through the credit union system, and two of the others are currently in the process of doing so.

The most directly relevant estimates are based on the projections and experience of the PRODEM project. As for the date of the evaluation (September 1987) PRODEM had worked with 822 beneficiaries and had extended 1,400 individual loans for a total of $125,000. With an estimated potential client base of over 50,000 in the La Paz area, these ratios indicate an annual demand for credit well in excess of $10,000,000.

CEDLA estimates that there are 144,000 economic establishments in the informal sector, of which 65,235 have between 1 and 5 employees. Most of these are in major cities. Under the PRODEM program this size and type of enterprise has received initial loans of $150 to $250; subsequent loans are expected to increase to about $1,000 per enterprise. The ACCION/AITEC feasibility study found that 67 percent of the micro-productores indicated that the lack of working capital was their major problem. If we take 60 percent of the 65,235 enterprises as long-term potential borrowers under the program, and an initial loan rate of $150 as the minimum average request, there is an initial total demand for credit of some $5,971,000 in this sector, and a mature loan demand of some $39,000,000. Because of the incremental approach of the PRODEM program (and any other program that might be developed to work with this sector), this level of demand would be not be achievable for a number of years.

In any case, the level of demand for credit services is high, exceeding projected levels of USAID/Bolivia supplied resources. Part of the project design activity associated with developing the project paper would need to forecast effective demand consistent with the proposed implementation schedule of the project itself.

V. PROJECT DESIGN

A. Project Goals

The proposed project would directly address two of the Mission's four goals: economic development and equitable distribution of income and benefits. Its contribution to these goals would be in the form of expanded productive output and activity in the micro- and small-scale enterprise sectors, and in terms of job creation and maintenance for the poorer sectors of the society. Because of the large percentage of women involved in the various components of this sector, the project would also support AID's commitment to women in development.

As a result, the two goals of the proposed project would be to:

a. Expand economic output of the micro- and small-scale enterprise sector; and

b. Increase employment and income among low-income urban residents.

Expected accomplishments that can be objectively measured for these goals include:

<u>Economic Development</u>
a. Expanded sales of participating beneficiaries;
b. Increased assets of participating beneficiaries;
c. Greater amount of taxes contributed by participating beneficiaries.

<u>Employment and Income</u>
a. Increased level of employment in participating firms;
b. Increased wages or earned income in micro- and small-scale enterprises assisted by the project;
c. Increased net earnings of beneficiary firms;
d. Increased stability in employment.

Measurement of goal achievement will require adequate baseline data on program participants and a well-designed reporting and information system to track performance. Resources to ensure the availability of such data must be included in the project design to ensure measurability.

B. Project Purpose

In order to achieve the goals, there will have to be a substantial expansion of micro- and small-scale enterprise activity in the country. Because of the constraints facing these enterprises, expansion is only possible through an increase in investment and working capital, improved business and technical skills among micro- and small-scale entrepreneurs, improved product and market selection and better management of the business entity. The purpose of the project, therefore, is to:

> Stimulate the growth and development of Bolivia's micro- and small-scale enterprise sector.

End-of-project indicators will focus on changes in behavior at the level of the assisted beneficiaries in terms of:

a. application of improved business skills;
b. improved management of funds;
c. increases in investments in plant and equipment;
d. adoption of improved production and marketing technologies;
e. improvements in product mix and marketing;
f. increased inventories and levels of production;
g. improved returns of investment in participating firms.

Achievement of improvements in these indicators should provide a strong basis for increasing economic output, employment and income in the sector.

C. Project Outputs

The outputs of the project are oriented to addressing the constraints faced by the micro- and small-scale enterprise sector, and to increasing the level and quality of support to these enterprises. These include:

1. Further strengthening of institutions engaged in providing services to micro- and small-scale enterprises -- including staff training, assistance in the design and implementation of effective management and control sys-

tems and possible support for expansion into other cities. Possible institutions include PRODEM, FEBOPI, the ADEPIs, selected PVOs, FENACRE and CACEN.

2. Training in basic business subjects for project beneficiaries -- to develop the skills necessary to improve management, finance and other aspects of the participants' businesses.

3. Technical assistance to participating beneficiaries -- to help participants apply concepts learned in training exercises and overcome specific problems associated with their businesses.

4. Credit -- to increase levels of working capital and investments in plant and equipment in participant businesses;

5. Identification of legal impediments to small business operations and development of recommended improvements for action by the GOB.

In addition, specific project outputs will be related to managing the project itself, including: the establishment and staffing of a project management unit, development and installation of a computer-assisted project management and information system, development of management and operations procedures and standards, and training of local staff.

A sample of specific objectives and quantified targets for the outputs are included in Annex C. These would have to be more thoroughly developed during the project paper design phase.

D. Recommended Project Components

Project components would include:

1. Technical assistance for a project management unit, which would include assistance in the areas of institutional development and management, financial operations and small enterprise project development and implementation. Short-term assistance in information system development, credit policies and opertions, trust fund operations, management control systems and other similar topics will also be required.

   If a project strategy involving the establishment of a project management unit (PMU) is followed, technical assistance support for the project would be located in this unit. The primary responsibility of the technical assistance would be to develop overall project coordination and management systems, but it would also provide and coordinate support to intermediaries and ICIs participating in the program.

2. A Trust Fund to capitalize and/or guarantee a revolving credit program for micro- and small-scale enterprises participating in the program. The fund would be established in a local bank, with the directors of the project management unit serving as trustees for the fund.

3. Technical assistance for participating intermediaries and ICIs. Major intermediaries (such as PRODEM or FEBOPI/ADEPI) might have specific, separately awarded technical assistance contracts, although these could be provided through a single umbrella technical assistance program.

4. Participant training for selected staff and managers of the project management unit, intermediaries and ICIs. Exposure to programs in Colombia, Peru and Honduras would be particularly valuable; the Carvajal Foundation in Colombia as a regular training program for small enterprise field agents and promoters.

5. Budget support on a selected and reducing basis to assure the provision of a package of support services -- including training, technical assistance, loan application processing, follow-up and collections -- through existing intermediaries. As pointed out in the PRODEM evaluation, PRODEM will not be self-sufficient in the next three or four years and will require continued budget support. FEBOPI/ADEPIs have had no experience in implementing programs, and might need short-term assistance to hire staff. Participating ICIs may need budget assistance on a declining basis to hire a program manager.

6. A small research component in the project management unit to review legal impediments to small business development, compile information on the impact and benefits of the program, and monitor performance of the intermediaries and ICIs participating in the program.

7. Limited commodities in the form of office furnishings and computer hardware and software necessary to ensure proper management of the program should be the only commodities required by the program. As this is an urban-based program, vehicles should not be necessary.

The team does not recommend that the project include a component for Junior Achievement. Although the Junior Achievement program is well known, and has a potentially valuable contribution to make to the development of entrepreneurial skills, the team does not believe that it would make a direct contribution to the problems identified in the micro and small enterprise sector, and that resources can be utilized in more directly related activities.

