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UNCLASSIFIED

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

BOLIVIA

PROJECT PAPER

MICROFINANCE PROJECT

AID/LAC/P-957

PROJECT NUMBER 511-0637

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT DATA SHEET

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

2 COUNTRY/ENTITY: BOLIVIA

3 PROJECT NUMBER: 511-0637

4 BUREAU/OFFICE: LAC

5 PROJECT TITLE (maximum 40 characters): MICROFINANCE PROJECT

6 PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 09 DD 30 YY 00

7 ESTIMATED DATE OF OBLIGATION (Under B below enter 1 2 3 or 4)
A Initial FY 95 B Quarter 4 C Final FY 99

8 COSTS ($000 OR EQUIVALENT $1 =)

A FUNDING SOURCE	FIRST FY 95 B FX	C L/C	D TOTAL	LIFE OF PROJECT E FX	F L/C	G TOTAL
AID Appropriated Total						
(Grant)	(1,559)	( )	(1,559)	(12,000)	( )	(12,000)
(Loan)	( )	( )	( )	( )	( )	( )
Other U S 1						
Other U S 2						
Host Country	0	0	0		3,330	3,330
Other Donor(s)						
TOTALS	1,559	0	1,559	-	3,330	15,330

9 SCHEDULE OF AID FUNDING ($000)

A APPRO-PRIATION	B PRIMARY PURPOSE CODE	C PRIMARY TECH CODE 1 Grant	C 2 Loan	D OBLIGATION TO DATE 1 Grant	D 2 Loan	E AMOUNT APPROVED THIS ACTION 1 Grant	E 2 Loan	F LIFE OF PROJECT 1 Grant	F 2 Loan
(1) DA	840	840				1,559		12,000	
(2)									
(3)									
(4)									
TOTALS						1,559		12,000	

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

11 SECONDARY PURPOSE CODE

12 SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)
A Code
B Amount

13 PROJECT PURPOSE (maximum 480 characters)

To support the sustainable growth of efficient, viable microfinance institutions

14 SCHEDULED EVALUATIONS
Interim MM 11 YY 97 | MM YY | Final MM 08 YY 00

15 SOURCE/ORIGIN OF GOODS AND SERVICES
000 | 941 | Local | Other (specify)

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

The USAID Controller has reviewed the financial procedure described herein and hereby indicates his concurrence

7/25/95

Richard J Goughnour
Controller

17 APPROVED BY
Signature
Title Lewis W Lucke
Acting Mission Director
Date Signed MM 08 DD 03 YY 95

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

AID 1330-4 (3-89)

INSTRUCTIONS

The approved Project Data Sheet summarizes basic data on the project and **must** provide reliable data for entry into the Country Program Data Bank (CPDB) As a general rule blocks 1 thru 16 are to be completed by the originating office or bureau It is the responsibility of the reviewing bureau to assume that whenever the original Project Data Sheet is revised, the Project Data Sheet conforms to the revision

Block 1 — Enter the appropriate letter code in the box if a change indicate the Amendment Number

Block 2 — Enter the name of the Country Region or other Entity

Block 3 — Enter the Project Number assigned by the field mission or an AID/W bureau

Block 4 — Enter the sponsoring Bureau/Office Symbol and Code *(See Handbook 18 Appendix D)*

Block 5 — Enter the Project title *(stay within brackets limited to 40 characters)*

Block 6 — Enter the Estimated Project Assistance Completion Date *(See Chapter 7B 7)*

Block 7A — Enter the FY for the first obligation of AID funds for the project
Block 7B — Enter the quarter of FY for the first AID funds obligation
Block 7C — Enter the FY for the last AID funds obligations

Block 8 — Enter the amounts from the Summary Cost Estimates and Financial Table of the Project Data Sheet

NOTE The L/C column must show the estimate U S dollars to be used for the financing of local cost by AID on the lines corresponding to AID

Block 9 — Enter the amounts and details from the Project Data Sheet section reflecting the estimated rate of use of AID funds
Block 9A — Use the Alpha Code *(See Handbook 18 Appendix D for guidance)*
Blocks 9B C1 & C2 — See Handbook 18 Appendix D for guidance The total of columns 1 and 2 of F must equal the AID appropriated funds total of 8G

Blocks 10 & 11 — See Handbook 18 Appendix D for guidance

Block 12 — Enter the codes and amounts attributable to each concern for Life of Project *(See Handbook 18, Appendix D for coding)*

Block 13 — Enter the Project Purpose as it appears in the approved PID Facesheet or as modified during the project development and reflected in the Project Data Sheet

Block 14 — Enter the evaluation(s) scheduled in this section

Block 15 — Enter the information related to the procurement taken from the appropriate section of the Project Data Sheet

Block 16 — This block is to be used with requests for the amendment of a project

Block 17 — This block is to be signed and dated by the Director of the originating office The Project Data Sheet will not be reviewed if this Data Sheet is not signed and dated Do not initial

Block 18 — This date is to be provided by the office or bureau responsible for the processing of the document covered by this Data Sheet

PROJECT AUTHORIZATION

Name of Country	Bolivia
Name of Project	Microfinance Project
Number of Project	511-0637

1 Pursuant to Part II, Chapter I, Sections 103 and 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Microfinance Project for Bolivia, involving planned obligations of not to exceed Twelve million dollars (US$12 million) in grant funds from the Section 106 account (the "Grant") over a five-year period from the date of authorization, subject to the availability of funds in accordance with the A I D /OYB allotment process, to help in financing foreign exchange and local currency cost for the Project The planned Project Assistance Completion Date is September 30, 2000

2 The project will expand poor people's access to financial services by strengthening and capitalizing Bolivia's best microfinance programs This will be done through provision of technical assistance, training, equity investments, administrative support and other forms of assistance

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

a <u>Source and Origin of Goods and Services</u>

Commodities financed by A I D under the Grant shall have their source and origin in the United States or Bolivia to the extent authorized in Handbook 1, Supplement B Chapter 18, except as A I D may otherwise agree in writing Except for ocean shipping, the suppliers of commodities or services shall have the United States or Bolivia as their place of nationality, except as A I D may otherwise agree in writing Ocean shipping financed by A I D under the Grant shall, except as A I D may otherwise agree in writing, be financed only on flag vessels of the United States Motor vehicles financed by A I D under the Project shall, except as A I D may otherwise agree in writing, have their source and origin in the United States

b <u>Conditions Precedent</u>

Prior to the first disbursement under the Grant or to the issuance by A I D of documentation pursuant to which disbursement will be made, the Grantee shall, except as

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

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

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

Lewis W Lucke
Director a i
USAID/Bolivia

Clearances PD&I OCarduner (draft 7/12)
EO SSmith (draft 7/12)
RLA PRamsey ______ 7/14/95
CONT RGoughnour ______ 7/24
RCO MDula ______
EXO JPeevey ______ 7/27/95 (STAFFING IMPLICATIONS ARE ADDRESSED IN NOTATION IN MARGIN TO PARA 5 OF CARD MR PRL ISSUES MEMO OF 6/29/95)
ECON KBeasley ______ 7/28/95
A/DP HDiezdeMedina ______ 7/19/95
A/DD GSzepesy ______ 7/25

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MICROFINANCE PROJECT PAPER

(511-0637)

USAID/Bolivia
Economic Opportunity Office
JULY 1995

MICROFINANCE PROJECT PAPER (511-0637)

I N D E X

1

ANNEXES

July 25, 1995

PROJECT PAPER

MICROFINANCE PROJECT (511-0637)

I EXECUTIVE SUMMARY

Bolivia's microfinance sector has advanced significantly since 1987, when USAID/Bolivia initiated its support to PRODEM under the Microenterprise project (511-0596) The total number of clients served by permanent microfinance institutions in 1989 was estimated at about 7,000 The majority of these were served by PRODEM By the end of 1994, five strong, growing microfinance institutions were serving approximately 90,000 clients More importantly, these institutions are operating on a sustainable basis by covering all or almost all their costs (including operational, opportunity and inflationary costs) with interest earnings and by maintaining high loan recovery rates

Despite these advances, the vast majority of poor Bolivians still do not have access to financial services, and even the strongest microfinance institutions still lack the administrative and financial capacity to reach these large numbers The goal of USAID's Microfinance project (511-0637) is to expand poor people's access to financial services rapidly and on a sustainable basis by strengthening and capitalizing Bolivia's best microfinance programs The project will consist of three major components

(1) Highly focused technical assistance and training to Bolivia's strong microfinance institutions,

(2) Equity investments in a selective group of microfinance institutions with the capability of massive expansion on a sustainable basis,

(3) Administrative and technical support to Bolivia's Superintendency of Banks and Financial Institutions

The three components are complementary The first component will be customized to the needs of each financial institution, recognizing that each has different strengths and weaknesses Equity investments will be made only in institutions that are licensed (or about to be licensed) and supervised by the Superintendency, and that take the fundamental steps necessary to improve and expand their operations The equity investments will provide an important increase in the capital base of these institutions, thereby allowing them to leverage additional capital and to expand their client bases

After about a year of intensive lobbying by USAID and other institutions, Bolivian President Sánchez de Lozada signed Supreme Decree Number 24000, authorizing a new licensing and regulatory framework for microfinance institutions Bolivia is the first country in the world to have developed such a regulatory framework The Superintendency of Banks and Financial Institutions will be the licensing and regulatory body Although it is one of the strongest regulatory authorities in Latin America, it will require significant assistance in implementing the new framework, especially during the first few years

Planned life of Project (LOP) funding for the Microfinance project is $15 33 million over five years Of this amount, an estimated $2 0 million will be provided by the USAID/Washington Global Bureau to support the three project components or to implement complementary microenterprise activities These funds may be obligated through bilateral Project Agreement Amendments or through other obligating instruments The Project Assistance Completion Date (PACD) is September 30, 2000

The Microfinance project will overlap with the $2 44 million Amendment No 4 of USAID/Bolivia's Microenterprise project, which was authorized in October, 1994 to initiate the microfinance program The goal and purpose of the Amendment and the new project are identical While all aspects of documentation for the two projects (contractual, accounting, etc) will be handled separately, institutional and implementing mechanisms will be consolidated This Project Paper follows Project Development Interim Directive dated November 18, 1994

II STATEMENT OF OPPORTUNITY

A Project Rationale

1 The Predicament

Microfinance in many countries faces a predicament which can be described as follows

(a) Successful programs in widely scattered countries (e g , Dominican Republic, Ecuador, Bangladesh, Indonesia, Kenya, South Africa) have shown that we now have at our disposal new financial technologies which are capable of bringing efficient formal financial intermediation within the reach of very large numbers of poor households

(b) No country has yet succeeded in reaching the majority of those poor households, market penetration by microfinance has seldom exceeded five percent

(c) Even the roughest calculations of potential market size reveal a need for microfinance assets far in excess of donor funding available for the purpose

2 A Typology of Microfinance Programs

The issue of financial self-sufficiency has obvious relevance for the predicament described above But the predicament calls for an analysis of microfinance that goes beyond self-sufficiency If the technical tools to bring efficient finance to massive numbers of the poor are available, and we do not have the funds to saturate that market, then leverage has to be the linchpin of our strategy Thus, the following typology of microfinance programs, and the levels on which they operate, is based on a simple "bottom line" question

If donors put one dollar into a program today, how much in microfinance assets will that dollar have generated after, say, five years?

Level One At this level, a microfinance program does not break even on a cash flow basis i e , more cash drains out as expenditures than flows in as revenue (even without including any imputed cost for the program's soft funding) The vast majority of microfinance programs fall into this category The bottom line at this level is that if a donor puts one dollar in today, by year five there will be less than a dollar still available to provide ongoing finance for poor people

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Level Two A program at this second level has achieved a breakeven in cash flow revenues are at least equal to expenditures The program may even have gone on to a fuller self-sufficiency, a state in which income covers all expenses, including non-cash expenses like depreciation, inflation, and the opportunity cost of its funds But for a program at this second level, most of its microloan portfolio is financed by money the program has borrowed from donors Thus it has little or no equity Such a program cannot leverage its donor funds by further borrowing from commercial sources Because of the absence of an "equity cushion," even a modest loss in the institution's microloan portfolio assets would imperil its ability to honor its debts Thus, the bottom line for a level two program is that for each dollar donors put in today, the program will continue to have about one dollar available in later years for microfinance

Level Three Like a level two program, a program at this third level has reached breakeven or better But in contrast to the previous level, the program has substantial equity funding, which some development agency has granted, rather than lent, to the program On the basis of this positive net worth, the program can then finance expansion of its portfolio by borrowing from commercial sources, such as banks Experience around the world suggests that commercial lenders will not lend much more than $1 00 for each dollar of equity which this kind of program has available to back up the loan (could be higher with external guarantees) Therefore, at level three a dollar of donor grant money leads to about two dollars of total microfinance resources available for poor clients (The assumption here is that the program's profits are not high enough to produce a rapid multiplication of its equity capital, even though Bolivia's BancoSol has begun to report substantial profits during 1994)

Level Four A program reaches this fourth level when it has not only a self-sufficient cash flow and a significant equity base, but also a license as a bank or other formal financial institution Because the program is certified as meeting the requirements of a credible regulatory authority (the Superintendency of Banks and Financial Institutions in Bolivia) which maintains ongoing supervision, outside parties are willing to loan or deposit money into the institution in amounts up to eleven times the institution's equity base Why eleven? Because this limit is the international standard which more and more countries are adopting, including Bolivia The ratio comes from the "Basel Convention" rule that an institution's equity must be no less than eight percent of its risk weighted assets The outside sources of funds for level four intermediaries can be diverse deposits from microclients, deposits from larger commercial investors, interbank loans, or Central Bank credit facilities, to name some

Level four allows an institution to capture savings Appropriate voluntary deposit instruments, if offered, will likely be met with significant demand in Bolivia The resulting increase in customers will require a major expansion and adjustments

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in all aspects of the financial institutions This is when the institution is transformed from a loan facility to a true financial intermediary Eventually, the institution should finance most or all of its loan portfolio with customer deposits, as does Bank Rakyat Indonesia (BRI) in Indonesia

The bottom line for donors after several years, a level four program will have leveraged each dollar of donated equity into as many as twelve dollars of assets available for continued microfinance

Level Five A program arrives at this level when, in addition to meeting the requirements of level four, it is making profits that are so high that investors begin to start their own microfinance institutions, for motives which are not social but purely financial Indonesia is now arriving at this level Two banks there, BRI and Bank Dagang Bali, have recorded profits for several uninterrupted years Recently, a number of other small provincial banks in Indonesia have entered the microfinance business And as of this year, a few of Indonesia's largest commercial banks have expressed serious interest in offering microfinance services

We know of no other country where this has occurred, although as stated earlier, BancoSol posted reasonably impressive profits for 1994 But BancoSol is still a fragile institution experiencing rapid growth and undergoing many changes, including the implementation of large-scale savings services It will be several years before we know if BancoSol can consistently make profits

At Level Five, the donor's original dollar would catalyze an indefinitely large amount of resources going to serve microfinance clientele Once this level is reached in a number of countries in different parts of the world, the donors' job will have been done and the marketplace will have taken over

3 Core Strategic Considerations

How large is the potential microfinance market in Bolivia? To simplify this exercise, and because money tends to be fungible within poor family units, we will estimate the market in terms of the number of households In making a rough calculation, the following groups should be subtracted

- those that receive services from traditional commercial banks (approximately 55,000),
- those that receive services from non-bank institutions, including credit unions and savings & loans, although some of the customers from these institutions could jump to microfinance institutions whose services may be more

appropriate for them (approximately 350,000),

- those families that live so far from transportation and communication services that it is virtually impossible to offer microfinance services at real prices (approximately 250,000),

- those families that are destitute, who do not need and who could not afford financial services (approximately 250,000)

What remains is a rough estimate of about 500,000 families, or a little more than a third of the Bolivian population This group represents families with limited resources that do not receive financial services from banks and credit unions, but that could qualify for services provided by intermediaries employing new microfinance technologies

Experience with the very few programs around the world which offer a range of appropriate credit AND savings instruments shows that the number of customers requiring savings services exceeds those that require credit, and that virtually all credit customers are also savings customers at any given time Experience has also shown that savings services are often used by more than one member of a household, which would increase the estimate of 500,000 For the purpose of this exercise, which is to estimate the country's total credit demand, we will include potential credit customers only Assuming that each client (or family) would require an average outstanding loan of approximately $500, the total assets required to provide credit services to 500,000 clients would be about $250 million

If donors rely on programs below level four, they have little chance to satisfy the demand for poor peoples' finance, which we estimate to be about $250 million Assuming that donors in Bolivia rely on superb level three programs, and further assuming that donors provide all their funds to these programs as equity (donations) rather than loans, the market can be saturated only if the supply of donor funds is about $125 million This would be impossible to attain given donor budget levels for Bolivia and other demands on donor funds

