

KD-ARD-421

74387

UNCLASSIFIED

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

BOLIVIA

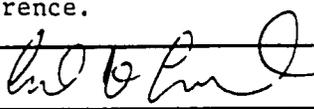
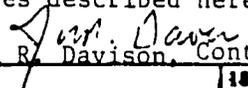
PROJECT PAPER

MICRO AND SMALL ENTERPRISE DEVELOPMENT
AMENDMENT NUMBER 1

AID/LAC/P-666
(CR-452)

PROJECT NUMBER: 511-0596

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT DATA SHEET				1. TRANSACTION CODE <input type="checkbox"/> A = Add <input checked="" type="checkbox"/> C = Change <input type="checkbox"/> D = Delete		Amendment Number _____		DOCUMENT CODE 3			
2. COUNTRY/ENTITY B O L I V I A				3. PROJECT NUMBER 511-0596							
4. BUREAU/OFFICE L A C				5. PROJECT TITLE (maximum 40 characters) Micro and Small Enterprise Development							
6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 1 2 3 1 9 3				7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4) A. Initial FY <u>88</u> B. Quarter <input type="checkbox"/> C. Final FY <u>93</u>							
8. COSTS (\$000 OR EQUIVALENT \$1 =)											
A. FUNDING SOURCE			FIRST FY <u>88</u>			LIFE OF PROJECT					
			B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total			
AID Appropriated Total											
(Grant)			(2,040)	()	(2,040)	(10,000)	()	(10,000)			
(Loan)			()	()	()	()	()	()			
Other	1.										
U.S.	2.										
Host Country							1,850	1,850			
Other Donor(s)							2,270	2,270			
TOTALS			2,040		2,040	10,000	4,120	14,120			
9. SCHEDULE OF AID FUNDING (\$000)											
A. APPRO- PRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT			
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan		
(1) ARDN	840	840				3,000		3,000			
(2) SDA	840	840				7,000		7,000			
(3)											
(4)											
TOTALS						10,000		10,000			
10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)								11. SECONDARY PURPOSE CODE			
690		810		930				810			
12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)											
A. Code		BUW									
B. Amount											
13. PROJECT PURPOSE (maximum 480 characters)											
To stimulate the long-term, stable growth and development of Bolivia's small-scale enterprise sector.											
14. SCHEDULED EVALUATIONS						15. SOURCE/ORIGIN OF GOODS AND SERVICES					
Interim	MM	YY	MM	YY	Final	MM	YY				
	0	4	9	1		1	2	<input checked="" type="checkbox"/> 000	<input type="checkbox"/> 941		
								<input checked="" type="checkbox"/> Local	<input type="checkbox"/> Other (Specify) _____		
16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment)											
This PP Amendment authorizes The Fundacion para la Promocion de la Microempresa (PRODEM) to transfer reflows generated from an A.I.D. grant donation for credit funds, to Banco Sol, a new for-profit micro-enterprise bank.											
The USAID Controller has reviewed the financial procedures described herein and hereby indicates his concurrence.											
17. APPROVED BY						Signature 		Date Signed MM DD YY 08 09 91		18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION	
										Title Carl H. Leonard Mission Director	
19. CONTROLLER SIGNATURE											
						Signature 		Date Signed MM DD YY 		Title John R. Davison, Controller	

PROJECT AUTHORIZATION
(Amendment No. 1)

Name of Country: Bolivia
Name of Project: Micro and Small Enterprise Development
Number of Project: 511-0596

Pursuant to Section 103 and 106, the Micro and Small Enterprise Development Project for Bolivia was authorized on August 19, 1988. That authorization is hereby amended by adding the following to Paragraph 2 thereof:

"Transfer of reflows to PRODEM of loan funds loaned by PRODEM to micro-entrepreneurs under the Project to a new for-profit micro-enterprise bank and the transfer of commodities, in exchange for PRODEM's receipt of shares in the bank, under the conditions described in the Project Paper Amendment No. 1, is hereby authorized as consistent with and in furtherance of the Project purpose of stimulating the long-term, stable growth and development of Bolivia's small-scale enterprise sector."

The authorization, as above amended, remains in full force and effect.