VI. ALTERNATIVE IMPLEMENTATION STRATEGIES FOR THE SMALL ENTERPRISE PROJECT

A. Characteristics of an Effective Implementation Strategy

A well-designed strategy for micro and small enterprise development in Bolivia would have the following basic characteristics:

1. It would reach a wide range of the target beneficiary population with an appropriate and effective mix of training, technical assistance and credit;

2. It would work through existing institutions (both intermediaries and ICIs) rather than creating new ones;

3. It would take advantages of the recognized strengths and weaknesses of established institutions in providing services to target beneficiaries;

4. It would, to the extent possible, separate financial and non-financial services;

5. A majority of the funds available would directly support the beneficiaries rather than support the administrative costs of the intermediary organizations;

6. Over time, the full costs of credit and support service costs would be covered by charges to the beneficiaries;

7. It would provide appropriate levels of training and technical assistance, based on the changing needs of the beneficiaries; that is, training and technical assistance would reflect the life-cycle evolution of participants in the project;

8. It would build "effective" links between beneficiaries and existing ICIs (by "effective" we mean linkages that can be reasonably expected to lend to normal saver/borrower relationships between individual beneficiaries and the ICI),

and would provide for the graduation of participants to an individual business relationship between participants and an ICI;

9. It would have built-in mechanisms to learn from its experiences and record the lessons learned from the various intermediary approaches.

B. Three Major Alternatives

There are many possible ways to design and implement a program to support micro and small enterprise development. This consultation assignment was not intended as a sector study and, as a consequence, has not been able to fully explore the full range of possibilities. During the course of the PRODEM evaluation and discussions with various entities in Bolivia, however, three major alternatives were identified that merit further consideration. These are:

1. Discrete Subprojects -- i.e., direct grants to one or more implementing agencies to provide a package of technical assistance and credit to specific beneficiary groups:

2. A Financial Intermediary Strategy -- involving a direct loan or grant to one or more financial intermediaries (ICIs) to develop a micro and small enterprise portfolio; and

3. A Mixed Strategy -- involving both non-financial and financial intermediaries in a broad-scale program of assistance to micro -and small- scale enterprises.

A description of each of the alternative strategies, with advantages and disadvantages and recommended implementation strategies, follows.

1. One or More Discrete Subprojects

Brief Description

Under this strategy USAID/Bolivia would make grants to one or more specific institutions to implement separate projects in the small enterprise sector. The grant(s) would include administrative support, technical assistance and capital funds. Each grantee institution would have specific target groups and methodologies, and would be run as a discrete subproject under the umbrella of "Small Enterprise Development". Each grantee would have complete responsibility and accountability for its own funds.

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Income for the participating agencies (to cover administrative, training, and technical assistance costs, as well as credit losses) would come from service fees or commissions. Interest on funds loaned to beneficiaries would be used to establish on-going capital loan funds under the control of each grantee.

Probable recipients under such a strategy would be PRODEM and FEBOPI/ADEPIs (perhaps under the umbrella of the CEPB), although it is conceivable that other qualified PVO/NGOs would be identified during the project paper development phase. As an alternative, a single grant could be given to an organization like the CEPB, which would manage subgrants to qualified intermediaries such as those mentioned above.

The recipient institutions would report to a single project manager in USAID/Bolivia. Systematic data collecting and analysis would be limited to USAID project management capabilities.

Implementation

Through an internal USAID selection process, one or more local institutions would be selected as grantees to administer subprojects under the umbrella of the Small Enterprise Development Project. Grantees would be selected on the basis of past performance, special capabilities, involvement with projected beneficiaries and other characteristics determined during the project paper development phase. Initial performance standards and operating procedures would be developed during the project paper exercise and refined with the participation of the grantees during the first months of the project.

Grantees would be encouraged to expand operations to other cities in Bolivia. Expansion, however, should be coordinated in such a way as to avoid redundancy with similar expansion efforts by other organizations participating in the program or outside, other-donor-financed projects.

The grantees would have a dual function. They would function as "intermediaries" in identifying, mobilizing, training and providing technical assistance and other support to beneficiary groups. They would also function as financieras; although actual disbursements of funds and collections would be handled by an ICI, the grantee would have all programming and management control over the funds. USAID/Bolivia would disburse funds to the local account of the grantee, based on actual lending experience and projected disbursement schedules.

Technical assistance would be provided to the grantee organizations through one or more separate technical assistance contracts in the areas of institutional development, administration and procedures, lending policies and practices.

Implementation Considerations

If USAID/Bolivia should decide to develop this alternative, it should consider the following recommendations as potential design strategies:

a. To the extent possible the financial and non-financial operations of the small enterprise program should be separated. "Intermediaries" are seldom qualified to act as effective financial institutions, and ICIs seldom have the staff to adequately perform the intermediary client servicing functions. To the extent possible, financial activities should be managed by an established ICI, with client servicing provided by the intermediary.

b. The intermediary should operate the program through a savings and loan association or credit union rather than through a bank. The program as currently implemented creates an evolutionary dead-end for the small entrepreneur because it does not build effective links between small entrepreneurs and financial institutions that value their business. Banks in Bolivia are unlikely to grant access to credit for the target beneficiaries of this project.

c. The program should have a built-in long-term graduation mechanism. Grant funds should be used to cover the costs and risks of bringing new participants into the program rather than subsidizing the continued patronage of proven clients. Incentives to both the intermediary and the borrower can be developed to encourage such a transition.

d. The program should build in a savings mobilization component, both to capitalize an on-going small enterprise lending fund and to increase the financial independence of the small entrepreneurs. Respondents to our surveys unanimously endorsed such a requirement.

e. There should be a greater, though not exclusive, emphasis on micro "productores" because of the greater job creation and income enhancement potential of this group.

f. There should be a commission structure to cover training, technical assistance and administrative expenses.

Discussion

This is essentially the strategy pursued by USAID/Bolivia for the pilot projects with PRODEM and FEBOPI/ADEPI, even though capital funds were provided through the PL-480 Title III program. The major advantages of this approach are that:

* It is relatively easy to manage as long as the number of subgrants is limited;
* Grantee organizations would prefer this approach;
* It ensures a package approach of training, technical assistance and credit; and
* It provides USAID/Bolivia with direct control over the intermediaries.

On the other hand, the major disadvantages are that:

* As the number of subgrants increases it becomes very difficult to mange;
* It tends to reach only a limited section of the target beneficiary groups;
* It has inherent built-in inefficiencies, expanding institutions rather than taking advantages of existing opportunities;
* Grantees seldom have the skills to manage funds;
* It tends to create dependency relationships between beneficiaries and the grantees rather than providing a graduation mechanism;
* It ignores other potential intermediaries and beneficiary groups;
* A large part of the project budget would be supporting administrative overhead of the intermediaries; and
* Lessons learned are not easily extracted or retained.

2. The Financial Intermediary (ICI) Strategy

Brief Description

One or more formal intermediate credit institutions -- banks, savings and loans (CACEN) or credit unions (FENACRE) -- would set up and administer special credit programs for small enterprise development, operating through the institution's affiliates or branches. Standards for sub-borrower eligibility, size of loans, guarantees and portfolio performance (especially delinquency) would be developed in advance. The ICI(s) would extend credit through their normal procedures to members or clients who applied and qualified for the loans.

USAID/Bolivia would disburse funds --either directly or through a trust fund mechanism -- to the ICI(s) based on past lending volumes and projected disbursement schedules. The ICI(s) would take all of the risk in the program, provide all client servicing, and receive all of the income (commissions and fees) from the lending activity. Reserves would be set aside to cover bad debt losses and to fund and on-going small enterprise loan portfolio.

The ICI(s) would report to a USAID-designated project manager who would be responsible for monitoring the program and ensuring compliance with established standards.

Alternatives within this model could include a rediscount procedure (through the trust fund), a guarantee provision (again managed through the trust fund) or direct disbursements to the ICI with no trust fund mechanism.

Implementation

Existing ICIs in Bolivia would be requested to submit proposals for managing the funds, specifying target beneficiary groups, expected results, implementation capability and proposed operating procedures. Through an internal selection process USAID/Bolivia would screen the proposals to select one or more institutions to administer all, or a portion, of the fund.