If donors can structure level four programs, saturating the market is well within reach A level four program, because it enjoys the credibility stemming from certification and supervision by a capable financial regulatory authority, can borrow up to $11 of commercially sourced funds for every $1 of equity it starts out with

Level four, as described above, is close to being real The prospect of massive leveraging of donor microfinance resources, up to eleven to one, is achievable Nearly all of Bolivian's banks leverage their equity at a ratio of close to eleven to one, as do banks in most countries around the world Regarding microfinance, BancoSol in Bolivia obtained its banking license in 1991 with about $5 million in equity, provided by USAID, other donor groups and socially motivated investors Drawing deposits from a wide variety of sources, by the end of 1994 it had parlayed that equity into a microloan portfolio of about $33 million Two or three years from now, its portfolio will likely grow to about $60 million, representing the maximum legal leverage of its original $5 million in equity capital

In the Bolivian case, the $250 million in assets needed to respond to the demand for poor people's finance can be raised on an equity base of as little as $21 million About half of this amount is already lodged in the equity capital of BancoSol and four other sound Bolivian microfinance programs, and the remainder should not strain the budgets of USAID and other potential contributors, such as the Multilateral Investment Fund of the IDB

B Current State of Bolivian Microfinance Institutions

During the past ten years, new finance technologies have been developed in several countries that have been capable of

1) providing credit in very small amounts to people of minimal economic means and little or no ability to offer collateral guarantees,

2) maintaining high rates of recuperation (client repayment) of these credit resources, and

3) recovering from clients the total cost of delivering credit, including operating costs, loan losses, financing costs (opportunity costs) and inflation, thus allowing for the expansion of services without financial subsidies

Bolivia is perhaps the most advanced country in Latin America in developing and diffusing these new financial technologies Although there are dozens of small micro credit programs that are far from reaching financial sustainability, there are a handful of other programs that are close to or past the equilibrium point The financial indicators of BancoSol, Sartawi, PRODEM, Pro Crédito and FIE indicate their capacity to massively expand client services ("massively," on an order of magnitude, means by as much as ten fold) with funds obtained principally from commercial sources

Bolivia is unique in Latin America, comparable in the rest of the world only with Indonesia, in the number of competent microenterprise finance organizations

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it has operating and in the initiatives to convert these into true microfinance intermediaries to serve poorer sectors of the economy Although Colombia has by far the greatest number of competent microenterprise credit programs in Latin America, it has made no real effort to create microfinance intermediaries and has relied instead on the channeling of international agency funds to finance microenterprise portfolios

Several good microenterprise credit organizations exist in Bolivia today For the purposes of this analysis five have been identified as among the best BancoSol, Sartawi, PRODEM, FIE and Pro Crédito Together these five institutions have a combined total of almost $65 million in assets They reach almost 100,000 clients with a total portfolio of over $43 million in for an average outstanding loan balance of 470 dollars per client This represents a significant market penetration, without by any means implying market saturation Several other strong institutions exist whose results are not included in this paper such as IDEPRO, FADES, ANED and a few large credit unions, including Jesus Nazareno Some of these institutions might also participate in the project

BancoSol, one of the world's first private banks founded to serve the poor, gives loans to about two thirds of the total number of clients served It grew out of PRODEM, one of the NGOs also selected for this analysis PRODEM transferred its urban portfolio to BancoSol in return for shares and thus became BancoSol's principal owner PRODEM has since moved into rural areas and is actively developing a financial intermediation technology to serve the poor outside the primary urban centers

Another NGO among those selected also serves the rural population with credit Working through small communities, Fundacion Sartawi has grown from being an ecclesiastically based charitable organization into a credible non-bank financial institution over the past few years Two other NGOs, Pro Crédito and FIE, work primarily in the major urban centers and are both embarking on significant expansion of their branch office systems into secondary urban centers outside of La Paz, Santa Cruz, and Cochabamba Whereas Sartawi works primarily in rural La Paz and Oruro, the PRODEM/BancoSol network already encompasses a significant portion of the national population and virtually all secondary cities

This situation in Bolivia is relatively recent PRODEM, the first NGO to seriously attempt to implement a modern style microcredit program, was founded in 1984 but did not operate until 1986 due to the hyperinflation that affected Bolivia at that time Meanwhile, both FIE and Fundación Sartawi were founded in 1985 and began their work mostly in non-credit activities due to the economic crisis By the time Pro Crédito was founded in 1991, FIE, PRODEM, and Sartawi had all established credit programs and PRODEM was well into the process of establishing BancoSol The truly important growth in coverage has come in the

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past three or four years In given years, when funds have not been restricted, most of the selected microfinance institutions have doubled in size

At this point in time all of the five programs have consolidated their service delivery methodologies The portion of the loan portfolios with payments overdue more than 90 days is less than three percent in all cases In two cases it is less than one half of a percent These are delinquency figures that have held up for the past three or four years in all cases

Although there is some difference among the institutions in terms of the average loan size, they all serve essentially the same population in terms of its general characteristics With the exception of the fundamental difference between the rural, farm related activities funded by Sartawi, all of the others focus on typical microentrepreneurs, represented by street vendors, workshops, and somewhat more established, yet very small businesses Again, with the exception of Sartawi, the clients reside in urban centers of some magnitude, with populations of no less than 5,000 Although Fundacion Sartawi's credit is not directed, much of it certainly ends up in livestock and crop activities, given the type of communities in which it works

All the programs use a scaling-up credit technology and relatively short loan terms for the vast majority of their clients Therefore, although the overall average outstanding balance for the group is $470 per client, somewhat higher than what one might expect, most of the clients still have loans around or below three hundred dollars The clients of the two institutions reaching rural areas, Sartawi and PRODEM, have average loan sizes of $195 and $260, meaning that the vast majority of their clients fall below the three hundred dollar mark In the case of Pro Crédito, its average loan of $337 also means that its clients fall primarily below the mark

Curiously, it is in the two oldest programs, FIE and BancoSol (although only three years old, BancoSol inherited PRODEM's older clients) where the average loan size is significantly above the mark, $497 and $541, respectively In BancoSol's case, this higher average is clearly a result of the very success of its clients who started out years ago with tiny loans and whose businesses have grown to a point that they require substantially larger loans In Bolivia, there is no other institution for these evolved clients to turn to, so BancoSol continues to serve them, as well it should

Although all five institutions focus primary attention on the credit services they offer to poor clients, most offer or contemplate offering other services BancoSol is initiating savings services throughout its branch network PRODEM is contemplating a marketing service and a network of schools for it's clients' children FIE has successfully developed a training department and a marketing department FIE's training includes not only business training but also skills training in productive activities such as sewing The marketing department goes after large contracts that it then breaks up among several microenterprises to produce Fundación Sartawi carries out a series of income generating projects with its rural communities ranging from alpaca wool selection to furniture making In all cases, non financial services are separated not only structurally, but also administratively Accounting records have been largely separated to facilitate reporting to donor agencies and to generate better management information All are contemplating legally separating these non-financial activities by setting up wholly owned enterprises where the original NGO acts as a "holding"

Unlike BancoSol, which has generated a full fledged administrative structure commensurate with the size of its operations and has incorporated a large number of new persons with substantial prior banking backgrounds into its original NGO staff, the NGO programs still operate in an organizationally simple manner In the credit area, most of them have a general manager, a credit or operations manager, and an administrative manager or accountant Besides a limited number of other support staff, most of the rest of the employees work directly with clients as loan officers and cashiers About half of the total number of employees are credit officers Another quarter are cashiers and receptionists who also work directly with clients

The upper management of most of the institutions continues to be dominated by staff who come out of the NGO tradition rather than banking They are not particularly literate in the workings of the banking sector One of the greatest challenges of this project will be to help institutions through the very difficult transformation at this level Nevertheless, a high level of consciousness already exists as to the fact that different skills will be required to turn NGOs into financial intermediaries and most are planning accordingly

The depth of the change that will be necessary is not yet clear, particularly in the area of financial business planning, internal controls and audit, and information systems for management functions The amount of work yet to be done is substantial Whereas the quality of these systems is adequate to the NGO structure, it is not adequate for the requirements of financial intermediation Virtually none of the NGOs have contemplated an adequate funding source to help them through this transformation

As of late 1994 these five microfinance institutions had a combined total of 63 branch offices throughout the country, with a notable concentration in La Paz and El Alto (about half of the total) Other cities that have good coverage are Cochabamba, Santa Cruz and Oruro New offices have been opened in Potosí, Tarija, and Sucre by a couple of the programs This means that the programs have physically covered the larger, more important markets, but have yet to penetrate sufficiently This will be their next step Market towns have yet to be covered extensively although some areas around La Paz have been covered by both Sartawi and PRODEM They both intend to expand their networks considerably in the coming years

Financial performance of the microfinance institutions is strong (**ANNEX II**) All covered their operational costs in 1994 If we include the cost of maintenance of value of equity (donations) and take out the effects of subsidies received (donations eliminated from the income statements and an opportunity cost assigned to highly subsidized sources of funds for loans portfolios), all were self-sufficient Four out of the five programs spend between 15 and 22 percent of the value of their assets annually in administrative costs, which places them among the most efficient microfinance institutions in the world If these microfinance institutions were to operate with a fully leveraged position (which they could only do if they were to receive a bank license) they would be among the most profitable entities in the Bolivian banking system, with returns on equity of over 25 percent

All of the NGO microfinance institutions are considering applying for a license from the Bank Superintendency to operate as a regulated non-bank financial intermediary (Fondo Financiero Privado/FFP), although all may not do so in the short term BancoSol already has a bank license and can operate with the full range of services allowed any bank in Bolivia FFPs will be allowed to capture savings from the general public and make loans to microenterprises

The final regulations, recently published by the Government, require that NGOs form "Sociedades Anónimas" and have a minimum equity of one million dollars All of the institutions feel that this initial requirement could be met with some effort They all contemplate forming separate legal entities to run the financial activities, leaving the other activities to the NGO structure The NGO would be the major shareholder in the newly formed financial entity and would invite other, private shareholders to join Most are seeking international shareholders such as Plan International, COTESU, CAF, and other funding agencies In this sense, they would undoubtedly be interested in the opportunity for capitalization represented by this USAID initiative Most also intend to ask one or two private, well connected, individuals as partners

In spite of the fact that the NGO microfinance institutions are very well positioned to take advantage of the opportunity offered by the Bank Superintendency in terms of their financial and operational performance up to now, they lack many of the financial management skills necessary to operate as regulated and leveraged intermediaries They do not have business planning skills (budgeting and financial projections), information systems, and internal controls systems appropriate to a significant scaling-up In some cases performance is better than in others In all cases, they will need significant technical assistance and consulting services to prepare themselves administratively for this transition

The area where they will need most assistance is in liabilities structuring and management As a group they do not well understand and are not yet committed to savings mobilization from the general public They have generated only weak relationships with the banking sector, in spite of their generally very strong operational performance Two NGOs have no bank loans, one has about 5 percent of its assets in commercially sourced loans and the other about 12 percent On the other hand, two of the NGOs have almost 50 percent of their assets financed at commercial (or close to commercial) rates of interest This demonstrates that they should be able to enter the financial sector as full fledged players once the guidelines have been worked out and they understand commercial type liabilities more completely Helping them with this will be one of the important tasks of the project

All of these institutions have developed an excellent working relationship with USAID and expect to continue into the future in a similar vein All are frankly in the process of financial transformation and hope that USAID will assist them to do so successfully

C <u>USAID/Bolivia Experience in Microenterprise and Microfinance Development</u>

USAID/Bolivia has played an important role in the microenterprise sector since 1986 The Mission provided loan portfolio financing, operating costs and technical assistance during the early years of PRODEM By the end of 1989, PRODEM was serving over 5,000 current clients, with an average loan size of about $300 In early 1992, USAID supported the creation of BancoSol and the transfer of PRODEM portfolio to BancoSol By the end of 1994, BancoSol and PRODEM were serving over 70,000 current clients, of which about 65 percent were female

The original PRODEM component of the Microenterprise project terminated on March 31, 1995 We continue to support PRODEM's growth and program improvement with APPLE funding from FY 1993 The remaining amount of the $1 15 million in FY 1993 APPLE funding is being used to support FIE's microcredit program An additional $500,000 in APPLE funding from FY 1994 will support Pro Mujer's women's village banking program

USAID/Bolivia recently amended the Microenterprise project to reprogram $2 44 million dollars from the credit union stabilization fund and to initiate the microfinance components described in this Project Paper

The Microenterprise project has emphasized the development of the microfinance sector, but has also supported other programs, including

- **Strengthening the credit union system with support from WOCCU** This program has included support to the development of microlending by credit unions, and has also provided critical administrative and technical support to the Superintendency of Banks and Financial Institutions in the supervision and regulation of credit unions

- **Support to the Bolivian Federation of Small Industry (FEBOPI)** This program included technical assistance as well as support to FEBOPI in policy research concerning micro and small scale enterprise sector issues, impediments to sector growth and training needs

Over the past two years, USAID/Bolivia has expanded its role in microfinancial development by developing relationships with about half a dozen of the strongest microfinance institutions and through coordination with other donors (IDB and GTZ in particular) and the Superintendency We began a sector-wide microfinance education program, conducting ongoing seminars, short courses and providing focused, short-term technical assistance Consultants brought in for this program have included Robert Christen, Claudio Gonzalez-Vega, Marguerite Robinson, and Mario Davalos These events have been widely attended by banks, GOB officials, and especially representatives of the strong microfinance institutions, including SARTAWI, BancoSol, PRODEM, FIE and Pro Crédito

The Mission is also involved in a current effort to help BancoSol diversify its loan portfolio financing At present, BancoSol relies heavily on large, short-term certificates of deposit, which are a very volatile source of financing We have provided the periodic services of Marguerite Robinson to help design and implement BancoSol's savings mobilization program The program, which began about 18 months ago, has grown to nearly $6 million in voluntary small savings accounts We are also supporting BancoSol's plan to issue $5 million in bonds through the Bolivian stock exchange The action is being held up by the Superintendency, which requires a significant collateral guarantee The Mission has put BancoSol in contact with USAID/W's small business bank guarantee program, and prospects for a USAID guarantee for the bond issue appear good

D Goal and Purpose of the Project and its Relationship to USAID and GOB Strategies

The goal of the Microfinance project is to broaden and diversify poor peoples' access to financial services This goal directly supports USAID/Bolivia's strategic objective to "Expand Economic Opportunity and Access" for Bolivia's poor The principal indicator for measuring success will be the number of poor households receiving financial services from USAID assisted institutions The project purpose is to support the sustainable growth of efficient, viable microfinance institutions Impact will be measured through tracking institutional performance in a number of areas, including service quality, efficiency and financial viability

Microenterprise development has been given priority emphasis in the Agency's new "Economic Growth" policy The "lessons learned" section of the Agency policy paper states that "microenterprise projects focused on the provision of financial services to established enterprises have performed best, particularly in achieving adequate cost recovery and sustainability " The guidelines section of the same paper urges field missions to focus on "building sustainable viable financial intermediaries that provide client responsive savings, credit, and transfer services to large numbers of poor households and small businesses " USAID/Bolivia is already acting on these conclusions and recommendations The microfinance sector will be the Mission's Economic Opportunity Office's principal area of interest for at least the next half decade

Although the Government of Bolivia plays a limited role in microfinance, its policies are fully in support of the sector's expansion In his inaugural address last year, the Secretary of Agriculture stated that institutions like BancoSol and Sartawi will be the future providers of rural credit in Bolivia In a recent address, the President of Bolivia was impatient in his call for more BancoSol-like institutions and greater microfinance service coverage In addition, the GOB's Sub-secretary of Economic Development has created an inter-institutional committee specifically to discuss and coordinate microfinance activities in Bolivia The GOB knows that financial services should be delivered to microenterprises and poor farmers in a sustainable manner, this means permanent, profitable institutions without the distortions of subsidies and other forms of directed credit

The democratization of financial services will also support the GOB's efforts to democratize Bolivia Access to financial services helps to empower the poor by increasing incomes and by allowing them to participate in the formal economy The expansion of financial institutions into rural areas will also give municipalities convenient access to financial services as they begin to receive a large portion of the GOB budget under Popular Participation

III PLAN OF ACTION

A Project Components and Implementation

USAID/Bolivia has carefully chosen three project components based on the information contained in the previous section, "Statement of Opportunity " These are

1 Equity Investments in a few of the strongest microfinance institutions,

2 Highly focused technical assistance and training for microfinance institutions, and

3 Administrative and technical support to the Superintendency of Banks and Financial Institutions in supervising microfinance institutions

These are the three critical components to strengthen Bolivia's microfinance sector and, thereby, significantly expand the number of poor people with access to financial services

1 Equity Investments

While many USAID countries are testing the viability of microfinance institutions, Bolivia has already accomplished this step of the process Several strong microfinance institutions are already in place to serve Bolivia's future demand for microfinance services, provided that adequate capital and appropriate technical assistance are available PRODEM, BancoSol, Sartawi, Pro Credito, and FIE operate successful microfinance activities, albeit with varying portfolio size As mentioned previously, we estimate Bolivia's microcredit demand at about $250 million This demand can be met by licensed financial institutions with only about $21 million in equity capital, about half of which is already in the system Financed by the Microenterprise Project Amendment No 4 and by this project, USAID will provide a major part of the unmet equity requirements