Carl H. Leonard
Director

Date: 8/9/91

SA:RLA:4-30-91

Clearances:

TI:EGarcía _draft_
TI:LValenzuela _draft_
RLA:SAllen _draft_
PDI:MBarash _draft_
DP:SSmith _draft_
RCO:CBucher _draft_
CONT:JDavison _draft_
TI:RRosenberg _draft_
DD:GDavidson 

**PROJECT PAPER
(Amendment No. 1)**

MICRO AND SMALL ENTERPRISE DEVELOPMENT

Trade & Investment Office
USAID/Bolivia
July 1991

PROJECT AUTHORIZATION
(Amendment No. 1)

Name of Country: Bolivia
Name of Project: Micro and Small Enterprise Development
Number of Project: 511-0596

Pursuant to Section 103 and 106, the Micro and Small Enterprise Development Project for Bolivia was authorized on August 19, 1988. That authorization is hereby amended by adding the following to Paragraph 2 thereof:

"Transfer of reflows to PRODEM of loan funds loaned by PRODEM to micro-entrepreneurs under the Project to a new for-profit micro-enterprise bank and the transfer of commodities, in exchange for PRODEM's receipt of shares in the bank, under the conditions described in the Project Paper Amendment No. 1, is hereby authorized as consistent with and in furtherance of the Project purpose of stimulating the long-term, stable growth and development of Bolivia's small-scale enterprise sector."

The authorization, as above amended, remains in full force and effect.

Garber Davidson
Director, a.i.

Date: _____

SA:RLA:4-30-91

Clearances:

TI:EGarcía W
TI:LValenzuela V
RLA:SAllen SA 7/18/91
PDI:MBarash MB 7/19/91
DP:SSmith DF 7/22
RCO:CBucher CB 7/20/91
CONT:JDavison JD 7/20/91
A/DD:RRosenberg RR 7/20/91

A. SUMMARY

This Project Paper Amendment defines a new institutional channel for the reflows generated by the Fundación para el Desarrollo de la Microempresa (PRODEM) under the USAID Cooperative Agreement with PRODEM. Past and future reflows derived from \$1.8 million of the USAID donation for credit funds and \$141,000 in fixed assets will be transferred to BancoSol, a new for-profit micro-enterprise bank, in exchange for shares. Reflows are here defined as loan funds which have been lent out by PRODEM and which have been repaid or are in the process of being repaid.

BancoSol will use the same lending methodologies employed by PRODEM, but on a larger, nation-wide scale. PRODEM will transfer its assets to BancoSol on an office by office basis over a two year period through the project's PACD of August 1993. Through covenants in the Amended Cooperative Agreement with PRODEM, PRODEM will ensure that the MSED project's purpose is furthered through BancoSol.

B. BACKGROUND

The Micro and Small Enterprise Development (MSED) project was authorized on August 19, 1988. Its purpose is to stimulate the long-term, stable growth and development of Bolivia's small scale enterprise sector. The project provides credit, technical assistance and training to micro-enterprises and small businesses. To a lesser extent, the project is also involved with policy research and analysis. PRODEM offers credit and some basic training to micro-enterprises and the Federación Nacional de Cooperativas de Ahorro y Crédito (FENACRE) and the Federación Boliviana de la Pequeña Industria (FEBOPI) offer credit, technical assistance and representational services to (principally) small enterprises.

On June 23, 1989, a Cooperative Agreement was signed with PRODEM's President for \$2.316 million. Of this amount, \$1.8 million is earmarked for credit and \$516,000 for commodities, training and operational support. An additional \$650,000 for credit funds is to be provided by the GOB.

With project support, the program has expanded quickly. PRODEM now has offices in La Paz (a central office as well as a branch office at the Garita de Lima), in El Alto, in Santa Cruz, and in Cochabamba. The credit funds donated by A.I.D. to PRODEM have been lent out immediately and have already rotated a couple of times. PRODEM has complained that its credit funds are insufficient to meet the demand. The Executive Director estimates that there are approximately 1 million potential PRODEM clients in Bolivia. At present, PRODEM reaches only 15,800.

Largely in an effort to extend micro-enterprise lending "to the masses," PRODEM has been one of the lead organizers of a for-profit micro-enterprise bank in Bolivia. Banco Solidario, S.A. will be the first such bank in the hemisphere. As an authorized financial institution, it will be able to capture deposits as well as bid on refinanced credits through the Bolivian Central Bank. By 1994, according to the latest projections by its organizers, BancoSol will have 6 offices, 70,000 clients and a loan portfolio of \$12 million.

BancoSol has strong international support. Its biggest supporter is the IDB's Interamerican Investment Corporation (IIC). In August of 1990, the IIC prepared a lengthy feasibility study on BancoSol, which concluded that the bank would offer a 15.6% return on equity. On November 27, 1990, the Board of Directors of the IIC approved a \$1.325 million investment in BancoSol. The World Bank's International Finance Corporation (IFC) also participated in the IIC feasibility mission and is expected to invest approximately \$520,000 in BancoSol.