Qualifying ICI(s) would establish a separate small enterprise lending program and manage that as a separate portfolio. Some staff additions might be required. The ICI(s) would have to set up adequate record keeping and management information systems to insure proper administration and auditing of the fund.

External technical assistance would be contracted to assist the ICI(s) in establishing and managing the loan portfolios. If a trust fund mechanism were used to channel resources to the ICI(s) the external technical assistance contractor would work with the Trust Fund to establish and manage the loan portfolio, as well as to provide support in management and administration to the ICI(s).

The ICI(s) would not be expected to provide the level of training, technical assistance and client support that intermediaries normally provide in this field; the relationship would be strictly a financial one between the ICI and its small business customers. It would be assumed that adequate training would be available through other programs (such as an IDB-funded Carvajal-IDEA program).

A trust fund mechanism would be appropriate if more than one ICI were involved, in which case it could function both as a project management unit (with an institutional technical assistance and monitor-

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ing/auditing capability) and as a disbursing fund for the program. The Project Management Unit (PMU) would supervise the disbursement of funds, monitor performance of the portfolios, ensure compliance program objectives and beneficiary targets, and conduct research related to the impact and benefits of the program. The Trust Fund could have guarantee, rediscount and advance disbursement capabilities, with economic incentives to encourage a greater percentage of ICI funds in the small enterprise portfolio.

Discussion

There is ample precedent for this model in Bolivia in the water, electricity and productive credit programs of CACEN and the IDB-funded small farmer credit programs of FENACRE. The major advantages would be:

* Relatively easy to establish and monitor;
* Makes use of existing credit mechanisms, which have established credit and lending programs;
* Builds a direct tie between beneficiaries and financial institutions, which is often lacking in projects;
* Can support significant savings mobilization;
* Relatively low incremental overhead costs;
* ICIs have established branches or affiliates in all major cities, so that coverage could be nation-wide with little effort;
* Majority of funds would directly reach the beneficiaries;
* Addresses the major identified need of the small- and micro-scale enterprises in the country.

On the other hand, the major disadvantages of this strategy are:

* It fails to provide a complete package of services and support to beneficiaries;
* Beneficiaries would tend to be limited to established clients of the ICIs;
* Might not reach the intended beneficiary group;
* High transaction costs and high risks may discourage ICI participation.

A major criticism of this approach is that it fails to provide an integrated approach to dealing with the constraints of the sector; in essence, it assumes that training and technical assistance are either not necessary, or that the individual beneficiaries can and will obtain those services from other sources. At the same time, however, it should be pointed out that, while numerous studies have shown a positive correlation between credit and changes in small enterprise beneficiary populations, there are no corresponding studies which show a similar strong

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positive correlation between training/technical assistance and changes in these groups.

If this strategy were to be adopted by USAID/Bolivia, we would recommend strongly that CACEN (the savings and loan system) and/or FENACRE (the credit union system) be selected as the implementing ICIs. There is no indication in Bolivia that the private banking community is interested in working with the proposed beneficiary group or with savings and loans of the magnitude envisaged by the program. With the economic crisis in Bolivia the banks have retreated to their traditional client base, and with the proposed recovery program, the monies available to the banks (assuming that they can be induced to utilize them) are so massive that a program of this type would have little appeal.

3. A Mixed Strategy

Brief Description

This strategy would support the small enterprise promotion activities of a variety of intermediaries (PRODEM, FEBOPI/ADEPI and PVO/NGOs), with credit extended primarily through one or more existing ICIs. It consist of:

a. Establishment of a central project management unit (PMU);

b. Direct grant subprojects through one or more of the established intermediaries;

c. Support of micro and small enterprise programs of other intermediaries, including PVO/NGOs and local associations;

d. Formal incorporation of existing ICIs into the loan process; and

e. A trust fund or rediscount and guaranty facility (probably in connection with the PMU) to support the participation of the ICIs;

Financial and non-financial functions would be clearly separated in this approach. Intermediaries (such as PRODEM, FEBOPI/ADEPI and qualified PVO/NGOs) would be responsible for beneficiary identification, preparation and qualification, training and technical assistance and loan monitoring. Credit would be extended to beneficiaries by participating ICIs. The intermediaries would be responsible for delinquency on credit extended to their clients, and would be dropped from the program if recovery rates were less than 95 percent.

The Project Management Unit would be responsible for establishing standards for the systems, approving intermediaries and ICIs for participation in the program, coordinating technical assistance to the intermediaries and ICIs, monitoring the performance of the various institutions and maintaining records and statistics on the program.

Implementation

This would be implemented as follows:

a. A separate project management unit (PMU) would be established in Bolivia to administer the program. This unit would be staffed by resident Bolivian personnel, assisted by U.S.-based contracting firm. It would have responsibilities for administering all funds under the program, including loan funds, technical assistance funds and institutional support subgrants. It would negotiate and legalize working arrangements between the various participants in the program (i.e., intermediaries and ICIs). It would approve intermediaries and ICIs for participation in the program. It would monitor performance of the program and initiate improvements. The PMU would have the ability to recommend direct project subgrants through other intermediaries.

   The PMU could be established as a dependency of USAID/Bolivia, a separate department of the CEPB, a special program under the UCP, or a special office (combined with the Trust Fund) in an ICI.

b. PRODEM would continue to receive technical assistance, commodities and budget support (on a declining basis) during the first few years of the project. It would also probably manage a portion of the loan fund directly.

c. FEBOPI/ADEPI would continue to be the conduit for services and credit to their membership, although actual credit resources would be channeled through an existing ICI. Assistance would be provided to help FEBOPI/ADEPI develop the internal capabilities to manage this service effectively.

d. Other qualified intermediaries working in small enterprise development activities would have access to loan funds through existing ICIs. No budget support would be provided by the project to the intermediaries, but they would be able to earn a service commission on their loan portfolios. The service commission would be collected by the ICI and distributed to the intermediaries based on the performance of their clients' portfolio and recovery rate.

e. Limited budget support and technical assistance would be available through the PMU to help FEBOPI/ADEPIs (and other intermediaries) design, plan and offer services, establish and monitoring systems, etc. Training and technical assistance staffs of approved intermediaries would be eligible to receive participant training in small enterprise development.

f. Expansion to other major cities in Bolivia would be supported, but preference would be given to expansion through existing institutions and expansion that is self-financed by the intermediary that wishes to expand.

g. The majority of funds under the project would be used to establish a separate small enterprise loan "Trust Fund" with guaranty, rediscount and advance disbursement capabilities in an appropriate institution. Possible institutions are a commercial bank, CACEN or FENACRE. All loans to small businesses, whether administered directly by an intermediary (such as PRODEM) or channeled through an ICI, would be drawn down through this fund. The Trust Fund would be administered by the directors of the PMU.

h. Existing ICIs, particulary credit unions and S&Ls, will be encouraged to act as disbursing agents for the funds. They will receive sufficient income from the loan portfolios to cover their costs and provide a small return. Interest rate incentives would be built into the rediscount and guaranty mechanisms to encourage ICIs to utilize their own funds from small enterprise lending; to the extent that they place their own capital at risk they will be able to earn higher levels of income from the loan activities. All ICIs participating in the program would operate under similar procedures and restrictions.

i. An information system would be installed in the PMU to manage trust fund operations and institutional performance, as well as to maintain statistics on the project and support research into impact and benefits. The program should also help the participating ICIs develop special software to manage the loan portfolios.