BancoSol has proven that microfinance can be done with a regular commercial bank license from the Superintendency of Banks At this stage, though, the minimum equity requirement for such a license (about $4 5 million) is much too steep for the other sound programs USAID, along with other donors and microfinance institutions, successfully lobbied the Superintendency to open up a separate licensing window for non-bank intermediaries, which will be called Fondos Financieros Privados (FFPs) This regulatory framework lowers the minimum equity requirement to $1 million and incorporates minor regulatory adjustments given the unique characteristics of microfinance The framework will allow microfinance institutions to conduct the basic operations fundamental to the development of viable financial intermediaries It also allows institutions to offer poor clients a variety of appropriate financial services However, the range of services and operations of these institutions will be more limited than those of standard commercial banks

USAID, under this component, will grant funds to an NGO cooperating agency or several NGOs which, in turn, will make equity investments in several microfinance intermediaries The relationship between USAID and the cooperating agencies will be defined under cooperative agreements The cooperating agencies must have considerable interest and experience in microfinance development Their role will be to purchase shares in the microfinance institution, and then actively provide the institutional strategic and operational guidance needed by the institution to expand microfinance activities

We know of a few NGO institutions capable of carrying out this cooperating agency role effectively The model has already been successfully tested Acción International, for example, owns equity in BancoSol Over the past year Acción has effectively assisted in steering BancoSol in the right direction by providing critical technical assistance and by pressing the bank to implement key changes Calmeadow Foundation is another experienced institution Calmeadow initiated PROFUND, a consortium of institutions whose purpose is to capitalize microfinance institutions

The purchase of equity shares will be negotiated and executed between the cooperating agency(s) and the microfinance institutions, and will be subject to USAID approval Although USAID tracking of dollars used by the microfinance institutions will end once the cooperating agency(s) purchase share certificates, the cooperating agency(s) will take measures to ensure that funds are used to expand microfinance services and that they are not utilized for purposes prohibited under the FAA (see **ANNEX V**, USAID/GC opinion on equity investments as an allowable cost) Pertinent clauses will be drawn up in the cooperative agreement relationships between USAID and the cooperating agency(s), and also in subsequent agreements between the cooperating agency(s) and the microfinance institutions

Implementation of the equity program will be a three step process, as outlined below

(a) - Strong microfinance intermediaries will be identified (including those already known to USAID) for possible participation based on an evaluation of the following criteria

- management and institutional structure
- medium and long-term institutional strategy & goals
- institutional track record
- financial policies
- delivery mechanisms
- financial performance
- superintendency license (or prospects to be issued one)
- potential to expand outreach

(b) - The evaluation in step one will likely reveal, even in the strongest institutions with solid growth potential, a number of basic weaknesses At this time the cooperating agency(s) will enter into discussions with the microfinance institutions to develop concrete strategies for correcting those weaknesses The cooperating agency(s) will offer technical assistance to the microfinance intermediaries willing and able to participate The eventual decision on whether or not to make an equity investment will depend on the institutions' implementation of measures for improvement

The next step will be to determine these institutions' specific equity needs This would require an evaluation of the following factors in each institution

- current equity position
- current loan portfolio size
- current and future loan management systems capacity
- past, current and future rate of loan portfolio expansion

(c) - Completion of the second step of this process will result in a short list of qualified microfinance institutions and their equity needs To repeat, the execution of an equity investment will depend upon the successful implementation of basic measures by the microfinance institution to improve its program and to demonstrate a commitment to the goal of this project, which is to significantly expand poor peoples' access to financial services, both credit and savings The more an institution can accomplish before the equity investment, the greater the probability of project success

The NGO cooperating agency will enter into negotiations with the microfinance institution Once a preliminary agreement is reached between these institutions, the cooperating agency will execute the equity investment with the microfinance intermediary, after written approval by USAID

Credit unions and traditional commercial banks may also participate in this project There are two or three Bolivian credit unions that have recently developed new lending programs for microenterprises One of these, Jesús Nazareno, has recorded impressive growth together with high repayment rates

Even though commercial banks have shown little interest in the microfinance field to date, the project should continue to explore ways of attracting them to become involved in microfinance One possible way to do this would be to merge one of the strong NGO microfinance programs with a commercial bank This way, the bank would gain the NGO's microfinance experience and profitable portfolio, while the NGO would gain access to the bank's financial intermediation license, as well as its deeper overall financial and management experience USAID could provide a further incentive to the bank by executing an equity investment, allowing the bank to partially leverage the new equity for its traditional banking, while part of the equity would be leveraged for microfinance

2 Technical Assistance and Training to Microfinance Institutions

Technical assistance and training to the microfinance institutions will be needed on an ongoing basis throughout the life of this activity The purpose of the technical assistance and training is to help ensure that participating microfinance institutions grow in a sound and secure manner Once equity investments are executed, assistance programs will continue The way in which assistance is provided may change, however, because in most cases the cooperating agency which makes the equity investment will also be providing technical assistance In such cases, the cooperating agency will be a voting member of the boards of directors, and will also provide both solicited and unsolicited guidance and counsel The shareholder relationship should be a clear advantage to the success of the project because the cooperating agency will likely have more extensive microfinance experience than other board members This arrangement strengthens assurances that the microfinance institutions will properly utilize the technical assistance and training provided under the project

Sources for expert technical assistance and training in this field are scarce Commercial bankers can provide only a limited portion of the guidance required their business is different in many respects The kind of technicians needed for this program must have extensive nuts and bolts experience with microfinance programs, but also must have the financial and systems expertise to translate their experience into the requirements of a successful micro-banking operation

Most of the microfinance institutions that will participate in this program are NGOs or originated as NGOs, although commercial banks will also be eligible The transition from a socially oriented organization to an efficient financial intermediary is extremely difficult, psychologically and technically Therefore, technical assistance and training will be required at all organizational levels, from loan officers to directors of the boards What follows is an illustrative list of the types of technical assistance that will be needed

- develop and implement growth strategies (business plan development)
- organizational and human resource development
- improve data collection and analysis for monitoring and evaluation
- upgrade management information systems
- assist in accessing financial markets
- diversify and stabilize structure of liabilities
- develop client deposit services
- develop diversified client services
- develop systems to comply with regulatory (Bank Superintendency) requirements
- improve financial analysis and administration

All the reasonably strong microfinance institutions (those with significant portfolios, rational financial policies and low delinquency rates) will be eligible for technical assistance and training at the beginning of the project For those that want to participate, the project implementing unit will conduct an evaluation of their programs and determine the first set of steps the institution needs to take to strengthen itself Technical assistance and training will be offered to support the institutions in taking these steps Additional assistance will depend on the institutions' successful completion of prior steps

The Microfinance project is principally an institutional strengthening program In order to be successful, the microfinance institutions and their staff must be ultimately responsible for doing the work themselves The project will hire world class experts whose responsibility will be to give crucial guidance and facilitate the work of the microfinance institutions It will not contract additional personnel to design or implement institutional improvements

Most of the training under this component will be custom designed and implemented by the cooperating agency The project unit may also finance outside training, both domestic and international, for microfinance personnel

Fees will be charged by the cooperating agency(s) for both training and technical assistance under the project The purpose of charging is to ensure that client institutions place value on the service being provided, it is not meant to recover costs The percentage of costs to be covered by fees will be between 33% and 50%, recognizing that anything higher would be prohibitively costly to the microfinance institutions These percentages also recognize that the benefits of technical assistance and training will be realized by not only the microfinance institutions, but by society as a whole The difference between what the microfinance institutions pay and total costs is the cost of providing socially beneficial permanent microfinance services to hundreds of thousands of poor people

Before the technical assistance and training programs begin, USAID and the cooperating agency(s) will agree on how to manage income derived from these services One possibility is to augment the amount of funds available for equity investments in microfinance institutions Another alternative would be to pay part of the technical assistance and course costs with fees, while USAID funding would be used for the other part

3 Administrative and Technical Support to the Superintendency of Financial Institutions

This component of the project will assist the Superintendency of Banks and Financial Institutions to design, develop and install specialized regulatory, examination and supervision systems adapted to the unique characteristics of microfinance institutions After over a year of lobbying by USAID, other donors and some of the microfinance institutions, President Sanchez de Lozada, on May 17, 1995, signed Supreme Decree 24000 authorizing the Superintendency of Banks and Financial Institutions to license and supervise microfinance institutions as Fondos Financieros Privados (Private Financial Funds - FFPs) Bolivia is the first country in the world to authorize the implementation of a such a framework

Experience around the world, in highly developed and third world countries alike, has demonstrated the vital role that prudential supervision plays in financial systems The presence, or lack thereof, of a capable regulatory body can make or break a country's financial system In the U S , loose supervision by the Federal Home Loan Bank Board was mainly responsible for the failure of a great number of savings and loan associations in the 1980's In contrast, the success of the U S stock markets over past decades is due in large part to highly responsible supervision by the Securities Exchange Commission In Bolivia, the credit union system since the early 1980s has been weak and unstable largely due to the absence of a responsible, independent regulatory authority On the other hand, the improving performance of the Bolivian commercial banking system is due in large part to the oversight role played by the Superintendency of Banks and Financial Institutions

Bolivia's microfinance system is no different It's ability to grow significantly and in a stable manner will require high quality prudential supervision One could argue that such supervision is even more essential to microfinance, given the newness of microfinance and the lack of deep financial capabilities within the existing microfinance institutions

As described above in the Project Rationale section of this paper, licenses for financial intermediation open the door to eventually obtaining massive coverage In addition to the fundamental importance of a regulatory body supervising and regulating microfinance entities, several other important features of a license are that (1) it allows institutions to leverage financing up to 11 times their equity, (2) it allows institutions to mobilize savings, and (3) instills public confidence

Although Bolivia's Superintendency is considered one of Latin America's most capable and autonomous, it has little knowledge of and experience with microfinance In fact, this type of experience hardly exists anywhere in the world The Superintendency is venturing into virgin territory, which will require extra caution and expert technical support Under this component, USAID will provide technical assistance to the Superintendency through a cooperative agreement with the World Council of Credit Unions (WOCCU)

This component will be heavily emphasized during the first two years of the project, when the Superintendency will be

- receiving and evaluating applications from institutions wanting to become Private Financial Funds,
- creating the regulations, reporting and monitoring procedures under which FFPs will operate,
- training Superintendency staff in microfinance, including analysis of microenterprise loans,
- developing procedures, and training Superintendency field and office staff in examining and regulating FFPs

Support to the Superintendency will be primarily comprised of short and long-term technical assistance A minimal amount of funding may also be made available for one-time purchases of computer software and hardware The project will not finance salaries or other recurrent costs of the Superintendency The Superintendency believes it has adequate personnel now in place to begin administering supervision of microfinance institutions We estimate the cost of personnel and related operational costs for this effort to be approximately $100,000 annually These will represent part of the GOB's counterpart contribution to the project, although the contribution will not be tracked for purposes of meeting USAID's 25 percent requirement Although these costs will initially be paid for by the Bolivian Treasury, the Superintendency will charge fees (likely on the order of 1/1000 of assets annually) to licensed microfinance institutions which will offset a large portion of the costs of supervision

WOCCU, which has considerable experience working with Bolivia's Superintendency under the credit union component of the Microenterprise project, will be responsible for providing all aspects of assistance under this component Its current work with the Superintendency is similar in many respects to what will be needed for the supervision of microfinance institutions For these reasons, WOCCU was selected without competition to implement this project component Justification was made as part of the Project Implementation Order (PIO/T) for Amendment 4 to the Microenterprise Development project

During more than a year of policy dialogue with the Superintendency, USAID strongly urged that the Superintendency develop a regulatory framework that, if anything, errs on the side of caution USAID proposed that the minimum equity requirement for a license be $2 million, and that the microfinance institution have a minimum of three years of successful operations behind it With the exception of the equity requirement, USAID argued, licensed microfinance institutions should be governed by generally the same reporting and prudential requirements imposed on commercial banks

The NGO community and elements of the GOB, on the other hand, have argued for favorable treatment because of microfinance's social orientation They have, for instance, pressured the Superintendency to license and regulate microfinance institutions with as little as $100,000 in capital and no capital adequacy requirements Succumbing to these pressures would have been a grave error Most of the microfinance institutions are financially weak, and the failure of one may have resulted in the failure of the system as a whole

In the end, caution won out in the final draft of the Supreme Decree signed in May by President Sánchez de Lozada Although the minimum equity requirement for a license is only $1 million, this should still ensure that only the strongest, well capitalized microfinance institutions obtain licenses Most of the other elements of the FFP framework reflect a strict approach towards supervision Most importantly, the framework will allow licensed microfinance institutions to mobilize public deposits, provide transfer services, access domestic and international capital markets, and conduct other services fundamental to microfinance institutions

It is important to note that, while the microfinance intermediary licensing window described above would be advantageous to the system, it is not a necessary prerequisite for the successful implementation of the equity and technical assistance components of this project Its advantages are that (1) it would allow strong microfinance institutions to get their licenses more quickly and thus accelerate the rate at which financial services are made available to the poor, and (2) it would serve as the first model worldwide where a financial regulatory body creates licensing regulations specifically for microfinance institutions If successful, there would be potential worldwide applications

Should the FFP system not become functional for some reason, there are two alternative licensing options First, even without the special licensing window, we believe at least two of the strong microfinance institutions will satisfy the requirements to become commercial banks within the next few years Second, the current banking law does provide a number of alternative, less than ideal licensing opportunities for non-bank institutions, such as the "Caja de Ahorro" window The conditions under which a license can be obtained are not well defined, and individual microfinance NGOs would have to negotiate individual licensing agreements with the Superintendency

B Implementation Schedule

The project will be managed by USAID/Bolivia's Economic Opportunity Office USAID will execute a cooperative agreement with an NGO cooperating agency or several agencies which will implement the technical assistance and equity investment components of the project This agency(s) must have a strong track record working with several microfinance intermediaries, and must in particular have demonstrated financial analysis capabilities

Support to the Superintendency of Banks will be implemented by the World Council of Credit Unions (explained below in Procurement Section) Chief advisors of the NGO(s) and WOCCU will report directly on a monthly basis to the Office of Economic Opportunity Key functions of the NGO(s) and WOCCU will include

- develop project implementation strategy and policies (all three components, including technical assistance to microfinance institutions, equity investments, and support to the Superintendency of Banks)
- prepare project implementation and disbursement plans for USAID approval (all three components)
- manage project funds (all three components)
- evaluate microfinance institutions' capacity for secure, profitable growth (TA & equity component)
- evaluate and quantify microfinance institutions' future equity needs (TA & equity component)
- maintain open and frequent lines of communication with the Superintendency of Banks regarding licensing and regulatory requirements and for microfinance institutions (all three components)
- collaborate with USAID in coordinating with other donors and in

engendering other donor participation in project activities (all three components)

- execute equity investments in microfinance institutions (TA & equity component)
- actively participate in directing microfinance institutions by providing advice and technical assistance (TA & equity component)
- assist the Superintendency in licensing, regulating and supervising microfinance institutions (Superintendency component)
- establish, monitor and evaluate project impact and performance indicators (all three components)

Below is an illustrative implementation schedule for the Amendment period

First 12 months (October 1995 - September 1996)

- negotiate and execute institutional cooperative agreements (all components)
- hire project implementation personnel and equip office (all components)
- develop project implementation strategy and policies (all components)
- develop and begin implementation of monitoring and evaluation plan (all components)
- prepare one year project implementation and disbursement plan (all components)
- begin comprehensive assessments of at least two microfinance institutions (TA & equity component)
- identify technical assistance and training needs of microfinance institutions (TA & equity component)
- initiate administrative and technical support to the Superintendency of Banks (Superintendency component)

October 1996 - September 1997

- prepare one year project implementation and disbursement plan
- continue comprehensive assessments of microfinance institutions
- identify technical assistance and training needs
- provide technical assistance and training to microfinance institutions
- evaluate equity needs of microfinance institution
- execute at least one equity investment

3

- continue administrative and technical support to the Superintendency of Banks

October 1997 - September 1998

- prepare one year project implementation and disbursement plan
- continue assessments of microfinance institutions
- provide technical assistance and training to microfinance institutions
- continue to evaluate equity needs of microfinance institutions
- execute equity investment(s)
- provide ongoing advice and technical assistance and participate in major decision making of institutions receiving equity investments
- continue administrative and technical support to the Superintendency of Banks
- conduct project mid-term evaluation to assess progress towards achievement of targets

October 1998 - September 1999

- prepare one year project implementation and disbursement plan
- continue assessments of microfinance institutions
- provide technical assistance and training
- execute equity investment(s) in microfinance institution(s)
- continue to evaluate equity needs of microfinance institutions
- provide ongoing advice and technical assistance and participate in major decision making of institutions receiving equity investments