The Bolivian Superintendency of Banks and Financial Institutions requires that all new banks have a minimum equity base of \$3.2 million. The Superintendency will allow BancoSol to operate once at least one-half of the required subscribed capital has been paid-in. The remaining \$1.6 million must be paid in over one year's time, through approximately August of 1992. BancoSol will draw the \$3.2 million from the following sources:

Bolivian Banks	625,000
Bolivian Firms	425,000
PRODEM	1,400,000
ECOS Holding (FUNDES)	250,000
Int. Donors (Calmeadow and ACCION)	500,000

	\$3,200,000

PRODEM's initial \$1.4 million contribution, shown in the table above, will be composed of approximately \$660,000 from USAID, another \$540,000 (for operational expenses and credit) from the Fondo Social de Emergencia (now Fondo de Inversion Social - FIS), and \$200,000 in organizational expenses of BancoSol.

PRODEM has requested that USAID allow it to transfer reflows generated from the \$1.8 million USAID grant for credit purposes and \$141,000 in fixed assets. USAID/Bolivia has carefully analyzed the IIC's appraisal report and believes that it has an excellent chance of success, and, moreover, that it is an experiment that should be tried. Not only will more micro-entrepreneurs be able to borrow, but also, the experiment, if successful, could be replicated in other Latin American countries.

USAID submitted a letter to PRODEM on February 28, 1991, indicating that it intended to agree to the transfer once the necessary documents (this Project Paper Amendment, a Project Agreement Amendment with the GOB, and a Cooperative Agreement with PRODEM) were signed.

C. DESCRIPTION

Through its Cooperative Agreement with PRODEM, USAID/Bolivia is providing \$2.316 million. This amount is composed of \$1.8 million of credit resources, \$141,000 of commodities (computer equipment, furniture, a vehicle and motorcycles), and \$375,000 of operating and training expenses. USAID will approve the transfer of Boliviano reflows and/or promissary notes from the dollar grant of \$1.8 million and \$141,000 in fixed assets to BancoSol, in exchange for shares. PRODEM has purchased furniture and equipment with funds from other donors and these commodities will remain in PRODEM.

USAID has the following disbursement schedule for these resources:

<u>Date</u>	<u>Credit Funds</u>	<u>Fixed Assets</u>
Dec. '90	\$412,020	\$26,809
April '91	\$210,522	
Sept '91	\$277,458	\$114,191
June ,92	\$250,000	
Sept. '92	\$250,000	
April '93	\$400,000	
	-----	-----
	\$1,800,000	\$141,000

PRODEM and BancoSol have determined that the best way to effect the transfer of assets is on an office by office basis. PRODEM currently has four offices--La Paz, El Alto, Santa Cruz and Cochabamba. With assistance from the Interamerican Development Bank and the United Nations Capital Development Fund, PRODEM will be opening two additional offices in Montero and Oruro, respectively. The estimated time-table for the transfer of offices to BancoSol and the estimated value of the assets transferred is as follows:

<u>Date of Transfer</u>	<u>Office</u>	<u>Value Fixed Assets (USAID grant)</u>	<u>Value of Loan Portfolio (USAID grant)</u>
9-91	La Paz	\$56,000	\$460,000
6-92	Santa Cruz	\$63,000	\$650,000
9-92	Cochabamba	\$ --	\$ --
6-93	El Alto	\$22,000	\$690,000
		-----	-----
		\$141,000	\$1,800,000

The Montero and Oruro offices, to be opened with funds from other donors, will be transferred in 1994.

Prior to the transfer of reflows and/or notes and fixed assets, PRODEM and USAID will have received assurances and documentation demonstrating that BancoSol has been legally incorporated and that it has received approval to operate by the Superintendency of Banks and Financial Entities. USAID's Controller's office will also conduct an institutional analysis of BancoSol prior to the first transfer of assets from PRODEM to BancoSol.

BancoSol, being a micro-enterprise bank and utilizing the PRODEM lending methodology, will continue to further the project purpose by relending these funds to micro-enterprises.