Discussion

While being the most complex alternative, this approach offers the best option for making a significant contribution to micro and small enterprise development in Bolivia. The primary advantages are that:

* It would reach the largest proportion of the target beneficiary group;

* It builds on the natural strengths of participating institutions (both intermediaries and ICIs) while minimizing their weaknesses;
* It builds solid linkages between beneficiaries and financial institutions, providing a long-term graduation mechanism;
* It can minimize administrative costs by relying on existing financing for PVOs and other organizations that want to participate;
* It would not be restricted to the clients of just a few intermediaries;
* It provides real economic incentives for ICIs to extend credit using their own funds;
* It would encourage savings mobilization;
* It provides a mechanism (through the PMU) for learning from experiences;
* It provides a mechanism (through the trust fund) for monitoring and auditing performance and for enforcing standards;
* Given the current growth activities in the sector, it provides a mechanism for coordinating donor-agency activities.

The principal disadvantages of this approach are that:

* It is fairly complex to administer;
* It would have the highest administrative costs of any of the alternatives;
* Intermediaries like to work independently, and to have control over the credit resources;

4. Recommendation

USAID/Bolivia should explore all three alternatives during the project paper development phase. The team recommends strongly that preference should be given to a mixed strategy that incorporates the majority of points in the model listed above.

C. Institutional Considerations

1. A Functional Approach to Implementation

The success of the project will eventually depend on the quality of the institutional structure implementing it. The alternatives presented vary from very simple "hands-off" grants, to a relatively complex sector-approach to micro and small enterprise development. Regardless of the complexity of the approach, several basic functions must be performed.

The first is project management. Project management encompasses a wide range of decision making and management processes. Selection of grantees, elaboration of beneficiary criteria, negotiation of terms with intermediaries and ICIs, disbursement of funds, monitoring of performance, maintenance of records, reporting of results and evaluation of impact are only a few of the activities associated with a project management function.

In the simplest approach the management function could be exercised by USAID/Bolivia personnel. The team believes, however, that project management should be more formal and extensive. Therefore, we recommend, even in the simplest approach, that the project design include a project management unit (PMU) to provide full-time management and supervision of the project. This unit can be established at several different levels. In the simplest models it could simply be an outside contractor to the intermediaries or ICIs that, with a counterpart staff, exercises these functions during the life of the project. But in the ICI or mixed approaches, the PMU should be a more formal structure, integrated with the management of the trust fund or other credit disbursement mechanism.

The second major function is beneficiary identification and support. This role is typically performed by "intermediaries" such as PRODEM, FEBOPI/ADEPI or a PVO. Activities include client identification and preparation, training, technical assistance, credit application assistance, loan brokering, and other labor intensive interactions with the beneficiary population. These operations are very costly, and are usually ignored in "credit-driven" programs. As the participants of the Williamsburg Conference noted, these activities seldom achieve self-sufficiency in donor-assisted programs.

The third is credit. Almost every program has a credit component, and if it often appears that models are "credit-driven" -- that is; that too much attention is paid to the credit function -- it is because a failure to manage this function correctly produces dramatic failures in a program. The credit function includes evaluating applications, disbursing funds, collecting payments, managing delinquencies, accounting and reporting. These are specialized functions that, in most circumstances, should be performed by institutions that have the capability of dealing with them properly.

It should be noted, however, that the cost of the support activities related to the credit functions (i.e., the servicing costs) are based on transactions: it costs just as much to service a $10,000,000 loan as it does to service a $10.00 one. Numerous small savings and loan transactions are very expensive to a financial institution, and this fact alone often forces formal financial institutions, especially banks, to discourage small savings and lending portfolios.

The argument is often made that no alternatives exist to establishing specialized intermediate credit functions to service specific beneficiary groups. This does not seem to be the case in Bolivia, as both savings and loan associations and credit unions have expressed interest in serving this market. Credit unions, especially, have a substantial portion of their portfolio in small business loans, and are interested in expanding that market. It should also be noted that credit programs operated by non-credit institutions fail more often than any other line of business in development-assisted programs.

In Bolivia the establishment of specialized "credit-only" institutions and functions within programs creates three special distortions. First, it tends to block significant savings mobilization. Second, it prevents the establishment of effective linkages between beneficiaries and financial institutions, creating a paternalistic dependency between the beneficiaries and the intermediary. And third, without a self-generated capital base the intermediaries become dependent on donor funds; when these are terminated for any reason, the beneficiaries are once again stranded without access to capital. It is for these reasons that the team recommends a separation of the financial and non-financial functions of USAID/Bolivia's micro and small enterprise development program.

2. Possible Institutions to House the Project Management Unit

The ultimate choice of an institutional location for the project management function will depend on the project strategy selected by USAID/Bolivia, the type of institution needed (as mentioned earlier, this could range from a single outside consultation contract to a fully-staffed office coordinating not only the USAID-funded project, but other donor agencies as well), political, legal and practical considerations. The location and staffing of the project management unit are also dependent on the intended permanency of the unit. If the unit is intended to cease operations at the conclusion of the project, it should be established as a dependency of USAID/Bolivia, probably within the scope of work of the technical assistance contract. If it is to be an on-going institution, it should be established under the aegis of an existing Bolivian institution and staffed with recognized and respected personnel. In this case the technical assistance contract would be attached to the project management unit, but in an advisory role.

The major alternatives include:

A Single Contract to Manage the Program

If the project strategy selected by the Mission involves direct grants to one or more intermediaries, or a simple channeling of resources through existing ICIs, an outside contract might be the easiest and most effective way of managing the project. A single US-based firm could be contracted to supervise the project, provide assistance to participating

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intermediaries and ICIs, manage fund disbursements and perform analysis and reporting functions.

Strengths
* Simple management process
* Single accountability for project performance
* Avoids legal status questions

Weaknesses
* Fails to develop in-country capabilities
* Management is limited to the term of the contract

Confederacion de Empresarios Privados de Bolivia (CEPB)

The CEPB is already involved as an umbrella organization for two USAID/Bolivia projects in the small and micro enterprise sector -- IDEA and PRODEM. It also appears that the CEPB will be the sponsoring organization for any Carvajal Foundation project in Bolivia.

Strengths
* Recognized organization of private businesses in Bolivia;
* Has affiliates in all major cities;
* National and regional business and agricultural associations (camaras) belong to the CEPB;
* Has strong ties with the banking community and government;
* Is already sponsoring the IDEA and PRODEM projects.

Weaknesses
* Informal and small business sectors might be reluctant to participate in a program through the CEPB;
* PVO/NGOs might not be willing to participate in a program run through the CEPB, thus limiting the potential outreach of the program;
* Does not have staff capabilities to manage the program; these would have to be developed as that is not a normal role for the organization;
* Because membership is made up of large businesses, focus tends to be on the problems of large business;
* No direct experience in program management or support, especially for micro and small businesses;
* Representation is determined by the amount of contributions; so that decision-making tends to exclude small businesses; and
* Close identification of leaders to specific political parties could prove to be a disadvantage with changes in governments.

Unidad de Coordinacion de Proyectos (UCP)

The UCP is a dependency of the Ministry of Planning, established for the express purpose of coordinating certain donor-assisted activities in Bolivia.

Strengths
* Established institution with some experience in managing USAID-sponsored projects;
* Is already legally established
* Has representation capabilities in all major cities through the UCFs.

Weaknesses
* Is a governmental institution;
* Has responsibility for two very large programs -- adding another may tax staff, management and administrative capabilities;
* Small program may get slighted because of emphasis on larger projects and large amounts of money;
* Informal and small business sectors might not want to participate in a program through the UCP;
* PVO/NGOs might not be willing to participate in a program run through the UCP, thus limiting the potential outreach of the program;
* Does not have staff capabilities to manage the program; these would have to be developed as that is not a normal role for the organization; and
* No direct experience in program management or support, especially for micro and small businesses.