October 1999 - September 2000

- continue assessments of microfinance institutions
- provide technical assistance and training
- continue to evaluate equity needs and execute equity investment, if appropriate
- provide ongoing advice and technical assistance and participate in major decision making of institutions receiving equity investments
- conduct final project evaluation
- terminate project activities

C Inter-agency Coordination

Since USAID/Bolivia initiated a major assistance program to PRODEM in 1987 and 1988, USAID has been among the most active of donors in Bolivia's microenterprise development field Until recently, most donors, including USAID, supported only their individual projects and affiliate institutions USAID's current approach, which is embodied in this new project, emphasizes assistance to the overall microenterprise sector, specifically the microfinance sector

In the past 12 months, the Mission has initiated a number of inter-agency programs and policy dialogue activities in an effort to strengthen Bolivian microfinance These include

- co-sponsorship with FUNDAPRO and Plan International of international seminars and technical assistance to strengthen Bolivia's microfinance institutions, and

- coordination with NGOs, the German Technical Cooperation Agency (GTZ), the World Bank and the IDB to develop a rational regulatory framework for microfinance institutions and to lobby the opening of a licensing window for these institutions with the Superintendency of Banks and Financial Institutions

Although there are a number of donors supporting microfinance programs in Bolivia, outside of USAID only the IDB and GTZ have been playing a major role The IDB has provided several NGOs with funds for their credit portfolio, and has millions more in funds that it wants to channel through a second story credit facility (probably the Central Bank) at market interest rates GTZ has supported the development of Pro Crédito, and also has provided technical assistance to the Superintendency of Banks and Financial Institutions Its support to the Superintendency is scheduled to terminate in 1995

Because USAID is committed to strengthening the microfinance sector, inter-agency coordination and coordination with the GOB will be of paramount importance over the next few years In particular, we would like to see other donors join USAID in supporting strong microfinance institutions with equity investments of their own The Multilateral Investment Fund has already expressed interest in doing so

IV DEFINITION OF SUCCESS

A Intended Results and Means of Measurement

For many years, donor finance programs were implemented as a means of reaching certain economic sectors that were not being reached as a result of supposed failures in the financial system The goal of these programs was to channel economic resources to a target group Therefore, evaluation criteria was often based on measuring the direct impact of individual loans on clients Examples of indicators that were used include changes in income or enterprise/agricultural growth More recent research has concluded that it is both prohibitively costly and nearly impossible methodologically to measure the direct effects of financial services on financial clients

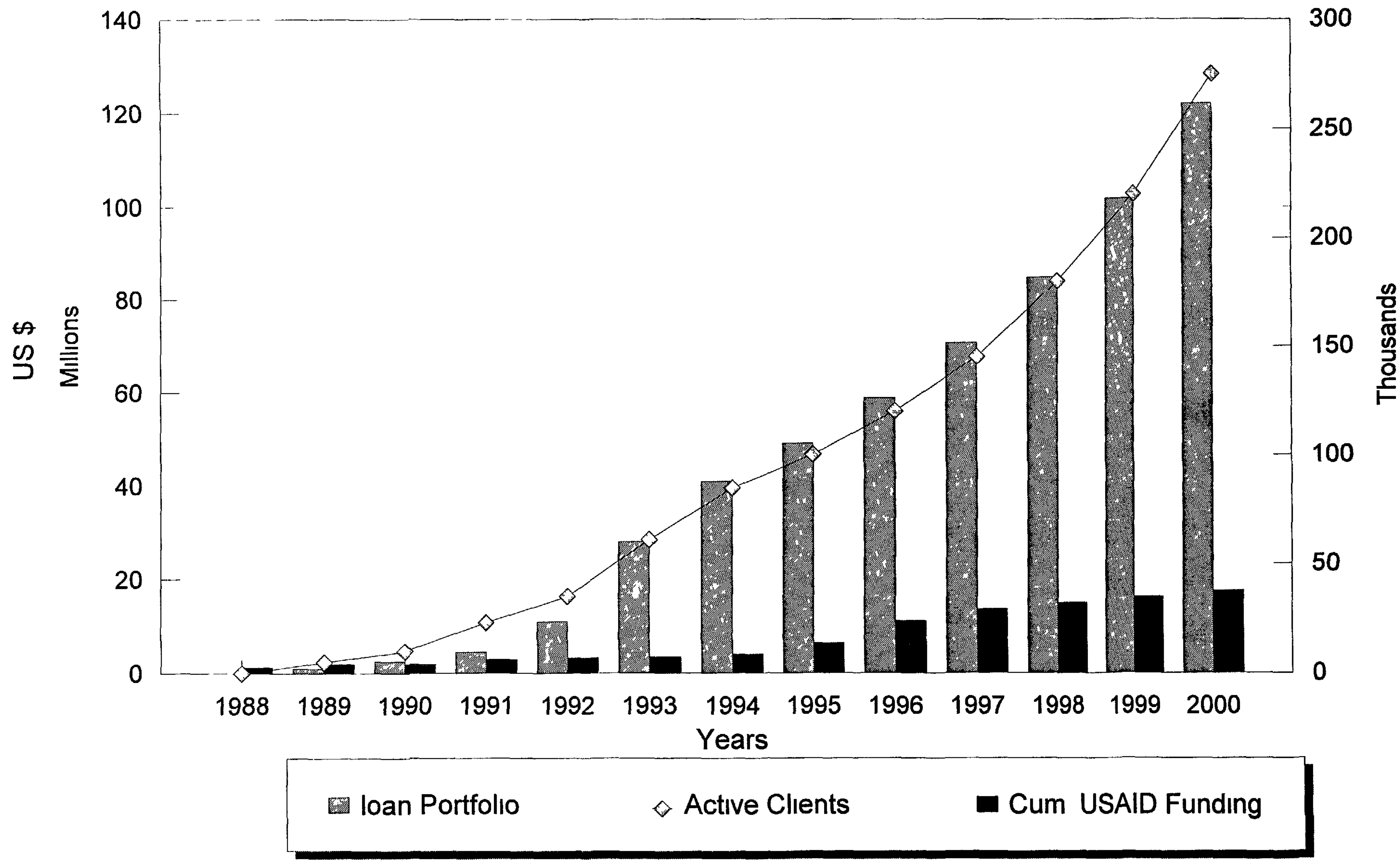
It is a much simpler task to measure the impact of financial services through the institutions that provide financial services What, after all, is the value of financial services? Finance creates value at both the macroeconomic and client level At the macro level, finance mobilizes an economy's resources and distributes them efficiently It also facilitates an economy's transactions At the client level, finance not only provides important investment capital, but it also allows people to manage liquidity both at the household and business level Financial services do not create economic opportunities directly Rather, they help people and enterprises "position themselves to take advantage of opportunities" (Rhyne, The New World of Microenterprise Finance, 1994) Therefore, goals for finance programs should be specified in terms of the institution's ability to perform the functions mentioned above for the economy and for its clients

This project will put priority importance on assessing program impact with quantitative indicators Virtually all the data will be collected by the participating microfinance institutions themselves The two general categories of indicators to be measured will concern (1) client services, and (2) institutional viability of the microfinance institutions Following is a short list of some of the indicators that will be collected on a portfolio basis

- number of poor households receiving financial services
- number of clients receiving voluntary savings and other financial services
- loan delinquency and loss rates
- capital to risk assets ratio
- administrative expenses to assets ratio
- profitability (return on equity and/or assets)
- number of active clients

Once a microfinance institution is under the supervision of the

USAID ASSISTED MICROFINANCE IN BOLIVIA



MICROFINANCE PROJECT (511-0637) - LOGICAL FRAMEWORK

NARRATIVE	INDICATORS	TARGETS	MEANS OF VERIFICATION	ASSUMPTIONS
GOAL Broaden and diversify poor people s access to financial services	No of poor households receiving financial services from USAID assisted microfinance institutions	(Baseline 1994 85 000) 1995 100 000 1996 120 000 1997 145 000 1998 180 000 1999 220 000 2000 275 000	Financial Statements and reports from participating institutions	i Superintendency licensing and regulatory framework is implemented ii General stability of Bolivia s financial system is maintained
	No of microfinance clients receiving deposit or other non credit financial services	(Baseline 1994 ?) 1995 TO BE 1996 DETERMINED 1997 DURING FIRST 1998 SIX MONTHS 1999 OF 2000 PROJECT	Financial Statements and reports from participating institutions	i Superintendency licensing and regulatory framekwork is implemented ii General stability of Bolivia s financial system is maintained iii Inflation remains low
PURPOSE Support the sustainable growth of efficient viable microfinance institutions	(measured for each institution) 1 Service Quality a Delinquency rate (%) b Loan loss rate (%) c Balance of loans with payments over 90 days late (%)	(all targets will be set and measured for *each institution and in aggregate)* a less than 5% b less than 2% c less than 2% of total loan portfolio	Financial Statements and reports from participating institutions	Amount of subsidized directed credit *remains relatively insignificant*
	2 Efficiency a Capital/Risk Assets Ratio b Administrative Expenses/Assets	a should increase over time end of project aggregate 5/1 b should decrease over time end of project aggregate 15%	Financial Statements and reports from participating institutions	Superintendency licensing and regulatory framework is implemented
	3 Financial Viability a Return on Assets (%) * b Growth No of active clients	a should increase over time end of project aggregate 3% b should decrease over time end of project aggregate 275 000	Financial Statements and reports from participating institutions	General stability of Bolivia s financial system is maintained

* Return on assets will be adjusted for inflation and subsidies calculations will apply an assumed commercial cost of funds to all subsidized fund sources notably soft loans and grants

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NARRATIVE	INDICATORS	TARGETS	MEANS OF VERIFICATION	ASSUMPTIONS
OUTPUTS				
1 Institutionally Strengthened Microfinance Institutions	a Improved data collection and analysis b Upgraded Management Information Systems c Improved human resource development and capacity d Improved strategic planning capacity e Improved financial analysis and administration	Not Applicable (END OF PROJECT STATUS)	Institutional records project evaluations and audits	None
2 Superintendency of Banks capable of supervising and regulating microfinance institutions	a detailed regulations reporting and monitoring requirements for microfinance institutions in place b staff trained in examination and analysis of microfinance institutions c Superintendency has adequate financial resources to regulate microfinance institutions through fees charged and/or treasury budget	Not Applicable (END OF PROJECT STATUS)	Institutional records project evaluations and audits	None
3 Improved local expertise in microfinance	At least two Bolivian experts trained and working in the microfinance field as general consultants	Not Applicable (END OF PROJECT STATUS)	Institutional records project evaluations and audits	None

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Superintendency of Banks or other regulatory body, it will be required to provide a comprehensive list of financial statements and indicators on a monthly basis Access to the Superintendent's monthly financial bulletins will be an important source of project data The previous pages contain (1) a graph showing the relationship between USAID's assistance levels and the expansion of the availability of microfinance services in Bolivia, and (2) the project logical framework which includes the principal project indicators to be measured

B Monitoring and Evaluation Plan

Overall project monitoring will be the responsibility of the USAID/Bolivia Economic Opportunity Office Chief advisors from the implementing NGO(s) and WOCCU will report to USAID on a monthly basis to provide status reports on project implementation Within three months of signing the Cooperative Agreements, the advisors will develop and submit to USAID a detailed monitoring plan for the first year of operations The annual plan will include concrete benchmarks which will be tracked and reported semi-annually or more frequently, if necessary (see logframe for illustrative project impact indicators) Subsequent year operating plans will be submitted to USAID by December 31 of each calendar year

There will be two project evaluations, mid-term and final, conducted for the Microfinance Project The mid-term evaluation will also serve as the final evaluation of the microfinance component of the Microenterprise project (511-0596), and will be financed under the Microenterprise project The evaluations are tentatively scheduled for late 1997 and 2000, respectively

USAID and the institutions under Cooperative Agreement relationships will agree on which data and other information will be required to measure project impact The institutions will be responsible for collecting and reporting this information throughout the life of the project

V CRITICAL ASSUMPTIONS

A supportive policy environment is the most important factor in allowing microfinance institutions to achieve substantial outreach and financial viability Currently, Bolivia provides such an environment, and the success of this project will only be possible if it continues

Within the policy environment context, sound monetary and fiscal policies are most critical, especially in maintaining low inflation and stable foreign exchange rates All financial institutions find it difficult to maintain financial viability during periods of fluctuating inflation and exchange rates, even if their financial management is sophisticated and fine-tuned The effects of poor monetary and fiscal policies would be even greater for microfinance institutions, whose financial management capabilities are still relatively weak

It is also important that the Bolivian Government maintain its policy of financial liberalization Microfinance programs cannot be viable in countries with highly repressive financial regulations Microfinance clients are particularly costly to serve, and in some ways present greater risks Interest rate ceilings, by limiting the interest rate microfinance programs can charge their clients, would prohibit microfinance program viability Government supported directed credit programs are another form of financial repression By offering subsidized low interest loans to a similar client base, directed programs make it more difficult for other microfinance programs to achieve sustainability Furthermore, directed programs are generally poorly managed and have notoriously high loan delinquency rates They foster lack of confidence and repayment failure within the client base, conditions which are difficult to reverse

Finally, the regulatory environment can be significant for the success of microfinance programs Very few microfinance institutions around the world are licensed, supervised and regulated by independent regulatory bodies This has limited their growth, diversification of services and financial viability As discussed in other sections of this paper, Bolivia's Superintendency of Banks and Financial Institutions has been given the authority to license and supervise microfinance institutions under Supreme Decree 24000 for Fondos Financieros Privados Licensing and supervision offers a number of important advantages First, it allows the financial institutions to mobilize deposits from the public and to offer other important client services Second, it allows the institutions to leverage equity and to thereby significantly expand outreach and to attain economies of scale Third, rigorous supervision helps ensure efficient and responsible management of the financial institutions

Bolivia is performing well in all the policy aspects mentioned above, including sound fiscal and monetary management, financial liberalization and financial regulation This performance must continue in order that Bolivia build a strong, viable microfinance sector

VI FINANCIAL PLAN

A Project Resource Requirements

The total Life of Project (LOP) funding is estimated at $15 33 million, with $12 million being USAID grant funding From the USAID funding, $2 159 million is budgeted for technical assistance, $6 017 million for equity investments, $550,000 for support to the Superintendency of Banks and Financial Institutions, $1 274 million for audit, evaluation, and other costs, and $2 0 million for USAID/Washington Global Bureau grants Counterpart funding will be provided for the technical assistance and equity investment components for microfinance institutions, as well as minimal counterpart operating costs A detailed project budget which includes projected expenditures by fiscal year is attached as **ANNEX I** Below is a summary project obligations schedule

PROJECT OBLIGATION SCHEDULE						
	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	TOTAL
Technical Assistance	200,000	200,000	600,000	600,000	558,976	2,158,976
Equity Investments	1,000,000	1,800,000	2,000,000	1,000,000	216,992	6,016,992
Support to the Superintendency	200,000	100,000	100,000	149,724	-0	549,724
Evaluation	-0-	-0	-0	-0	50,000	50,000
Other Costs	159,000	200,000	300,000	250,276	315,032	1,224,308
Global Bureau Support	-0	500,000	500,000	500,000	500,000	2,000,000
TOTAL	1,559,000	2,800,000	3,500,000	2,500,000	1,641,000	12,000,000

As explained throughout this document, the project will be fully integrated with activities initiated under Amendment 4 to the Microenterprise project (511-0596), approved October 5, 1994 The Amendment obligated $2 44 million for the microfinance program, including funding for technical assistance, equity investments, support to the Superintendency, an evaluation, and other costs

Planned counterpart contributions towards this project are presently estimated at $3 33 million, or 25% of the total LOP funding of $13 33 million USAID/Bolivia will contribute $10 million in grant funding No counterpart contribution will be required for the $2 million in funding anticipated from the Global Bureau Although this amount meets statutory project counterpart funding requirements, USAID/Bolivia's Economic Opportunity Office actually calculates and applies counterpart funding requirements on a project portfolio basis (**ANNEX IX** - Action Memo to the USAID/Bolivia Director signed February 19, 1992) The current counterpart contribution of the Office portfolio, excluding the Microfinance project, represents over 40 percent of overall project funding (USAID plus counterpart) Therefore, although USAID/Bolivia is confident that project counterparts will provide at least $3 33 million towards this effort, it will not be legally required in order to comply with the Foreign Assistance Act

We anticipate that counterpart funding will be provided primarily from two sources First, we expect that the cooperating agencies responsible for implementing the technical assistance, equity and Superintendency support components will provide partial matching funds for the project These counterpart funds would cover operating costs of the cooperating agency(s) and/or technical assistance and equity investment financing The ability of the cooperating agency(s) to contribute is an important measure of commitment, and as such has been included in the criteria for evaluating the proposals submitted in response to USAID's Requests for Assistance (RFAs) Nonetheless, these contributions may fall short of the 25 percent mark, especially in the case of WOCCU