Assurances that BancoSol will continue to further the project purpose are multiple. During the first three years, PRODEM, with a contribution of \$2.8 million (\$1.941 million from USAID, \$227,068 (portfolio) from the Fondo Social de Emergencia, and \$650,000 from GOB local currency funds), will be the largest shareholder, with approximately 40% of the shares of the bank. Although PRODEM's share of the bank's equity is expected to decline as more parties invest, it's leadership in the bank will be maintained. All of PRODEM's top management and credit officers will be transferred to BancoSol. Mr. Roberto Capriles, the President of

PRODEM, will become the new Chief Executive Officer of BancoSol and Mr. Franciso Otero, the current Executive Director of PRODEM, the new Chief Operating Officer.

In addition, the following understanding has been reached between USAID and the Directors of BancoSol:

- o the bank will at all times maintain an outstanding loan portfolio to micro-entrepreneurs at least equal to the amount of USAID funding. This minimum loan commitment to micro-entrepreneurs will increase after each date of transference of the loan portfolio from PRODEM to BancoSol and at any time after August of 1993, will be equal to or exceed \$1.8 million.

In the Cooperative Agreement Amendment with PRODEM, USAID will include a covenant to the effect that

- o the annual independent audit of BancoSol will certify that BancoSol maintains a micro-enterprise loan portfolio of at least \$1.8 million (equivalent to the amount of the A.I.D. credit donation), and that if the audit shows that BancoSol has not provided an amount equivalent to the A.I.D. credit donation in loans to micro-entrepreneurs, that PRODEM will take the necessary actions to ensure that this situation is rectified.

The Cooperative Agreement will also include a covenant in which PRODEM will maintain USAID informed as to activities within BancoSol. Through this covenant, PRODEM will provide USAID with a copy of BancoSol's charter and any other policy statements of the bank, as well as with the financial and programmatic information that the bank provides its own shareholders.

USAID and BancoSol Directors have discussed the goals of BancoSol at length and we have agreed that BancoSol will not only endeavour to cover all operating costs, but will also seek to maximize profits. USAID believes that if BancoSol does not become a profitable bank, it will be unable to grow and attract competition (and therefore serve an ever growing number of micro-entrepreneurs). The hypothesis behind the BancoSol experiment is that lending to micro-enterprises can be commercially viable. USAID/Bolivia may reprogram some of the funds in the grant to PRODEM in order to fund a publicity campaign to educate the general public about the benefits of a profitable micro-enterprise bank and non-subsidized credit.

USAID will continue to support PRODEM through the Cooperative Agreement's completion date of August 19, 1993. By this date, all USAID-financed offices and personnel will have been transferred to BancoSol. Since the transfer of PRODEM's reflows and fixed assets to BancoSol in exchange for BancoSol shares is not a USAID contract action, the contract rules on organizational conflict of interest do not apply. USAID/Bolivia supports the transfer of selected PRODEM staff to BancoSol in order to ensure that BancoSol will begin operations with well-trained and trustworthy personnel. PRODEM will monitor activities of BancoSol through share ownership, and USAID over PRODEM through the Cooperative Agreement. Thus, the new arrangement will not present an unreasonable risk that the transferred employees can take unfair financial advantage of their new positions as

salaried employees of BancoSol, since PRODEM will be able to review and vote on all financial arrangements of the bank. BancoSol will pay the same salary levels as PRODEM for jobs of the same responsibility.

Once the final transfer of USAID-donated assets has occurred in 1993, PRODEM will substantially curtail its credit activities and modify its programmatic focus. PRODEM will undertake pilot credit activities to explore new lending methodologies and new markets, research matters concerning the micro-enterprise sector, and monitor its investment in BancoSol. Although USAID has been asked to support the future PRODEM, the project's PACD will have been reached, and USAID will have to review PRODEM's proposal as an entirely new project.

The Cooperative Agreement with ACCION International/AITEC, which has financed PRODEM's Executive Director and trained PRODEM staff in matters related to lending methodologies, may be terminated for convenience after PRODEM's Executive Director moves over to the bank in late 1991.

D. IMPLEMENTATION ARRANGEMENTS

USAID will amend the Project Agreement with the GOB, making appropriate changes, to describe the transfer of PRODEM reflows to BancoSol.

USAID will then amend its Cooperative Agreement with PRODEM to permit PRODEM to transfer reflows generated from USAID credit funds to BancoSol. All other aspects of the Cooperative Agreement will remain the same, including its completion date.

During the remaining life of the Cooperative Agreement, PRODEM will monitor its investment in the bank and continue its monthly and quarterly reports to USAID/Bolivia. PRODEM will also present a narrative report describing any additional activities it is undertaking in support of the micro-enterprise sector.

6714n