3. Intermediaries

The principal potential intermediaries identified to date consist of PRODEM (for micro-scale enterprises), FEBOPI/ADEPIs (for small- to medium-scale enterprise), the UCP's (for medium- to large-scale enterprises), and PVOs (for micro-scale enterprise). Each of these groups has its particular strengths and weaknesses.

PRODEM

Strengths
* Has successfully developed the pilot project, making and recovering loans without delinquency problems;
* Effective in working with small-scale entrepreneurs and market women;
* Group technique is effective in preventing delinquencies.

Weaknesses

* Not qualified to function as an intermediate credit institution;
* Staff skills and operations support systems are limited;
* Expansion into other cities would be expensive; and
* Certain functions and activities overlap those provided by other institutions.

FEBOPI/ADEPI (ASPIPAC)

Strengths

* Nation-wide coverage; they are located in all major urban areas of the country;
* Self-created institutions; not formed because of international donor agency strategies or availability of funding from international donor agencies;
* Active membership of small -and medium- scale producers;
* Have established linkages with other institutions, particulary the credit union system: five of the seven ADEPIs are establishing credit unions to be able to channel resources through FENACRE;
* Capable of savings mobilization through the credit union system; plan to expand membership to include their employees;
* Large capacity for credit, training and technical assistance; have some ties with IDEA and are interested in Carvajal program.

Weaknesses

* Limited membership --ASPIPAC in Cochabamba, for example, only has 194 members from the more than 2.500 eligible firms, and many of them are not active. The ADEPI in La Paz has 136 members of probably some 4,000 eligible businesses;
* Membership composition is heavily skewed toward the larger end of the small enterprise sector; most would be considered medium-scale enterprises;
* The organizations were formed very recently, with little track record and no experience in managing programs or providing services;
* Board of Directors, at least in Cochabamba, drew down on first loans for themselves;
* Would require assistance in developing and managing a service program for their membership; and
* Considered to be political by the MICT.

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Unidades Crediticias y Financieras (UCFs)

Strengths
* Nation-wide coverage;
* Have had experience in brokering projects;
* Already exist;

Weaknesses
* Created because of external donor strategies; they are not in agreement with the role assigned them in the economic recovery program and want to change that role;
* Oriented toward very large projects;
* Inadequate staff resources for small scale enterprise lending;
* Not oriented toward providing the type of on-going technical assistance and monitoring required by small-scale enterprise development programs;
* Large amounts of funds planned to be channeled through these institutions will make it difficult for them to devote adequate attention to a small-scale enterprise program;
* Loan portfolio is too recent to evaluate;
* Given projected spreads in the planned loan programs, it appears unlikely that the banking sector will participate in the program;
* They are parastatal institutions;
* The mechanism does not stimulate local resource mobilization.

PVO/NGOs

At the present time there are some 250 PVO/NGOs working in Bolivia, many of whom plan to initiate micro enterprise activities. The Williamsburg Conference noted that PVO/NGOs offer special advantages that other intermediaries often cannot provide.

Strengths
* Generally effective at reaching target beneficiary population, encouraging local participation, and providing training, technical assistance and other services;
* Close working relationships with beneficiaries can facilitate loan repayments;
* Tend to work with very marginal groups; and
* Usually have adequate core support -- would not need budget support from the program.

Weaknesses
* Often lack needed business and management skills;
* Often have secondary (or primary) objectives that are inconsistent with program objectives;

* Generally lack financial management and credit operation skills;
* Staff may lack particular skills and experience required for small enterprise promotion and development programs.

Each intermediary has the potential of reaching distinct segments of the target beneficiaries. FEBOPI and the ADEPIs definitely reach larger small-scale enterprises; PRODEM works with established micro enterprises; and the PVOs tend to work with marginal subgroups. Since USAID/Bolivia has expressed an interest in working with all of these sectors, a mixed strategy encouraging the involvement of numerous intermediaries offers the greatest possibility of meeting the Mission's objectives in the sector.

4. The Credit Mechanism

Regardless of the emphasis (or lack of it) on credit in the program, the establishment of the credit system and the selection of institutions to manage that function will be critical to the long-term success of the project. The credit mechanism potentially involves two separate functions: (a) a trust fund or other centralized disbursement mechanism, and (b) intermediate credit institutions (or financieras) to channel funds to individual beneficiaries.

Except for the single- or dual-grant approach, a Trust Fund mechanism with the project management unit as the trustee appears to offer the best possibilities for developing and capitalizing an on-going loan program for the sector, establishing and enforcing compliance with credit standards, and encouraging the financial participation of the ICIs. The trust fund would be established in a major commercial bank. Initial trustees could be the directors of the project management unit or they could be selected from the private sector. The project management unit, with representation of the technical assistance contractor, would be responsible for managing the fund.

Apart from channeling credits through non-financial intermediaries, three potential ICIs exist in Bolivia: commercial banks, credits unions and savings and loan associations (mutuals). A fourth alternative, establishing an independent financiera, should be considered only as a last resort.

Commercial Banks

Strengths

* Established financial institutions with experience in lending and savings operations;

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* Have support of the national government, through the Banco Central;
* Have qualified staffs and well-developed operating procedures.

Weaknesses
* Have displayed little interest in working with micro and small enterprises;
* With the financial crisis most have severe liquidity problems, and give strong preference to know, established clients;
* Cost structure prohibits them from making and servicing small loans and from trying to attract small savings.

FENACRE (the Credit Union System)

Strengths
* Nation-wide coverage;
* All potential program beneficiaries are in the field of membership of at least one credit union;
* Are interested in and committed to working with this level of client;
* Are complete financial institutions, with both savings and loan functions;
* Have had past experience in managing donor agency loan funds;
* Provide the possibility of an on-going relationship between beneficiaries and a responsive financial institutions;
* Are already lending significant amounts to target beneficiary groups from their own funds;
* Have established mechanisms for interlending among institutions in the system;
* Have been recognized by the Central Bank as an ICI since 1982;
* Have formal agreements with all UCFs and with four of the seven ADEPIs.

Weaknesses
* Like other financial intermediaries, credit unions were severely affected by the period of hyperinflation; of more than 300 active credit unions in 1981 only around 100 are effectively functioning at this time;
* Some credit union financial and interest rate policies are inconsistent with a sound small enterprise development program;
* Some credit union practices (notably membership period, savings history, interest on shares and loan:share ratios)

would have to be modified for credit unions to effectively service a small scale enterprise program;
* Collateral and guarantee requirements may be at odds with the intent of the program;
* Would require assistance in developing and managing the portfolio;
* Do not have staffs to follow-up on small loans, and staff skills may be weak.

CACEN (The Savings and Loan System)

Strengths
* Firmly established institutions with 25 years of history;
* Already exist in all major cities and several secondary cities in the country;
* Credit and savings functions are well developed;
* Several of the mutuals have experimented with lending to the target beneficiary group from their own funds;
* Desire to work with below-median-income sector of the population; view target beneficiaries as potential long-term clients;
* Have past experience managing pass-through loan funds.

Weaknesses
* Like all formal financial institutions, the mutuals suffered a severe loss of capital during the 1982-1985 period;
* They are likely to be recipients of large blocks of capital for housing and other activities; they may not be able to absorb and manage two programs effectively;
* Normal clientele is generally wealthier than target beneficiaries of this projects;
* There is a general shortage of liquidity in the system.
* Participation would require some form of guarantee and/or rediscount mechanism;
* Do not have staff to provide follow-up on small loans.