The second and principal source of counterpart funding would be comprised of additional capital (excluding USAID donations) which participating microfinance institutions would be able to attract during the life of the project This capital may consist of either equity or borrowed funds

Direct, USAID-managed and disbursed project costs for this five year program are estimated at $650,000 This includes compensation and other related costs for a project coordinator and a project manager, who will report directly to the Office Director These individuals will be not only responsible for the Microfinance project, but for coordinating project components with other complementary microfinance activities managed by the Economic Opportunity Office, including PRIME fund programs and USAID/Washington initiatives They will also be responsible for coordinating activities with other donors, associations and the GOB These two positions do not represent an increase in EO Office personnel The coordinator slot will be filled by a current Foreign Service National employee who now coordinates the Microenterprise project and two other EO programs The Project Manager position, for which a person has yet to be identified, will be a Foreign Service National Personal Service Contractor who will essentially replace one of the existing U S Direct Hire slots scheduled for deletion in FY 1996 A person with extensive experience and knowledge of microfinance will be recruited for this position

B Methods of Implementation and Financing

The initial project obligation of $1 559 million will be executed in the final quarter of FY 1995 through a bi-lateral project agreement with the GOB The agreement will be counter-signed by representatives of both the Ministry of Finance and the Superintendency of Banks and Financial Institutions No conditions precedent to disbursement or covenants are deemed necessary, as the Superintendency is the only GOB entity directly involved with the project, and it has already demonstrated a full commitment to the program A yearly obligation schedule is included in the previous section of this paper

About 80 percent of project funds will be expended in FYs 1997 through 1999, as a result of a series of large donations which will be made for equity investments There are two reasons that the project would benefit from early equity investments First, these investments would allow microfinance institutions to leverage their capital base and thereby expand their services and coverage with greater rapidity Second, early equity investments would allow the project to provide crucial technical assistance and to exercise an important advisory role for several years following the investments For these reasons, the project would benefit from even larger obligations during its first three years should funding become available As now planned, because of budget limitations, over $1 5 million in equity donations must wait until FY 1999

Apart from the direct USAID-managed funding for personnel, audits, evaluations and other miscellaneous costs, project funds will be channelled through NGOs under cooperative agreements with USAID This implementing arrangement has been discussed with the GOB Sub-Secretary for the Economy, who expressed strong support The technical assistance and equity components will be implemented by one or two cooperating agencies (still to be determined), while the Superintendency component will be implemented by WOCCU at least through FY 1997 Beginning in FY 1998, it is possible that USAID will implement the Superintendency component directly at a significantly reduced level of funding

The Request for Assistance (RFA) to implement the technical assistance and equity components of Amendment #4 of the Microenterprise project was sent to eight qualified NGOs If a U S institution is selected, financing will most likely be carried out through a letter of credit (LOC) system Alternatively, a direct reimbursement method of financing could be employed, possibly including advances Advance payments would be subject to all applicable U S Treasury and USAID policies and regulations, and be dependent upon USAID/Bolivia Grant Officer and Controller approval of this methodology The direct reimbursement method of financing with possible advance payments would also apply should a third country or indigenous institution be selected

Pre-award surveys of administrative and financial management capacity will be conducted by either the USAID/Bolivia Controller's Office or an independent U S - affiliated accounting firm for those institutions without a well-established record of collaboration with USAID on development programs of similar magnitude The corresponding Cooperative Agreements would include similar conditionality applicable to "second tier" microfinance institutions, and clearly state that no USAID funding would be disbursed for purchase of equity interests until the institutions in question are certified as capable of adequately managing and accounting for financial resources

With regard to the equity component, USAID will review and approve the legal agreements by which the project's cooperating agency(s) purchase equity shares The cooperating agency(s) will be required to put systems in place to ensure that the microfinance institutions utilize equity to capitalize the institutions and expand microfinance activities in accordance with project purposes From an accounting standpoint, funds for the equity component will be disbursed (rather than advanced) at the time equity purchase transactions are completed Accordingly, the USAID audit trail for appropriated dollars ends with the purchase of share certificates in microfinance institutions However, the cooperating agency(s) will continue to exercise broad oversight of the microfinance institutions' programs and activities as equity holders

Cooperative agreements between USAID and cooperating agencies making equity investments will clearly stipulate how equity shares and possible profits will be treated in the future The cooperating agencies' share of profits realized by the microfinance institutions must be plowed back into the microfinance institution, as will any dividends earned on equity shares during the life of the project Cooperating agencies will be required to maintain their equity shares in the microfinance institutions for a minimum period of time beyond the project PACD This time period will be determined during project implementation When the time period expires, the cooperating agencies may be authorized to sell all or any part of their shares in the microfinance institutions provided they continue to utilize these funds for microfinancial development in or outside of Bolivia

The authorized geographic code for the project will include the United States and Bolivia to the extent authorized in Handbook 1, Supplement B, Chapter 18 No host-country contracting is contemplated under this project Contracting procedures applicable to personnel, commodity procurement, services, etc of participating NGOs will be evaluated in conjunction with the pre-award survey process as deemed necessary

C **Recurrent Cost Analysis**

The equity and technical assistance components of this project will not finance recurring costs It is expected that equity investments will be made only in sustainable financial institutions which will not require any kind of donor subsidies The implementation mechanism for this component, however, allows the microfinance institution discretionary use of equity investments Accordingly, it is possible that some of the microfinance institutions will elect to utilize funds donated by USAID to fund recurring costs, but it is not expected that any of the microfinance institutions will be financially dependent on these funds

Although the project provides for a wide range of support to the Superintendency, most of the support will be of a one-time nature in order to strengthen the Superintendency's technical capacity to supervise microfinance institutions Support will be provided to adapt the Superintendency's current systems, which are oriented to primarily to commercial banking, to microfinance It will be comprised mainly of short and medium term technical assistance during the first few years of the project This component may also include the payment of salaries and other operational costs associated with the Superintendency's implementation of the FFP regulatory framework Should this be the case, USAID and WOCCU will develop a plan to phase these costs out during the life of the project This would require that the Superintendency receive operating income from fees charged to microfinance institutions and/or treasury funds

VII MANAGEMENT PROCEDURES

A Procurement Plan

The vast majority of project implementation will be carried out by two, or possibly three, NGOs (which will be registered in accordance with USAID requirements and procedures) In order to implement the technical assistance, training and equity investment components, USAID/Bolivia will award a cooperative agreement to one or possibly two NGOs The initial agreements will be executed in August or September 1995 with financing from Amendment #4 of the Microenterprise project (511-0596) Requests for Assistance were issued to eight qualified microfinance NGOs on May 22, 1995 Of these institutions, two are based in non-U S , first world countries Although there are no legal prohibitions against signing cooperative agreements with these institutions, there are policy issues These issues were discussed in a April 18, 1995 Action Memorandum to the Mission Director **(ANNEX VI)**, in which he authorized the issuance of solicitations to non-U S , first world NGOs

Because of the complexity of these components, particularly with regard to the relatively large number of microfinance institutions which may require technical assistance and equity investments, cooperative agreements with two NGOs may be most appropriate In any case, it is expected that these cooperative agreements will simply be amended to add funds and extend the implementation timeframe to the year 2000 under the new Microfinance project Because the scopes of work for these components are nearly identical under both the Microenterprise Amendment and the new project, no new proposals or competition will be required

USAID's present cooperative agreement with the World Council of Credit Unions (WOCCU) will be amended for the implementation of the Superintendency of Banks and Financial Institutions component WOCCU, which is currently working in Bolivia in the implementation of a similar superintendency program, has unique capabilities to implement this program Furthermore, it has developed an ongoing, positive working relationship with Superintendency personnel at all levels Again, the cooperative agreement will be amended, as early as June, 1995, under the Microenterprise project (The cooperative agreement will be amended under the Microfinance project to add funds and extend this component) The Superintendency component is scheduled to last four years The Mission has not decided whether or not WOCCU will implement the program for this entire period The cooperative agreement referred to above will extend through September, 1997 The decision will be made in 1997 to extend WOCCU's participation or to implement the remaining part of the program directly by USAID

Although the Mission will conduct a mid-term evaluation of the project, it will be financed and contracted under the microfinance component of the Microenterprise project The Microfinance project will require a final evaluation, which will be contracted under this project USAID will not purchase commodities under the project One set of household furniture, which is currently available to the Mission, may be provided to a long-term advisor under cooperative agreement to implement the technical assistance and equity components

PROCUREMENT PLAN

Goods and Services	Estimated Cost	Proposed Source	Financing Method	Contracting Mode
A Technical Assistance 7/95 Project Auth 9/95 PIO Process 12/95 C A Amend	$2,158,976	U S /Bol	Periodic Advance or Direct L/C	Direct C A Limited Comp
B Equity Investments 7/95 Project Auth 9/95 PIO Process 12/95 C A Amend	$6,016,992	U S /Bol	Periodic Advance or Direct L/C	Direct C A Limited Comp
C Support to Superintendency 7/95 Project Auth 9/95 PIO Process 12/95 C A Amend	$ 549,724	U S	Direct L/C	Direct C A with WOCCU
D Evaluation 4/2000 PIO 5/2000 Del Ordr 7/2000 Eval Begin 9/2000 Report submitted	$ 50,000	U S	Direct Disburse ments	USAID Direct Contract - Open Comp
E Other Costs	$1,224,308	U S /Bol	Direct Disburse ments	USAID Direct Contracts
F Global Bureau Support	$2,000,000	U S /Bol	Direct Disburse ments	USAID Direct Contr & C A

B Audit Plan

The technical assistance and equity components of the Microfinance Project will be implemented by one or two NGO's, which will be selected from a pool of eight U S , third country, and indigenous organizations The superintendency component will be implemented by the World Counsel of Credit Unions (WOCCU), a U S -based NGO

With respect to WOCCU and the potential U S -based NGO participant(s) in the project, USAID audit standards require compliance with the Office of Management and Budget Circular A-133, which provides for an organization-wide systems audit, conducted in the United States, rather than a project-specific financial and compliance audit Responsibility for performing the A-133 audits rests with a cognizant U S Federal Agency, while the Overhead and Special Cost and Contract Branch (OP/PS/OCC) of the USAID Office of Procurement is responsible for ensuring compliance The Mission Regional Contracting Office will advise OP/PS/OCC when/if assistance instruments are signed with WOCCU and any other U S -based NGO

The A-133 Circular requires not less than bi-annual U S -based audits, which provide an opinion regarding a given institution's compliance with laws and regulations, a statement of positive assurance on items tested (which may or may not include the Microfinance Project) and negative assurance on programs that were not tested, a presentation of material findings, the relationship of the findings to particular awards as appropriate, and the auditor's recommendations for corrective action Sample testing of various USG grants and contracts is used to establish the institution's ability to adequately manage and account for federal monies, in compliance with Generally Accepted Accounting Standards and Generally Accepted Government Accounting Standards This type of audit precludes the necessity of performing single audits of individual federal awards such as those contemplated in this project

Since negotiated overhead rates must include funding for A-133 audits, the project is not required to budget for audit of grants to U S -based NGOs as a separate line item However, since the primary counterpart organizations may, in fact, be third country or indigenous institutions, sufficient funding has been budgeted for one or two cooperating agencies If U S -based cooperating agencies are ultimately selected, audit funding will be reprogrammed for alternative purposes within the project

If the Mission does sign one or more direct grants or cooperative agreements with third country or indigenous institutions, they will be subject to annual audit under the USAID Regional Inspector General's (RIG/SJ) Recipient Audit Program As such, these institutions would be required to contract with a local U S -affiliated audit firm to perform annual financial and compliance audits for each year in which $100,000 or more of USAID funds are expended The audit Scopes of Work and the list of USAID approved audit firms will be provided by the Mission, and final audit reports will be subject to a review and release/rejection by the USAID/Bolivia Controller's Office

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ANNEX I
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5% anual inflation rate for salaries and other overhead items

LINE ITEM Base FY 96 FY 97 FY 98 FY 99 FY 2000 LOP

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5% anual inflation rate for salaries and other overhead items

LINE ITEM	Base		FY 96	FY 97	FY 98	FY 99	FY 2000	LOP
A Technical Assistance								
1 Salaries								
Microfinance Advisor (Chief of Party)	$115 700		$0	$0	$133 937	$140 634	$147 666	$422 236
Subtotal Salaries			**$0**	**$0**	**$133,937**	**$140,634**	**$147,666**	**$422,236**
2 Fringe Benefits	31%	Salary	$0	$0	$41 520	$43 596	$45 776	$130 893
Subtotal Fringe Benefits			**$0**	**$0**	**$41,520**	**$43,596**	**$45,776**	**$130,893**
3 Allowances								
Temporary Lodging Arrival	$61	30 days	$0	$0	$0	$0	$0	$0
Temporary Lodging Departure	$74	5 days	$0	$0	$0	$0	$0	$0
Housing	$43 200	Full	$0	$0	$47 628	$50 009	$52 510	$150 147
Post Differential	20%	Salary	$0	$0	$26 787	$28 127	$29 533	$84 447
Education/Tuition	$4,500	year/child	$0	$0	$9 923	$10 419	$10 940	$31 282
Education/Registration	$1 000	once/child	$0	$0	$0	$0	$0	$0
Subtotal Allowances			**$0**	**$0**	**$84,338**	**$88,555**	**$92,983**	**$265,877**
4 Travel/Relocation								
Airfare	$1 200	entire family	$0	$0	$0	$0	$4 800	$4 800
Excess Baggage	$45	enitre family	$0	$0	$0	$0	$180	$180
Unaccompanied Baggage	$500	enitre family	$0	$0	$0	$0	$2 000	$2 000
Shipping Household	$1	2,500 lbs	$0	$0				$0
Storage Household	$0	5 000 lbs	$0	$0	$0	$0	$0	$0
R&R Airfare	$1 400	enitre family	$0	$0	$5 600	$5 600	$5 600	$16 800
International Travel	$2 500	10 trips	$0	$0	$5 000	$5 000	$5 000	$15 000
Subtotal Travel/Relocation			**$0**	**$0**	**$10,600**	**$10,600**	**$17,580**	**$38,780**

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5% anual inflation rate for salaries and other overhead items

LINE ITEM	Base		FY 96	FY 97	FY 98	FY 99	FY 2000	LOP
5 Local Office Costs								
a Personel Costs								
Salaries								
Finance Advisor	$28 000	1 person	$0	$0	$28 000	$29 400	$30 870	$88 270
Secretary	$10 000	1 person	$0	$0	$11 576	$12 155	$12 763	$36 493
Messenger	$3,000	1 person	$0	$0	$3,473	$3 647	$3 829	$10 949
Fringe Benefits	35%	salaries	$0	$0	$12 560	$15 821	$16 612	$44 992
b Office Expenses								
Rent	$2,000	month	$0	$0	$24 000	$25 200	$26 460	$75 660
Utilities	$200	month	$0	$0	$2 646	$2 778	$2 917	$8 342
Telecommunications	$900	month	$0	$0	$11 907	$12 502	$13 127	$37 537
Supplies	$200	month	$0	$0	$2 646	$2 778	$2 917	$8 342
Miscellaneous	$300	month	$0	$0	$3 969	$4 167	$4,376	$12 512
c Travel/Transportation								
Airfare (in country)	$125	21 trips	$0	$0	$875	$875	$875	$2 625
Per diem (in country)	$85	60 days	$0	$0	$1 700	$1 700	$1 700	$5 100
Car Rental	$100	60 days	$0	$0	$2 000	$2 000	$2 000	$6 000
Public Transportation	$10	60 days	$0	$0	$200	$200	$200	$600
Misc	$10	21 trips	$0	$0	$70	$70	$70	$210
d Audits	$10 000	annually	$0	$0	$11 576	$12 155	$12 763	$36 494
Subtotal Local Office Costs			**$0**	**$0**	**$117,198**	**$125,448**	**$131,479**	**$374,125**
6 Equipment and Commodities								
a Computer Hardware	$2 000	3 persons	$0	$0	$0	$0	$0	$0
b Computer Software	$300	3 persons	$0	$0	$500	$500	$500	$1 500
c Telecommunications	$1 000	2 lines	$0	$0	$0	$0	$0	$0
d Office Equipment/Furniture	$500	3 persons	$0	$0	$0	$0	$0	$0
Subtotal Equipment and Commodities			**$0**	**$0**	**$500**	**$500**	**$500**	**$1,500**
7 Overhead								
a Home Office Backstopping	$18,000	annually	$0	$0	$20 837	$21 879	$22 973	$65 689
b Overhead	36%	salaries&fringe &backstopping	$0	$0	$70 666	$74 199	$77 909	$222 775
Subtotal Overhead			**$0**	**$0**	**$91,503**	**$96,079**	**$100,882**	**$288,464**

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5% anual inflation rate for salaries and other overhead items