D. Other Implementation Issues

1. Technical Assistance

Technical assistance required for the program is dependent upon the strategy selected. However, the team was able to identify three potential problem areas that will require assistance: project organization and management, financial operations and procedures and client servicing (helping to improve beneficiary identification, training and technical assistance services among the intermediaries).

Under a strategy involving a program management unit, a single technical assistance team would be assigned to that unit. It would provide or coordinate assistance to intermediaries and ICIs as a service of the project management unit.

2. Covering Program Costs

Research, both within AID and by other institutions, has consistently concluded that (a) the poor will pay market interest rates because these are much less constantly than available alternatives, (b) interest rates should be high enough to cover operating costs and reflect the true scarcity of capital, and (c) that, regardless of the terms that intermediate agencies receive funds on, interest rates to borrowers should in nearly all cases be at market levels or higher.

There is less consensus on the funding of technical assistance and training; however, few technical assistance programs for small-scale enterprises have achieved self-sufficiency. This team believes strongly that all costs of the delivery mechanisms should be fully born by the beneficiaries. Subsidies of training and technical assistance can be justified in the short run on the grounds that beneficiaries need to be convinced of the worth of the total package before they can convinced to pay for it.

Program strategies based on interest-rate spreads have little chance of covering the costs of both credit and technical assistance. As pointed out earlier, the unit cost of supporting small and micro enterprises is very high. A 12 percent spread on a fully employed $1,000,000 portfolio will only generate $120,000 per year, or $10,000 per month, regardless of the number of loans granted or the turnover rate of the portfolio. ICIs should actually work at a much lower spread. The fact that loan funds may derive from grants or low-interest development loans is irrelevant; in those cases most of the interest spread should go to capitalizing the portfolio.

A preferable method of financing training and technical assistance cost is to charge commissions (points) on each loan, using the interest rate spread to capitalize an on-going small-scale enterprise loan fund.

TABLE IV-4

ANNUAL EARNINGS ON A PORTFOLIO WITH A 2.5 PERCENT COMMISSION FEE
ACCORDING TO SIZE OF PORTFOLIO AND TURNOVER RATE

SIZE OF PORTFOLIO	TURNOVER RATE OF PORTFOLIO, IN MONTHS											
	ONE	TWO	THREE	FOUR	FIVE	SIX	SEVEN	EIGHT	NINE	TEN	ELEVEN	TWELVE
(0)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
250,000	75,000	37,500	25,000	18,750	15,000	12,500	10,714	9,375	8,333	7,500	6,818	6,250
500,000	150,000	75,000	50,000	37,500	30,000	25,000	21,428	18,750	16,667	15,000	13,636	12,500
750,000	225,000	112,500	75,000	56,250	45,000	37,500	32,143	28,125	25,000	22,500	20,455	18,750
1,000,000	300,000	150,000	100,000	75,000	60,000	50,000	42,857	37,500	33,333	30,000	27,273	25,000
1,250,000	375,000	187,500	125,000	93,750	75,000	62,500	53,571	46,875	41,667	37,500	34,091	31,250
1,500,000	450,000	225,000	150,000	112,500	90,000	75,000	64,286	56,250	50,000	45,000	40,808	37,500
1,750,000	525,000	262,500	175,000	131,250	105,000	67,500	75,000	65,625	58,333	52,500	47,727	43,750
2,000,000	600,000	300,000	200,000	150,000	120,000	100,000	85,714	75,000	86,867	60,000	54,545	50,000

A fairly low commission fee compounds to a very high annual interest charge, yet one that is still significantly below traditional moneylender rates. A commission fee structure can be used to finance training and technical assistance costs, fund a bad debt reserve and force a level of savings from the beneficiaries.

Because the commission is charged on each loan, it is highly sensitive to the turnover rate of the portfolio. Programs like PRODEM begin with very short-term loans and a rapid portfolio turnover rate. As these programs continue they begin to extend longer-term loans, with the result that the turnover rate slows down and potential commission income declines. The relationship between the average turnover period and potential commission fee income can be seen in Table IV-4, which traces the income from a 2.5 percent fee structure on several values of a loan portfolio with different turnover periods.

3. Management Information Systems

A well-functioning management information system will be essential for the proper planning, administration and monitoring of the program. We recommend that one of the components of the project be the establishment of such an information system in the project management unit and, if established as a separate entity, in the funds disbursement or trust fund unit.

The purpose of this system would be to:

1. Maintain accounting recoras for the PMU;
2. Manage the trust fund, including the management of each ICI as a separate portfolio;
3. Maintain statistics on project beneficiaries; and
4. Provide detailed information and reports on both the program and its impact.

Relatively little hardware would be required for such a system. two The PMU would require a microcomputer system with a capability of two to four workstations, appropriate memory and hard disk storage capacity and two dot-matrix printers. Basic software would include a funds management program, an accounting package, a multi-user relational data base management package, a spreadsheet program and a graphics program.

Of greater concern than the hardware and software is the design and development of the system. A functioning information system will support effective program analysis and decision-making, both within the administrative units and for USAID/Bolivia. Technical assistance should be provided through the project for the design and installation of the system. Programming, however, should be performed locally by a con-

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tracted firm with an established reputation for quality software products rather than through an in-house development effort or by the outside technical assistance provider.

4. Strategies to Deal with Scale

It is tempting to consider the difference between micro-, small- and medium-sized enterprises to be a question of scale. But there are significant differences among the three sectors that suggest that a single strategy may not be appropriate for assisting these groups.

As pointed out in Table IV-1 (page IV-13), micro-scale enterprises require considerable assistance in very rudimentary business procedures and operations, technical expertise is rarely an important consideration, credit requirements are for small amounts of working capital, and close supervision is required to develop a habit of compliance with loan terms. At the other extreme, medium-scale enterprises require large amounts of both working and investment capital, have very specific technical requirements, and need specific business and accounting training and assistance. Small-scale enterprises lie somewhere in between these two extremes.

Based on these differences, the requirements of intermediaries and ICIs servicing the distinct sectors are quite different. Those working with micro- and small-scale enterprises need to provide basic training and assistance to all beneficiaries. They need to provide small, short-term loans and to encourage small, regular savings deposits. They need to closely supervise loan applications and repayments. And, they need to work closely with the beneficiary in all aspects of his/her business. This implies a very active, field-oriented intermediary with a low-overhead financial institution.

Those working with small- and medium-scale enterprises, on the other hand, need to be able to meet needs for large amounts of capital over longer periods of time. Investment decisions need to be based on an evaluation of the business proposal rather than on the personal character of the borrower. Finally, since technical assistance needs are more highly specialized, the intermediary institutions need to be more brokers than providers of technical assistance and training.

This implies very different roles for both intermediaries and ICIs. For micro- and small-scale enterprises the intermediaries need to offer a comprehensive package of basic services, including training, technical assistance and follow-up. These are expensive, labor-intensive services that are indispensible for reaching and servicing the beneficiary group. To be effective, therefore, intermediaries such as PRODEM and the PVOs will have to develop staffs and programs consistent with their defined markets. For larger enterprises the intermediary should have less of a technical assistance and training role, and should concentrate on brokering such services from specialized providers. An institution such as FEBOPI/ADEPI should not develop the level of staff and basic training programs of PRODEM because that is not required by the market they serve. ICIs working with larger scale enterprises will have to develop the capability of evaluating business proposals and making decisions based on the soundness of the business plans. This represents a substantial departure from procedures for most ICIs in Bolivia.