LINE ITEM	Base			FY 96	FY 97	FY 98	FY 99	FY 2000	LOP
8 Short Term Technical Assistance									
a Personnel Costs									
Consultant Salary	$362	300	days	$21 720	$21 720	$21 720	$21 720	$21 720	$108 600
Consultant Travel	$1 400	30	trips	$8 400	$8 400	$8 400	$8 400	$8 400	$42 000
Consultant Lodging	$66	300	days	$3 960	$3 960	$3 960	$3 960	$3 960	$19 800
Consultant M&I	$34	300	days	$2 040	$2 040	$2 040	$2 040	$2 040	$10 200
Local Training Seminars	$50 000		year	$50 000	$50 000	$50 000	$50 000	$50 000	$250 000
b Other Direct Costs	$10 000		year	$10 000	$10 000	$10 000	$10 000	$10 000	$50 000
c Other Indirect Costs	$5 000		year	$5,000	$5 000	$5 000	$5 000	$5 000	$25 000
Subtotal Short Term Technical Assistance				**$101,120**	**$101,120**	**$101,120**	**$101,120**	**$101,120**	**$505,600**
9 International Training/Dev Tourism									
Airfare	$2 000	15	trips	$6 000	$6 000	$6 000	$6 000	$6 000	$30 000
Per diem	$185	150	days	$5 550	$5 550	$5 550	$5 550	$5 550	$27 750
Public Transportation	$20	150	days	$600	$600	$600	$600	$600	$3 000
Medium Term Training Course	$7 000	10	participants	$14 000	$14 000	$14 000	$14 000	$14 000	$70 000
Misc	$50	15	trips	$150	$150	$150	$150	$150	$750
Subtotal International Training				$26 300	$26 300	$26 300	$26 300	$26 300	$131 500
Subtotal All TA (under CA)				**$127,420**	**$127,420**	**$607,017**	**$632,833**	**$664,286**	**$2,158,976**
B Support to the Superintendency of Banks									
a Support to Superintendency for Implementation of Decree on FFPs									$0
i Expert Technical Assistance	$420	24	person/month	$110 880	$55 440	$27 720	$18 480	$9 240	$221 760
Per diem and Travel	$71 640		LOP	$35 820	$17 910	$8 955	$5 970	$2 985	$71 640
ii Computer Support TA	$2 000	36	person/month	$72 000	$0	$0	$0	$0	$72 000
Modems and Hardware	$16 000		LOP	$16 000	$0	$0	$0	$0	$16 000
Short Term TA	$14 500		LOP	$14 500	$0	$0	$0	$0	$14 500
iii Training	$43,720		LOP	$21 860	$10 930	$10 930	$0	$0	$43 720
Seminars/Orientation	$35,000		LOP	$26 250	$8 750	$0	$0	$0	$35 000
b Direct Costs	$7 000	2	year	$7 000	$7 000	$0	$0	$0	$14 000
c Indirect Costs	$34 742		LOP	$17 371	$17 371	$0	$0	$0	$34 742
d Other Costs	$150 000		LOP	$0	$0	$50 000	$50 000	$50 000	$150 000
Subtotal Support to Superintendency				**$321,681**	**$117,401**	**$97,605**	**$74,450**	**$62,225**	**$673,362**
Less Budgeted for in MSED Project Amendement				$77,330	$46 308	$0	$0	$0	$123 638
Subtotal Support to Superintendency				**$244,351**	**$71,093**	**$97,605**	**$74,450**	**$62,225**	**$549,724**

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5% anual inflation rate for salaries and other overhead items

LINE ITEM	Base		FY 96	FY 97	FY 98	FY 99	FY 2000	LOP
C Other Costs								
1 Project Manager Contract	$85 000	year	$0	$85 000	$89 250	$93 712	$98 398	$366 361
2 Project Coordinator Contract	$55 000	year	$27 500	$57 750	$60 637	$63 669	$66 853	$276 410
3 Free Market Development Advisors/TA	$60,000	year	$60 000	$63 000	$66 150	$69 458	$72 930	$331 538
4 Other	$50,000	year	$50,000	$50,000	$50 000	$50 000	$50 000	$250 000
Subtotal Other Costs			**$137,500**	**$255,750**	**$266,038**	**$276,839**	**$288,181**	**$1,224,308**
A Total All TA under CA			**$127,420**	**$127,420**	**$607,017**	**$632,833**	**$664,286**	**$2,158,976**
B Total Support to Superintendency			**$244,351**	**$71,093**	**$97,605**	**$74,450**	**$62,225**	**$549,724**
C Other Costs			**$137,500**	**$255,750**	**$266,038**	**$276,839**	**$288,181**	**$1,224,308**
D Equity Investments			**$1,049,729**	**$1,845,737**	**$2,029,340**	**$1,015,878**	**$76,308**	**$6,016,992**
E Evaluation			**$0**	**$0**	**$0**	**$0**	**$50,000**	**$50,000**
F Global Bureau Support			**$500,000**	**$500,000**	**$500,000**	**$500,000**	**$0**	**$2,000,000**
USAID TOTAL			**$2,059,000**	**$2,800,000**	**$3,500,000**	**$2,500,000**	**$1,141,000**	**$12,000,000**
COUNTERPART CONTRIBUTION								
A Currency			**$0**	**$1,000,000**	**$1,000,000**	**$1,333,000**	**$0**	**$3,333,000**
B In Kind			**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
COUNTERPART CONTRB TOTAL			**$0**	**$1,000,000**	**$1,000,000**	**$1,333,000**	**$0**	**$3,333,000**
PROJECT TOTAL			**$2,059,000**	**$3,800,000**	**$4,500,000**	**$3,833,000**	**$1,141,000**	**$15,333,000**

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25 July 1995

ANNEX II
INSTITUTIONAL AND FINANCIAL ANALYSIS
OF FIVE OF BOLIVIA S STRONGEST MICROFINANCE INSTITUTIONS

BASIC INSTITUTIONAL INFORMATION

Institution	Type	Date Founded	Funders	Products	Geographical Distribution of Clients	Basic Client Profile
FIE	NGO	1985	IDB COTESU (Swiss program) Organiz Intereclesiastica Diakonia Commercial banks	Credit for microindustry Training Technical assistance	Urban El Alto La Paz Santa Cruz and Oruro	Low income micro and small entrepreneurs focussing mainly in industry
PRODEM	NGO	1986	USAID/B UNIFEM AITEC-CALMEADOW CAF FUNDA-PRO	Credit to solidarity groups for working capital fixed assets and agricultural development	Urban and Rural La Paz Potosi Oruro Chuquisaca Cochabamba and Santa Cruz	Low income solidarity groups Productive or commercial micro-entrepreneurs
SARTAWI	NGO	1985	Plan Internacional ANED CONPAC I	Rural credit	Altiplano of La Paz and Oruro	Rural productive units and solidarity groups
Pro-credito	NGO	1991	GTZ COTESU BID FUNDA-PRO Commercial banks	Credit of urban micro & small entrepreneurs	Urban La Paz and El Alto	Low income micro and small entrepreneurs
BancoSol	Commercial Bank	1992	Commercial Banks	Credit and savings	Urban and rural	Urban and rural solidarity groups

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INSTITUTIONAL STRUCTURE

Institution	Personnel	Regional Offices	Branches	Clients x staff	Organigram	Geographic Area Covered
FIE	52	–	7	161	Executive Direction with three coordinating units credit, training and administration	Urban La Paz El Alto Oruro and Santa Cruz
PRODEM	130	6	15	77	Executive Direction with operations and administrative divisions Departmental offices rural agencies and sub–agencies	Urban and rural Branches in every department of the country except Pando
SARTAWI	25	–	6	204	General management with administrative/ finance and credit managers	Rural Altiplano of La Paz and Oruro
PRO–CREDITO	68	–	6	113	Internal auditor general management with administrative and credit areas	Urban La Paz and El Alto
BANCOSOL	439	4	29	139	General Manager Development Finance Human Resources, Systems and Regional Managers	Urban and rural in La Paz El Alto Cochabamba and Santa Cruz

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FINANCIAL RESULTS
(In US$)

Institution	Total Assets As of 12/31/94	Return on Assets (3)	Equity As of 12/31/94	Return on Equity (3)	Admin Costs/ Assets	Salaries/Assets	Financial Sustainability (1)	Financial Sustainability (2)
FIE	5,090,552	0 05	1,974,377	0 12	0 16	0 11	1 05	1 05
PRODEM	9,057,405	0 05	3,033,536	0 11	0 22	0 14	1 61	1 17
SARTAWI	1,385,249	0 10	265,466	0 65	0 16	0 11	1 49	1 46
PRO-CREDITO	3,510,013	0 06	1,237,218	0 16	0 30	0 19	1 17	1 17
BANCOSOL	45,796,837	0 02	6,513,152	0 13	0 20	0 11	1 05	1 05

This ratios were based in 3 years' averages between 1992 and 1994 except for Sartawi which was based in two years' average
Exchange rate as of 12/31/94 Bs4 69 to $1

(1) 1994 Income with donations/total costs
(2) 1994 Income without donations/total costs
(3) Without donor funding

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OPERATIONAL RESULTS

Institution	# of clients		Current Portfolio	Delinquency
	Cummulative	Active	US$	> 90 days
FIE	22,081	8,362	4,159,225	2 6%
PRODEM	48,567	9,974	2,597,031	0 24%
SARTAWI	23,610	5,108	1,166,358	2 74%
PRO-CREDITO	20,023	7,686	2,588,156	0 36%
BANCOSOL	294,659	61,255	33,125,972	1 89 %

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POSICIONAMIENTO PARA EL PROYECTO*

Institution	Leverage Assets/Equity	Commercial funding/assets (%) Origin (1)	Cost (2)	Growth in assets 1992-1994(%)	Equity US$
FIE	2 58 1	4 87%	41 37%	113	1,974,377
PRODEM	2 99 1	0 00%	9 96%	82	3,033,536
SARTAWI(3)	5 22 1	0 00%	2 95%	22	265,466
PRO-CREDITO	2 81 1	12 54%	46 21%	303	1,237,218
BANCOSOL	7 03 1	18 36%	83 74%	344	6,513,152

(1) Loans from commercial banks
(2) Loans from commercial banks + loans from other institutions with commercial interest rates
(3) Growth 1993-1994
* Source 1994 financial statements

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COMMERCIAL FUNDING

F I E			PRODEM			SARTAWI			PRO-CREDITO		
Source	Int Rate	US$	Source	Int Rate	US$	Source	Int Rate	US$	Source	Int Rate	US$
Commercial Banks	14%	$248 000 00	FUNDAPRO	9 69%	$441 679 32	Lutheran Church	10 00	$40 000 00	MIB	10%	682 000 00
Institutions	12%	$672 449 00			$441 679 32				FUNDA-PRO	9 69%	500 000 00
Personal loans	12%	$1,185,729 00							Comm banks	14%	440 000 00
Totals		$2,106,178 00			$883 358 64			$40 000 00			1 622 000 00

BANCOSOL		
Source	Int Rate	US$
Clients deposits	9 96%	$29 944 703 62
Commercial Banks	14 5	$8 407 392.96
Totals		$38 352 096 59

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WORLD COUNCIL OF CREDIT UNIONS INC

RECEIVED USAID
11 MAYO 1995
LA PAZ

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5/11

La Paz, March 29, 1995

Stephen H Smith
Office of Economic Opportunity
USAID/Bolivia

Dear Steve

The purpose of this letter is to give a report of our visit to the Superintendency of Banks and Financial Institutions of Bolivia this past March 23 and 24 On these two days Chairman Norman D Amours and I met with key officials at the Superintendency to evaluate their capacity to supervise non-governmental institutions that intermediate funds in Bolivia, especially funds that are channeled into loans for microenterprise

During our visit, in separate meetings, we met with the Deputy Superintendent Dr Fernando Paz, Mr Javier Fernandez, the Intendent of Inspection and Audit, Dr Ariel Carvajal, the Intendent of Legal Matters, and Mr Efrain Camacho, the Intendent of Inspection and Audit We also met with Blanca de Kreidler, the general administrator of the Superintendency and with Raul Garrón, World Bank Consultant at the Superintendency We did not meet with the Superintendent himself (Mr Jacques Trigo Loubière) since he was just appointed last week, and he is still in Washington, D C

Mr D'Amours is the head of the National Credit Union Administration (NCUA) in the US, the regulator/insuring organization for credit unions in our country, controlling approximately $290 billion in assets The NCUA is the equivalent for US credit unions as the Comptroller of the Currency and the FDIC are for US banks I asked his help since he is a regulator of financial institutions, and consider his advice valuable

The specific purposes of our meetings at the Superintendency were

1) Update the analysis of the Superintendency done by NCUA/WOCCU in 1991

2) Determine staff and funding requirements for the Superintendency to be able to supervise organizations that accept funds from the public and lend to microenterprises (These are similar to credit unions in balance sheet and income statement structure--even if they have different type of non-profit charter--therefore it made sense to use Chairman D'Amours' help)

MIEMBROS Confederación Africana de Asociaciones de Ahorro y Crédito Confederación Asiatica de Ahorro y Credito Asociacion Británica de Ahorro y Crédito Ltda Federación Australiana de Ahorro y Credito Sociedad Canadiense de Cooperativas de Credito Confederación Caribeña de Ahorro y Crédito Asociación Nacional de Ahorro y Credito (USA) Liga de Ahorro y Crédito de Fiji Liga Irlandesa de Ahorro y Crédito Confederación Latinoamericana de Ahorro y Crédito Liga de Ahorro y Credito de Nueva Zelandia

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3) Discuss with key staff and executives at the Superintendency to find out what else they believe is necessary for the Superintendency to supervise the institutions named in the previous item

4) Give an opinion as the capacity of the Bolivian Superintendency of Banks and Financial Institutions to supervise non bank financial institutions such as NGO's that intermediate funds, including lending to microenterprise

Before giving the results of our analysis, it would be appropriate to provide a brief overview of how the Superintendency fits in the overall "scheme of things" and how it is organized

Bolivia is a democracy with 3 branches executive, legislative and judicial The Superintendency is part of the executive branch, the Superintendent is nominated by the president and his nomination is approved by the congress His term is longer than the president's

The Superintendency was created in the late 1980 s as a result of the hyperinflation and macro economic mismanagement that occurred in the early 1980's Bolivia follows the "Jeffrey Sachs/'Chicago Boys' " economic model at this time, meaning Government is being downsized tariffs have been lowered, and a free market economy encouraged Inflation for the last years has been brought under control, it is under 10% yearly The Superintendency and the Central Bank share many responsibilities, but there is a division of power as well (Before the creation of the Superintendency there was only the Central Bank, and was in part a source of problems for the Bolivian economy because of lack of internal control)

The organizational structure of the Superintendency consists of Mr Jacques Trigo Loubière as Superintendent (as mentioned, recently appointed), Dr Fernando Paz as deputy (Superintendent of Banks) Under these two are 3 Intendencies" There is the Inspection and Audit Intendency headed by Mr Javier Fernández, there is the Financial Analysis and Regulation Intendency headed by Efrain Camacho, and there is the Legal Intendency headed by Dr Ariel Carvajal, an attorney

For internal administration at the Superintendency there is the department of general administration (office manager) headed by Blanca de Kreidler There is also an electronic data processing department

The Inspection and Audit Intendency does both bank and non-bank financial institution examinations The exams are more US style rather than European, meaning that the inspectors go on site and do their own evaluation rather than relying on the evaluation of third parties, such as auditing firms

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The staff and funding requirements for the Superintendency, to be able to supervise and regulate NGO's that intermediate funds destined as loans for microenterprise were determined to be as follows

Salaries and fringe benefits for 3 inspector/analysts for 2 years assuming salary and fringes for each per year equal $18 000 = $18 000 x 3 x 2 =	$108 000
Travel for staff to NGO S for examination/review purposes for 2 years =	$30 000
Training for staff, including supervisors six weeks total including classroom and on site for 5 persons (all in Bolivia) =	$20 000
Outside consultants/instructors for two years =	$40 000
Orientation for supervisors/executives visit to successful countries/projects =	$30 000
Three laptops at $1 500 each plus applicable specific software $1,000 and one printer at $500 =	$6,000
Total	$234,000

The above budget/projection is made upon the following assumptions

1) A maximum of 10 NGO s will qualify in the next two years, having the minimum capital and management as required by the Superintendency

2) Extensive examiner travel will not be necessary as most will be based in La Paz, with branches elsewhere

3) The program will not be self sufficient for the first two years, in the third year it will be since the NGO s will be charged fees based on assets

4) The staff will be inspectors/analysts, meaning that they will perform both the role of on-site inspection and office based evaluation (it may turn out there will be one on site inspector and two office-based analysts or vice-versa) It is important to train supervisors in order to provide for continuity

5) The writer has had experience with the actual costs of personnel, travel, and training at the Superintendency, having worked with this organization for two years The above estimates are based upon my experience in these areas

It is important to mention that the Superintendency is planning to supervise certain non-governmental, non-bank financial institutions known as "FFP's", "Fondos Financieros Privados", Private Financial Funds These are the institutions referred to in the above budget