5. Evaluations

The project should have regularly scheduled evaluations. The first should be a limited-purpose examination of the establishment and functioning of the institutional arrangements. It should be scheduled during the second year of the program. The second should be a midterm evaluation focusing on preliminary impact and performance indicators, and should be used to validate the basic strategy and approach of the program and for replanning strategies during the latter part of the project. The third would be an end-of-project evaluation focusing on lessons learned and the sustainability of project results.

6. Relationship with Other Projects

The proposed micro and small enterprise project is potentially related to a number of other projects currently underway or planned for Bolivia. In particular, the planned program for strengthening financial markets would have a direct impact on the intermediate credit institutions proposed for this project. Given the fragile nature of the financial institutions, and the real issue of absorptive capacity, the interrelationship and implications of the two projects need to be thoroughly understood. Likewise, USAID/Bolivia efforts in market town development (through the FOCAS project) and support to artisans (through the ADAM effort) are potentially involved in micro-, small- and medium-scale enterprises. Small-business training programs (through IDEA or other organizations) also have a potential role to play in micro- and small-scale enterprise development.

VII. PRELIMINARY BUDGET ESTIMATES

Budget estimates are naturally tentative at this stage. Given the variety of alternatives, we have attempted to construct budgets based on certain assumptions about the nature of the program and different levels of need. We have not attempted to identify GOB or local counterpart contributions; that would have to be a part of the project design and subsequent negotiations with the GOB. The following budgets correspond to the three basic implementation strategies presented earlier.

A. Model 1 -- One or More Distinct Subprojects

Under this model USAID/Bolivia would make individual grants to one or more organizations for credit, training, and other services to micro- and small-scale entrepreneurs. Possible candidates include:

1. PRODEM: Continuation of present efforts and expansion of program to El Alto and other cities.

Operating Costs (Budget Support) for three years	$500,000
Technical Assistance (AITEC) for three years	200,000
Loan Funds	2,000,000

	$2,700,000

2. FEBOPI/ADEPIs: Development of basic loan brokering capacity. This would be primarily a credit activity.

Operating Cost Support for three years	300,000
Technical Assistance	100,000
Loan Funds (probably through FENACRE)	3,000,000

	$3,300,000

3. IDEA: For specific training activities serving micro entrepreneurs.

Technical Assistance	150,000
Training Subsidies (fellowships)	300,000
Operating Costs	150,000

	$600,000

4. Additional Loan Funds (to either be distributed through CACEN or FENACRE or to meet loan demands emanating from the above organizations). $3,400,000

Total, Model 1	$10,000,000

This model assumes no project management unit. Additional intermediaries could be identified during the project design phase that would alter the budget allocations.

B. Model 2 -- Financial Intermediary Model

Under this model USAID/Bolivia would funds small-scale enterprise loan funds in one or more ICIs. The ICIs would require technical assistance in funds management, project assessment, automated accounting systems and collections. Limited funding would be provided to support one or two local technicians in each ICI (FENACRE and/or CACEN in the case of the credit union and savings and loan sectors; main bank offices in the case of banks).

Technical Assistance (2 expatriates for 5 years)	$500,000 - 750,000
Training (IDEA, INASET, or other, for beneficiary training)	$1,000,000
Loan Funds	8,000,000

	$9,500,000 - $9,750,000

C. Model 3 -- Mixed Approach

This approach provides a single technical assistance contract, operating with and through the project management unit. Operating costs of the project management unit, including staff, are presented, although these would normally be counterpart contribution. Participant training in small enterprise promotion, small enterprise lending and program management would also be supported for PMU, ICI and participating intermediary staff.

Technical Assistance (3 Expatriates for a total of five years) 1 Credit/ICI specialist 1 Small-scale enterprise specialist 1 Institutional management specialist 18 months of short-term TA in portfolio management, information systems, etc.	$1,500,000
Operating Costs/Commodities for PMU Bolivian Counterparts/staff Computer equipment Software development	625,000
Participant Training	250,000
Operating cost support for intermediaries and ICIs	750,000
Training (IDEA, INASET, or other, for beneficiary training)	$1,000,000
Loan Funds	8,000,000

	$12,125,000

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ANNEX A

Draft Design Strategy

Project design is scheduled to be completed during the first quarter of CY1988. Consistent with the requirements of the project paper, the design effort will have to cover: (a) an analysis of the micro and small enterprise sector, (b) a technical analysis of the financial and non-financial institutions that will be involved in the project, (c) a social analysis of beneficiaries and probable program impact, (d) a financial analysis of both the implementing institutions and the fund mechanism, and (e) an economic analysis of the project.

It should be carried out by a team of three to four persons with the following basic experience: small enterprise development programs, financial institutions and savings/credit programs, institutional analysis, management information systems and urban anthropology/sociology. The team leader should be a person with strong institutional analysis capabilities who is familiar with AID documentation requirements. This team should be complemented by USAID/Bolivia private sector office staff or Bolivian private sector counterparts.

The project design exercise can be expected to require four to six weeks in-country for most of the team members, with two to three weeks additional writing time for either the team leader or a USAID/Bolivia staff member.

Major Issues that must be resolved during the design phase include:

A. Relationship of the project to other donor agency programs
   1. Is there redundancy or complementarity with other donor activities?
   2. Is there sufficient demand for credit and other services to warrant the project in the context of other donor activities?
   3. What are the possibilities of coordination or specialization of activities?

B. Definition of target beneficiary characteristics
   1. Should USAID/Bolivia support micro-, small- or medium-scale enterprises?
   2. Should USAID/Bolivia concentrate on the commerce,

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service or producer sectors?
3. Should USAID/Bolivia establish asset, sales, number-of-employees or size-of-loan restrictions on the program?
4. What is the expected benefit to project beneficiaries

C. Estimation of demand for services and credit
1. How large is the potential beneficiary market, and what are the major constraints facing them?
2. How do the different potential beneficiary sectors (micro, small and medium) differ in their requirements for training, technical assistance and credit?
3. What is the absorptive capacity of the target beneficiaries for credit and assistance?

D. Composition and Location of the Project Management Unit (PMU)
1. How should the PMU be structured?
2. Should it have a board of directors? If so, who should comprise the board of directors?
3. Which institution should the PMU be located in -- i.e., will provide the most support and greatest opportunities to accomplish project objectives?
4. How should technical assistance be integrated into the functioning of the PMU?
5. Should the PMU be planned to continue beyond the end of project

E. Trust Fund
1. How must the trust fund be structured to conform with Bolivian law and meet program objectives?
2. Can the trust fund be managed by the PMU?
3. Can the trust fund perform all needed functions?

E. Institutional Capacity of ICIs
1. Are staff skills adequate to manage funds?
2. Are policies and procedures consistent with program requirements, or are the institutions willing to modify procedures?
3. Can the institutions absorb and effectively manage the funds?
4. Are the ICIs likely to be handling other funds that would compromise institutional capacity?
5. Are the ICIs financially sound?
6. Are the ICIs interested in participating in the program?

7. What kind of guaranty, rediscount or other disbursement procedures would be required to encourage ICI participation?
8. What kinds of technical assistance are required to overcome identified deficiencies in the ICIs

G. Institutional Capacity and Interest of Non-Financial Intermediaries
1. Which intermediaries should be included in the program?
2. Are intermediaries interested in participating?
3. What are staff and program capabilities of the probable intermediaries?
4. What technical assistance or other resources are required to overcome identified deficiencies in the probable intermediaries?
5. What restrictions or conditions should be placed on intermediary participation?