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We found that the Superintendency of Banks and Financial Institutions is an efficient, well-run regulatory agency It puts emphasis on institutional safety and soundness, which considering Bolivia's history, is much needed It has monitoring and inspection functions that work well There are both a cadre of on site inspectors and another cadre of office based analysts who are well trained in their fields

Staff pay at the Superintendency is excellent, which means that the institution is free of the corruption and inefficiency that is common in Latin American governmental agencies **The Superintendency, in our opinion, is capable of supervising and examining non-bank institutions such as the FFP s mentioned above** However, it is our opinion that the Superintendency will need outside assistance and training to implement its plans to supervise the FFP s

The Superintendency of Banks and Financial Institutions of Bolivia has sound management which, in our opinion, has the institutional flexibility to adapt to the changing economic needs of Bolivia, including supervising a growing, varied economic mix of financial institutions

Sincerely,

Brian Gately
Bolivian Project Director
WOCCU/Bolivia

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ECONOMIC ANALYSIS FOR A PROPOSED MICROFINANCE PROJECT

A BACKGROUND

Bolivia, with expected 1995 per capita GNP on the order of $900, is one of the poorest countries in the Western hemisphere World Bank calculations of purchasing power parity (PPP) incomes indicate that only Nicaragua, Honduras, Guyana and Haiti place lower in terms of the income and purchasing power of an average citizen consumer The average Bolivian commands purchasing power resources of less than 10% of those of his or her U S. counterpart About one third of total income and consumption in Bolivia accrues to the wealthiest 10% of the population The poorest 20% of the population receives perhaps 6% of total income Although income distribution in Bolivia is more skewed in favor of the rich than in typical developed countries, it is similar to the distribution of income in Latin America in general, and is probably less skewed than in neighboring Chile and Brazil

Although poverty is widespread in Bolivia, and urban areas have large numbers of the very poor and indigent, poverty is endemic and prevalent in the rural areas that make up 40% of the country's total population Less than two fifths of Bolivian households are connected to an electric power grid, and only about half have access to reasonably safe, potable water Life expectancy is a modest 60 years, compared to 77 years for advanced, developed countries Adult literacy is on the order of 77% (71% for women) Should poverty be defined strictly in terms of the amount of household income necessary to satisfy minimum nutrition standards, then close to 50% of Bolivian households would be classified below the poverty threshold, and over 20% of households would be characterized as living in extreme poverty (defined as having less income than required for securing a diet based on minimum nutrition standards, and zero income for any other expenditure) Should poverty be defined in terms of access to an adequate diet, and in addition access to basic housing, health, education and other essential services, then not less than 70% of the Bolivian population lives below the poverty threshold Use of this latter definition would place around 90% of the rural population below the poverty threshold

The financial collapse of the Bolivian economy in the mid-1980s was devastating The severity of the financial collapse impoverished many, and it was not easy to change expectations and initiate sustained recovery. The economy continued to shrink for more than a year after appropriate corrective actions were begun. By the end of 1986, per capita income had declined an estimated 17 percent, the brunt of which was experienced in the country's urban areas In the absence of the corrective actions begun in August, 1985, or had the ostensibly gentler heterodox approach then being pursued by some neighboring countries been taken, the devastation could have been much worse, and the country would likely be much, much poorer than it is today It is to the credit of the designers and implementers of the economic policies pursued since 1985 that mainly positive results have been evident, and, apart from temporary dislocations resulting from the necessary repression of organized labor and rationalization of fiscal budgets in 1985 and 1986, there have been few of the adverse consequences on the poor sometimes associated with programs designed to stabilize macroeconomic financial structures

Since 1986, Bolivia's steady adherence to coherent programs of liberal economic policies with progressive application of consistent, meaningful structural adjustment, has resulted in sustained, 'though not spectacular, GDP growth averaging more than 3% a year Per capita income growth has exceeded 1% a year Private, formal sector salaries in the country's principal urban areas have recovered nicely from the troughs to which they fell in 1985 and 1986 There has not been a significant recession in any of the country's principal urban areas since 1986

Unfortunately, due to massive declines in the price of Bolivia's mineral exports, mining areas have not shared in the economic recovery sustained over the past nine years in the country's principal urban areas In general, non-mining rural areas lost little during the financial collapse, mainly because they had little to lose Since rural areas, including mining areas, have not generally participated in the economic expansion of recent years, the condition of most of the rural population today is about that of the rural population 13 years ago In real per capita income terms, the country may be poorer in 1995 than 13 years ago This is because the resource losses during the financial collapse of the mid-1980s were massive, and private investors have been slow to recover the confidence to invest enough to place the country on a higher growth path than the modest but sustainable path the country has achieved This is the case despite perseverence of the authorities in implementation of exemplary macroeconomic and structural adjustment programs that have resulted in steady, significant progress on raising the level of the country's economic and social development compared to the sorry state of affairs in the early to mid-1980s

Official adherence to orthodox macroeconomic financial programing and broad-based structural adjustment objectives is now generally accepted as necessary and desirable by all major political parties This adherence is not a substantive political issue since nobody relishes even the possibility of a return to the political and economic barbarisms of 10-15 years ago that nearly destroyed the country Although there have been three changes in administration since the new economic policies went into effect in 1985, there has been appropriate dedication to efforts to build a sound, competitive economic system and obtain the concomitant improvements in social welfare inherent in the success of such dedication This framework has been validated by a willingness to implement the kinds of adjustment measures required for desired outcomes to come to fruition Flexible, fresh approaches to previously intractable problems are now proposed and embraced by prescient government authorities with levels of enthusiasm and commitment that could only be fleetingly imagined by the country's purported political radicals (right thinking, logical, neo-liberal, progressive) as recently as 15 years ago

There is general consensus that the reason for Bolivia's underdevelopment and the near collapse of the financial system in the early 1980s is pervasive institutional weakness across practically all areas that make up modern, progressive, developed societies Since 1985, Bolivia has been more successful than most developing countries in putting together and implementing the kinds of sustainable economic and financial sector reforms necessary to underpin sustainable, broad-based economic growth and social development Recognizing that appropriate macroeconomic adjustment is necessary, but not sufficient to sustain desired long term improvements in economic and social welfare, successive governments have become increasingly reform minded in recent years

"Modernization," "efficiency," "participation," "education" and related concepts are key components of the mantra of the nineties in Bolivia The new government that took office in August, 1993, campaigned on an eclectic, ambitious program of extensive, fundamental reforms christened by its creators as a "Plan for Everybody" (Plan de Todos) Although the reach and diversity of the components of this plan are unprecedented for Bolivia (and practically any other developing country), and many are now the object of refinement and improved definition, the government is convinced of the need for and complementarity of all of the plan's components, which are being aggressively promoted with the international donor community In addition to numerous institutional reforms that are uncontroversial and may not have high up-front costs such as reform of the Central Bank, operational improvement of the customs service, and the like, the GOB is now also simultaneously promoting civil service reform, an extensive popular participation initiative, comprehensive education reform, child development and health sector reform, pension reform and capitalization *cum* privatization that involves near term sacrifice of substantial amounts of business income and no divestiture revenues

The government's package of comprehensive reforms is designed to prepare Bolivia for the exigencies of the 21st century by the time it arrives The near term political costs and expected budget impacts, however, are large Labor unions don't much like capitalization and pension reform, even though workers will be big winners once these reforms are implemented Many school teachers don't want education reform (especially those who don't, won't or can't teach), and large numbers of public employees view civil service reform as threatening Many politicians oppose the empowerment of local interest groups and individuals expected to result from the government's popular participation initiative

On the political front, the government is listening, and then proceeding Doing otherwise would jeopardize the government's strategy to initiate and make these reforms irreversible by the time of the next national elections The expected budget impacts, however, are more daunting, and have the greatest potential for derailing, or diluting the content of, the reforms

The reform package now being promoted carries a price tag on the order of $1 5 billion The budget impact of these reforms, of course, depends on the time frame selected for carrying them out The time frame for effective, assured implementation of the total package may require that some two thirds of the activities and as much as three quarters of the budget impact occur over the next five years The nominal budgetary impact is expected to average 3%, or more, of GDP for the first five years, declining by the turn of the century to less than 1% of GDP

The international donor community appears to be enthusiastic about the range and breadth of the GOB's reform program, especially education reform and the new popular participation initiative, since these are the components with the greatest potential impact on the country's future economic and social development The GOB is relying on this perceived enthusiasm to secure donor financing of up to 80% of the costs of the total reform package, since without substantial donor assistance the GOB is unlikely to be able to carry out all of its plans in view of the certain unavailability of a public sector budget large enough to finance such an ambitious program and also continue to provide basic public services and afford minimum financing of essential public investment projects Additional revenues from needed tax increases will not substantially change this scenario

Donors have been heavily commited to Bolivia in recent years Net financial flows (after deducting scheduled amortization and accrued interest) from international donors during the 1991-1994 period averaged some 4 5 percent of GDP Total gross donor assistance, including debt restructuring and forgiveness, exceeded 10 percent of GDP during the period Bolivia has not encountered large difficulties in absorbing the relatively high levels of donor assistance provided in recent years Any increases over present levels, however, should be carefully evaluated in terms of expected social returns, cost effectiveness, and the country's continued ability to absorb and sustain them It is expected that donor priorities will include special consideration of appropriate interventions in support of all or most of the GOB's ambitious, necessary reform program

B RECENT ECONOMIC DEVELOPMENTS AND PROSPECTS

The Bolivian economy has been relatively robust in recent years, although the modest average 3 7% GDP growth expected over the five year period ending in 1995 is lower than could be expected given the consistently favorable policy framework promoted by successive governments Nevertheless, Bolivia's measured economy in 1995 is 20% larger than five years ago and per capita incomes are on the order of 6% higher Assuming continuation of current government policies and timely implementation of the bulk of planned reforms, the economy should grow by nearly two thirds over the next ten years Assuming average population growth of around 2 2% a year over the next decade, per capita income could rise by about one third An optimistic scenario, which would include consistently favorable international conditions, could result in an economy 75% larger and per capita income some 40% higher On the other hand, a low growth scenario is conceivable, although the results of a disaster scenario are very unlikely Our low growth scenario results in an economy about 50% larger in 2005 than in 1995, with corresponding per capita income some 20% higher

All of the above scenarios assume continued progress in mobilizing investment resources, continued expansion of the external sector and a dynamic microenterprise sector The realization of these requirements are interdependent and mutually reinforcing

In 1990, total investment in Bolivia amounted to a meager 13 1% of GDP, of which only 55% was new fixed private investment In 1990, nearly 50% of total investment, public and private, was externally financed, as indicated by a current account deficit equivalent to 6 3% of GDP During the three year period from 1990 to 1993, total investment rose in real terms at an annual average of 12 5% Fixed private investment increased a modest 9 1% a year, and public investment a respectable 15 7% In 1993, 65% of total fixed investment was financed with foreign savings, much of which was provided by donors

In 1994, the supply of foreign savings declined, in real terms, nearly 43%, as a surge in export proceeds substituted, to some extent, for increased debt financing of the balance of payments Despite a nominal 32% growth in exports of goods and non factor services in 1994 (over 1993), however, import growth was negligible (less than 1%) and total investment declined about 3% in real terms Fixed private investment declined an estimated 11% Total fixed investment in Bolivia in 1994 amounted to 15 6% of GDP, compared to 16 8% in 1993

Current indications are that fixed investment will increase by around 6% in 1995, to 16% of projected GDP Public and private shares of total fixed investment are expected to be roughly equal Foreign savings will finance less than 40 percent of projected 1995 fixed investment By 2005, fixed investment spending is expected to exceed 20% of GDP Less than 5% of this investment will require net external financing as the country's balance of trade in goods and non factor services is expected to be positive

Based on surveys and analyses of the microenterprise sector in recent years, the number of self employed and informal workers in Bolivia in mid-1995 is estimated at some 875,000, equivalent to 31 5% of the economically active population Sector employment is growing at around 2 9% a year and is expected to average growth on the order of 2 6% a year throughout the coming decade The sector is made up of 68,000 production enterprises employing 175,000 workers (including owners) and 394,000 commercial and services enterprises employing 700,000 workers (including owners) By 2005, we project no fewer than 85,000 production enterprises employing 275,000 workers and 490,000 commercial and services enterprises employing 835 000 workers

The sector at present contributes the equivalent of 28% of measured GDP, although substantial amounts of sector value added may not be captured by the estimation methodologies employed to measure formal GDP Appropriate inclusion of the value added of the informal sector in Bolivia could be expected to raise national income estimates very significantly Given timely and appropriate access to credit and savings facilities, sector value added can be expected to grow faster than the formal economy (7% vs 5%) and double in size by 2005

Average value added by informal sector workers in 1995 is estimated to be on the order of Bs 10,700 a year, some 88% of the average value added by the national labor force With appropriate access to credit facilities , it is estimated that informal sector value added per worker could increase over the next ten years at an annual average of around 5% a year, surpassing the average productivity of the national labor force by 2000

Tables 1 and 2 detail recent and expected economic developments in Bolivia that provide the context for microenterprise development and progress Table 1 provides values for selected indicators during the period 1990-1994 Table 2 details baseline projections for critical indicators for the period 1995-2004 Table 3 presents indicative extrapolations of the evolution of microenterprise in the bolivian economy, based on recent sector surveys and analyses of Prodem and Banco Sol client profiles and other sources The table presents historical estimates of selected indicators for the period 1990-1994, and projections of a likely scenario for sector employment and income growth over the period 1995-2004 The projections assume realization of the baseline scenario projected for the economy as a whole and a favorable environment for microenterprise that includes substantial access to formal and informal sources of financing Growth in sector incomes is expected to significantly exceed employment growth

C PROFORMA ILLUSTRATIVE ANALYSIS OF A PROPOSED MICROENTERPRISE PROJECT

USAID's proposed new microenterprise project is expected to provide a total of $10 million over the five year period 1996-2000 for sector technical assistance and equity investments in microenterprise lending institutions An additional $3 3 million in counterpart availabilities is expected Of the USAID budget, $6 million will be programmed for equity investments that in turn may generate on the order of $66 million in deposits and other liability financing for use in building sector lending portfolios

The objective of this analysis is not to calculate an IRR or demonstrate cost effectiveness by means of an exhaustive analysis and comparisons with alternatives Should the project perform as designed, any IRR calculation would be explosively positive, and no feasible alternative for the use of $13 3 million dollars in planned project financing approximates the income and employment benefits this project is expected to accomplish The objective of this analysis is to indicate what the expected impact of the project will be as the project's design imperatives are realized

Table 4 details proforma microenterprise operating parameters and aggregates that provide the basis for projecting project impacts These include estimates of sector sales, value added, employment, working capital requirements, investment in fixed assets and resulting proforma credit requirements

Credit demand estimates exclude all credit requirements, whether or not met, prior to 1996 Estimates of credit demand for 1996 through 2006 include only credit requirements needed to facilitate or sustain projected sector growth over the period, that is, financing required for new investments in fixed capital and increases in sector working capital as the sector grows It is implicit in the estimates of credit demand that interest rates and other financing terms are typical or more favorable than generally available to the sector, and that reliable and dependable access is a more sensitive determinate of sector credit use than interest rates

Total sector credit requirements in 1996 is estimated at Bs 291 million, rising rapidly over the period to Bs 2 5 billion in 2006 In 1996, some 44% of new credit demand will be for production enterprise needs for new investment in fixed capital and working capital Commerce and services enterprises are expected to require 56% of total credit By 2006, the relative needs of these two subsectors are expected to be roughly reversed

USAID equity investments are expected to be disbursed over the five year period 1996-2000 Each investment will leverage additional financing availabilities equivalent to 11 times any equity amount within five years of disbursement Over the period of disbursements, USAID's $6 million of equity investments amount to, in nominal terms, about Bs 30 5 million, which, by 2004, will have provided the basis for generating Bs 335 million in savings and other liability instruments for needed sector lending By 2006, cumulative sector lending facilitated by the project's modest $13 million program, including lending of all reflows, is projected to amount to nearly Bs 4 5 billion, equivalent to 650 million 1995 dollars

Value added resulting from the credits generated by the project is expected to grow rapidly and be very substantial by the end of the ten year period analyzed By 2006, annual value added generated or sustained by project leveraged financing is expected to exceed Bs 1 8 billion, equivalent to 40% of cumulative credit, and equivalent to 5% of total sector value added Project associated credit is expected to generate or sustain 29,000 jobs by 2006, equivalent to 4 4% of total sector employment

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Bolivia Recent Economi Developments Selected Indicators 1990-1994