H. Financial and Economic Issues
1. What is the potential for capitalizing an on-going credit program for micro and small enterprise development -- e.g., what interest rate structures, capitalization requirements and fees would be required to capitalise the program?
2. Are the ICIs financially viable? How would the proposed loan activity affect their projected financial margins and viability?
3. What mechanisms would have to be developed to ensure the continued operation of the PMU?
4. What would be the impact of the program on the financial viability of the non-financial intermediaries?
5. What interest rate spreads must the different institutions charge to cover costs and capitalize a permanent loan fund?
6. What would be the financial and economic impact on potential beneficiaries?
7. What would be the likely impact of the program on job creation and income enhancement?

I. Inter-Institution Relationships
1. What relationships would have to exist between the PMU, intermediaries and ICIs.
2. What relationships would be required between ICIs and the Trust Fund?
3. Can the PMU serve as trustee of the Trust Fund?
4. What would be the role of the technical assistance team in regard to the PMU and management of the Trust Fund?

ANNEX B

Draft Project Implementation Schedule

Activity	Completion Date
1. Completion of PID	November, 1987
2. AID/W approval of PID	December, 1987
3. Project Paper Design Activity	Feb-March, 1988
4. Completion of Project Paper	April, 1988
5. Project Agreement and Obligation	
6. Formal Agreements with Local Participating Institutions	
7. Contracting of Technical Assistance Firm	
8. Arrival of Technicians	
9. Establishment of Project Management Unit (if selected)	
10. Development of Operating procedures and Management Information Unit	
11. Establishment of Trust Fund (if appropriate)	
12. Commencement of Program Promotion Beneficiary Development Activities	
13. Commencement of Loan Activities	
14. Midterm Evaluation	
15. Termination of Technical Assistance	
16. Abolishment of Project Management Unit	
17. Final Evaluation	

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ANNEX C

Draft Logical Framework Components

Level 1 -- Goal

Level 1 -- Goal	
Expand economic output of the micro- and small-scale enterprise sector in Bolivia; and	1. Expanded sales of participating beneficiaries 2. Increased assets of participating beneficiaries 3. Increased percentage of taxes contributed by beneficiaries
Increase employment and income among low-income urban residents	1. Increased level of employment in participating firms 2. Increased earned income or wages in micro and small enterprises assisted by the program 3. Increased net earnings of participating firms 4. Incrased job stability among low-income urban residents engaged in micro enterprises. businesses assisted by the program

Level 2 -- Purpose	End-of-Project Status
Stimulate the growth and development of Bolivia's small enterprise (formal and non-formal, micro and small businesses) sector	1. Increased skill levels of small entrepreneurs in the areas of accounting, product design and differentiation, marketing, pricing, etc. 2. Improved business practices of project beneficiaries, including money managment, utilization of working capital, and adoption of new technologies 3. Increased investments in plant and equipment 4. Net higher levels of operating capital, inventories and levels of production 5. Higher levels of sales, changes in product mix, etc. 6. Key legislative and regulatory impediments to small business development resolved

Level 3 -- Outputs

Stimulate provision of vital support services and credit to micro and small enterprises throughout Bolivia	
1. Project Management Unit (PMU) established and functioning	a. Unit legally established and staffed b. Operating procedures developed c. Staff trained d. Information system installed, and software developed
2. Trust Fund established and functioning	a. Unit legally established and staffed b. Operating procedures developed c. Staff trained d. Information system installed, and software developed
3. PRODEM's role as a provider of training, technical assistance and credit to established small entrepreneurs strengthened:	
a. Micro-enterprise support offices established in other major cities in Bolivia	a. One office established per year in cities such as Cochabamaba, Santa Cruz, Sucre and Potosi
b. PRODEM's field staff increased and trained	b.1. Number of field agents 2. Number trained in field agent programs
c. Increased level of training provided to small and micro entrepreneurs	c.1. Training materials and modules developed 2. Number of courses held annually 3. Number of small entrepreneurs trained annually
d. Increased level of technical assistance to program participants	d.1. Number of enterprises assisted 2. Number of clients per field agent
e. Increased level of capital resources channeled to the micro and small enterprise sector	e.1. Size of PRODEM's loan portfolio 2. Amount of credit extended annually 3. Delinquency below 3%
f. Increased self-sufficiency of PRODEM	f.1. Growth in annual self-generated income 2. Percent of operating

	expense covered by self-generated income
g. Improved management systems	g.1. Improved management information system (including client servicing)
3. Increased participation of PVO's and NGO's in support of micro and small enterprise developent in Bolivia	a. Number of PVO's and NGOs approved to participate in the program b. Number of NGO/PVO staffs trained in effective field agent techniques c. Number of small businesses supported by NGO/PVO programs d. Volume of credit channeled through PVO/NGO programs
4. Capital loan fund for small business lending established	a. Institutional mechanism determined b. Fund established c. Fund manager appointed and trained d. Operating procedures developed e. Computerized management system installed f. Fund capitalized to US$xxx by end of project
5. Increased participation of formal financial institutions (commercial banks, S&Ls and credit unions in small enterprise lending	a. Number of institutions participating in program b. Amount of non-secured, non-discounted capital invested by institutions in small enterprises
6. Legislative/Regulatory Issues Identified	a. Evaluation of current laws, regulations and ordnances conducted b. Set of model provisions developed c. Seminars held with participation of key GOB officials

Level 4 -- Inputs

Technical Assistance

a. to Project Management Unit (PMU) and Trust Fund
   1) management and administration
   2) MIS
   3) Fund management
   4) MIS

b. to Non-financial Intermediaries
   1) management and administration
   2) MIS
   3) training
   4) small enterprise promotion

Participant Training

a. Intermediary field staffs
b. NGO/PVO field staffs
c. Capital fund manager

Commodities

a. Computer equipment for PRODEM and Capital Fund

Budget Support

a. PRODEM

Capital Fund

a. USAID/Bolivia
b. Other Donors
c. Local Contributions

Annex D

Acronyms and Terms

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

ASPIPAC — Asociacion de Pequenos Industriales y Pequenos Artesanos de Cochabamba. The department-level ADEPI in Cochabamba.

CACEN — Caja Central de Ahorro y Prestamo para la Vivienda.

The central organization for savings and loan associations (mutuales) in Bolivia.

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

CNI — Camara Nacional de Industrias.

CRS — Catholic Relief Services.

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

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

FENACRE — Federacion Nacional de Cooperativas de Ahorro y Credito.

FIE — Fomento de Iniciativas Economicas.

FOCAS — Formacion de Capital en Areas Secundarias. A project funded by USAID/Bolivia to promote agroindustrial development in secondary cities.

FSE — Fondo Social de Emergencia.

IBE — Instituto Boliviano de Empresarios.

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IDEA	Instituto de Desarrollo Empresarial y Administrativo.
IESC	International Executive Services Corps.
INBOPIA	Instituto Boliviano de Pequenas Industrias y Artesanos.
INASET	Instituto Nacional De Asistencia Social, Economica y Tecnica. A training institution established by and affiliated to FEBOPI.
IVS	International Voluntary Services.
MICT	Ministerio de Industria, Comercio y Turismo.
OFASA	A PVO associated with the Seventh Day Adventists.
OAP	USAID/Bolivia project supporting agricultural producers organizations.
PRODEM	Fundacion para la Promocion y Desarrollo de la Microempresa.
SIIP	Sistema de Informacion de Industrias Pequenas. A USAID/Bolivia funded project to develop a data bank on private industry in Bolivia.
UCF	Unidades Crediticias Financieras.
UCP	Unidad de Coordinacion de Proyectos. Government agency reporting to the Ministry of Planning. It was established to manage USAID/Bolivia projects in agricultural organization and market town capital formation.

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