Description	1990	1991	1992	1993	1994
nominal GDP (millions of Bs)	16920 2	20986 8	24136 8	27086 9	30020 4
nom GDP IMF ref (millions of Bs)	14235 0	17868 0	20488 0	22955 0	25441 0
per capita GDP (current Bs)	2574 3	3117 0	3499 6	3833 8	4147 9
exch rate annual ave official sales	3 17	3 58	3 91	4 27	4 63
exch rate annual ave mkt sales	3 19	3 60	3 92	4 28	4 64
exch rate end year off cial sales				4 48	4 70
exch rate end year mkt sales					
nominal GDP in U S Dollars (mns of $)	5304 1	5829 7	6157 3	6328 7	6469 9
per capita GDP (US$)	807	866	893	896	894
real GDP mkt prices mns of 1990 Bs	16920 2	17764 2	18075 0	18790 2	19586 8
indirect taxes mns of 1990 Bs	1279 0	1342 8	1375 8	1409 4	1492 1
real GDP producer pr mns of 1990 Bs	15641 2	16421 5	16699 2	17380 7	18094 7
agriculture cattle fishing	2804 9	3089 2	2957 5	3057 7	3205 5
of which coca (INE estimates)	195 0	178 0	170 0	162 0	156 0
mining oil and gas	1653 6	1684 0	1698 9	1813 7	1928 3
oil and gas	734 1	749 0	746 1	759 1	841 5
mining	919 5	935 0	952 1	1054 6	1086 8
manufacturing	2379 1	2472 6	2476 9	2585 9	2711 7
utilities electricity gas and water	249 2	273 1	290 4	314 1	354 2
construction and public works	619 6	637 0	719 0	747 7	760 6
commerce	1774 4	1900 5	1929 8	1996 1	2058 6
transport storage communications	1777 4	1874 8	1963 4	2077 7	2167 3
finance insurance real estate serv	1811 1	1848 5	1975 8	2067 9	2133 4
of which financial serv ces	429 8	426 6	506 5	566 8	606 9
services community personal	809 0	830 7	865 9	888 2	904 9
of which domestic	92 5	94 3	96 3	98 3	100 4
tourism hotels estaurants exl trans	469 3	476 8	513 5	532 0	554 1
services public administration	1546 7	1617 2	1660 3	1693 9	1738 0
adjustments double counting etc	253 0	283 0	352 2	394 1	422 0
growth real GDP 1990 mkt prices (%)		5 0	1 7	4 0	4 2
growth real GDP 1990 produc pr (%)		5 0	1 7	4 1	4 1
current account balance	336 5	386 1	633 1	688 1	387 0
balance of goods and nfs	114 1	197 4	462 8	504 9	224 2
trade balance (goods)	94 2	192 9	452 7	496 2	223 9
exports fob	830 8	776 6	637 6	709 7	985 1
imports cif	925 0	969 5	1090 3	1205 9	1209 0
non factor services balance	19 9	4 5	10 1	8 7	0 3
receipts	147 7	172 1	176 8	184 4	198 3
payments	167 6	176 6	186 9	193 1	198 6
factor services balance	222 4	188 7	170 3	183 2	162 8
investment income ne	244 0	211 2	193 0	204 6	187 8
of which interest liabilities	221 5	203 1	181 2	187 9	181 6
paid	127 9	113 0	119 3	135 2	153 1
not paid	93 6	90 1	-61 9	52 7	28 5
private transfers (remittances etc)	21 6	22 5	22 7	21 4	25 0
curr acct bal = foreign savings (% GDP)	6 3	-6 6	10 3	10 9	6 0
goods and nfs balance (% of GDP)	2 2	3 4	7 5	8 0	3 5
factor services balance (% of GDP)	4 2	3 2	2 8	2 9	2 5
gross national product mkt pr US$mns	5081 7	5641 0	5987 0	6145 5	6307 1
per capita GNP cur mkt prices US$	773	838	868	870	87
GDP deflator index 90 price structure	100 0	118 1	133 5	144 2	153 3
GDP deflator annual % change		18 1	13 0	8 0	6 3
resource balance BOP mns of Bs)	361 7	706 7	1809 5	2155 9	1038 0
aggregate expenditure mns c Bs	17529 9	22598 3	27132 1	29242 8	31058 4
consumption	15314 0	19150 5	22886 7	24699 2	26378 7
public	1828 4	2234 1	2830 8		
private	13484 6	16916 4	20055 9		
investment	2216 0	3447 8	4245 3	4543 6	4679 7
public	1006 1	1513 8	2083 8	2245 5	2508 7
private	1226 1	1287 3	1662 8	2298 1	2171 0
change in stocks	16 2	646 7	498 7		
investment					
public	315 4	420 5	531 6	525 9	541 8
private				538 2	468 9
aggregate expenditure % GDP	103 6	107 7	112 4	108 0	103 5
consumption	90 5	91 3	94 8	91 2	87 9
public	10 8	10 6	11 7		
private	79 7	80 6	83 1		
investment	13 1	16 4	17 6	16 8	15 6
public	5 9	7 2	8 6	8 3	8 4
private	7 2	6 1	6 9	8 5	7 2
change in stocks	-0 1	3 1	2 1		
fixed investment	13 2	13 3	15 5	16 8	15 6
aggregate expenditure 1990 prices	17529 9	19128 3	20318 1	20285 7	20264 1
consumption	15314 0	16209 9	17138 9	17133 8	17210 8
public	1829 4	1891 0	2118 9		
private	13484 6	14318 9	15019 0		
investment	2216 0	2918 4	3179 1	3151 9	3053 3
public	1006 1	1281 4	1580 5	1557 7	1636 8
private	1226 1	1089 6	1245 2	1594.2	1416 5
change in stocks	16 2	547 4	373 5		

Sources INE BCB and USAID/B/ECON estimates

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TABLE 2

Bolivia Expected Economic Developments Selected Indicators 1995 2004

Description	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
BASELINE GROWTH SCENARIO															
expected approximate growth path															
icor						4 20	4 10	4 00	3 90	3 80	3 70	3 60	3 50	3 40	3 30
real GDP growth (%)						3 7	3 9	4 2	4 5	4 8	5 0	5 2	5 5	5 7	6 0
real per capita GDP growth (%)						1 2	1 4	1 8	2 2	2 5	2 7	3 0	3 3	3 6	3 9
investment fixed capital (%GDP)						15 8	16 7	17 7	18 1	18 4	18 8	19 2	19 5	19 8	20 1
investment chg stocks (% GDP)						0 2	0 2	0 6	0 9	0 9	0 8	0 9	1 0	1 0	1 0
investment total gross (% GDP)						16 0	16 9	18 3	19 0	19 2	19 6	20 0	20 4	20 8	21 1
exports gnfs (%GDP)						18 4	19 0	19 6	20 1	20 6	21 0	21 3	21 7	22 0	22 3
imports gnfs (%GDP)						22 0	23 0	24 4	24 8	24 5	24 1	23 6	23 0	22 3	21 6
resource balance BOP % nom GDP						3 6	4 0	4 8	4 6	4 0	3 2	2 3	1 3	0 3	0 7
aggregate expenditure % GDP						103 7	104 0	104 8	104 7	104 0	103 2	102 3	101 3	100 3	99 3
GDP deflator index	100 0					166 2	178 7	190 2	200 7	210 2	219 4	228 4	237 6	247 1	256 9
GDP deflator (% annual change)						8 4	7 5	6 5	5 5	4 7	4 4	4 1	4 0	4 0	4 0
average inflation USA (%)						3 3	3 8	3 5	3 2	3 2	3 2	3 2	3 2	3 2	3 2
average exchange rate Bs /1 US$						4 74	4 91	5 05	5 16	5 24	5 30	5 35	5 39	5 43	5 47
nominal GDP mkt prices (mns of Bs)						33765	37690	41804	46092	50572	55401	60689	66570	73202	80698
nominal GDP mkt prices (mns of US$)						7123	7679	8279	8930	9654	10457	11353	12358	13484	14751
per capita GDP (US$)						961	1012	1066	1124	1188	1259	1339	1427	1526	1637
exports gnfs (mns of US$)						1307	1459	1623	1795	1984	2191	2418	2679	2970	3293
export growth gnfs (% annual chg)						10 5	11 6	11 2	10 6	10 5	10 4	10 4	10 8	10 9	10 9
imports gnfs (mns of US$)						1567	1766	2020	2210	2365	2520	2679	2842	3010	3186
import growth gnfs (% annual chg)						11 3	12 7	14 4	9 4	7 0	6 5	6 3	6 1	5 9	5 8
resource balance BOP (mns of US$)						260	307	397	415	381	329	261	164	40	107
resource balance consistency check						260	307	397	415	381	329	261	164	40	107
resource balance BOP (mns of Bs)						1232	1508	2007	2143	1998	1745	1396	882	220	585
aggreg nominal expend (mns of Bs)						34998	39197	43810	48236	52570	57146	62085	67453	73422	80113
consumption						29595	32847	36181	39501	42860	46315	49947	53846	58196	63086
public															
private															
investment						5402	6351	7629	8735	9710	10831	12138	13607	15226	17027
fixed investment						5335	6275	7378	8320	9280	10388	11622	12975	14494	16220
public															
private															
change in stocks						68	75	251	415	430	443	516	632	732	807
consumption (% of GDP)						87 7	87 2	86 6	85 7	84 7	83 6	82 3	80 9	79 5	78 2
consumption (mns of *90 Bs)*						17805	18386	19019	19685	20391	21112	21866	22666	23555	24552
consumption real growth (%)						3 5	3 3	3 4	3 5	3 6	3 5	3 6	3 7	3 9	4 2
per capita cons real growth (%)						1 0	0 9	1 1	1 2	1 3	1 3	1 4	1 5	1 8	2 2
factor services balance (mns of US$)						165	170	175	175	175	170	165	160	150	140
factor services balance (% of GDP)						2 3	2 2	2 1	2 0	1 8	1 6	1 5	1 3	1 1	0 9
goods and nfs balance (mns of US$)						260	307	397	415	381	329	261	164	40	107
goods and nfs balance (% of GDP)						3 6	4 0	4 8	4 6	3 9	3 2	2 3	1 3	0 3	0 7
curr acct bal = for savings (mns of US$)						425	477	572	590	556	499	426	324	190	33
curr acct bal = for savings (% of GDP)						6 0	6 2	6 9	6 6	5 8	4 8	3 8	2 6	1 4	0 2
GNP (mns of current US$)						6958	7509	8104	8755	9479	10287	11188	12198	13334	14611
per capita GNP (current US$)					871	939	989	1043	1102	1167	1239	1319	1409	1509	1621
per capita GNP (constant 1995 US$)					901	939	953	1008	1068	1131	1201	1278	1365	1462	1571
per capita const US$ GNP (% chg)						4 2	1 5	5 8	5 9	5 9	6 2	6 5	6 8	7 1	7 4

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TABLE 3

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Evolution of Microenterprise in the Bolivian Economy 1990 2004 USAID/B/ECON Projections

Description	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
population (thousands)	6572 8	6733 0	6897 1	7065 2	7237 4	7413 8	7590 8	7768 4	7946 3	8124 4	8302 4	8480 4	8657 9	8835 0	9011 4
population growth rate (%)	2 2	2 4	2 4	2 4	2 4	2 4	2 4	2 3	2 3	2 2	2 2	2 1	2 1	2 0	2 0
urban population (thousands)	3698 1	3855 7	4017 2	4182 7	4352 3	4531 7	4717 71	4909 62	5106 28	5310 49	5523 12	5744 18	5974 16	6213 22	6462 04
urban pop growth (%)	3 9	4 3	4 2	4 1	4 1	4 1	4 1	4 1	4 0	4 0	4 0	4 0	4 0	4 0	4 0
urban population (% total population)	56 3	57 3	58 2	59 2	60 1	61 1	62 2	63 2	64 3	65 4	66 5	67 7	69 0	70 3	71 7
rural population (thousands)	2874 7	2877 3	2879 9	2882 5	2885 1	2882 1	2873 1	2858 8	2840 0	2813 9	2779 3	2736 2	2683 8	2621 8	2549 3
rural pop growth (%)	0 1	0 1	0 1	0 1	0 1	0 1	0 3	0 5	0 7	0 9	1 2	1 6	1 9	2 3	2 8
econ active population (thousands)	2400 9	2474 1	2547 0	2622 5	2700 9	2781 9	2865 2	2951 3	3040 8	3132 1	3225 0	3319 8	3416 3	3514 7	3613 2
econ active population growth (%)		3 0	2 9	3 0	3 0	3 0	3 0	3 0	3 0	3 0	3 0	2 9	2 9	2 9	2 8
econ active population (% tot pop)	36 5	36 7	36 9	37 1	37 3	37 5	37 7	38 0	38 3	38 6	38 8	39 1	39 5	39 8	40 1
urban econ active pop (thousands)	1398 2	1461 3	1527 5	1597 8	1672 4	1751 5	1835 2	1923 6	2017 0	2114 9	2217 5	2325 2	2438 1	2556 4	2680 1
urban econ active growth (%)	4 5	4 5	4 5	4 6	4 7	4 7	4 8	4 8	4 9	4 9	4 9	4 9	4 9	4 9	4 8
urban econ active (% urban pop)	37 8	37 9	38 0	38 2	38 4	38 7	38 9	39 2	39 5	39 8	40 2	40 5	40 8	41 1	41 5
rural econ active pop (thousands)	1002 7	1012 8	1019 5	1024 7	1028 5	1030 4	1030 0	1027 7	1023 8	1017 2	1007 5	994 6	978 2	958 3	933 0
rural econ active growth (%)	1 1	1 0	0 7	0 5	0 4	0 2	0 0	0 2	0 4	0 6	1 0	1 3	1 6	2 0	2 6
rural econ active (% rural pop)	34 9	35 2	35 4	35 6	35 7	35 8	35 9	36 0	36 1	36 2	36 3	36 4	36 5	36 6	36 6
self empl/informal urban (thousands)	631 8	653 0	674 6	696 8	719 4	743 0	767 1	791 7	816 6	842 1	868 1	894 8	922 1	950 0	978 5
self empl/informal growth (%)	2 1	3 3	3 3	3 3	3 2	3 3	3 2	3 2	3 1	3 1	3 1	3 1	3 0	3 0	3 0
self empl/informal urban (% urb act)	45 2	44 7	44 2	43 6	43 0	42 4	41 8	41 2	40 5	39 8	39 1	38 5	37 8	37 2	36 5
self empl/inf/nontrad rural (thousands)	127 9	129 3	130 6	131 7	132 6	133 3	133 6	134 0	134 0	133 7	133 1	132 2	130 9	129 2	127 0
self empl/inf/nontrad growth (%)	1 0	1 1	1 0	0 8	0 7	0 5	0 4	0 2	0 0	0 2	0 4	0 7	1 0	1 3	1 7
self empl/inf/nontrad rural (% rur act)	12 8	12 8	12 8	12 9	12 9	12 9	13 0	13 0	13 1	13 1	13 2	13 3	13 4	13 5	13 6
self empl/informal total (thousands)	759 8	782 3	805 3	828 5	852 0	876 3	900 9	925 7	950 5	975 7	1001 3	1027 0	1053 0	1079 2	1105 5
production	137 5	144 4	151 6	159 2	167 2	175 5	184 3	193 5	203 2	213 3	224 0	235 2	247 0	259 3	272 3
commerce and services	622 2	637 9	653 6	669 3	684 9	700 8	716 6	732 2	747 4	762 4	777 3	791 8	806 0	819 8	833 2
self empl/informal total growth (%)	1 9	3 0	2 9	2 9	2 8	2 9	2 8	2 8	2 7	2 7	2 6	2 6	2 5	2 5	2 4
self empl/informal total (% tot econ act)	31 6	31 6	31 6	31 6	31 5	31 5	31 4	31 4	31 3	31 2	31 0	30 9	30 8	30 7	30 6
informal enterprises ave number empl	1 7		1 8	1 9	1 9	1 9	1 9	2 0	2 0	2 0	2 0	1 9	1 9	1 9	1 9
production	2 2		2 5	2 5	2 6	2 6	2 7	2 7	2 8	2 9	2 9	3 0	3 1	3 1	3 2
commerce and services	1 6		1 7	1 8	1 8	1 8	1 8	1 8	1 8	1 8	1 8	1 8	1 7	1 7	1 7
number of informal enterprises	440032		438477	445627	450298	457087	463275	469056	483991	498416	513377	528298	543684	559502	575213
production	62508		60645	63172	65551	67765	69542	71140	73349	74854	76713	78401	80444	82847	85086
commerce and services	377524		377832	382454	384747	389322	393732	397916	410642	423562	436664	449898	463241	476655	490127
ave value added inf enterp/yr (Bs)	9613		14062	15989	18051	20590	23335	26293	28882	31622	34551	37770	41327	45314	49842
production	13968		22643	25613	28725	32815	37476	42667	47909	54083	60703	68319	76688	85975	96899
commerce and services	8892		12684	14399	16232	18462	20837	23366	25483	27652	29956	32447	35187	38247	41673
tot value added inf enterp (mns of Bs)	4230 1		6165 8	7125 2	8128 3	9411 6	10810 6	12332 9	13978 4	15760 9	17737 5	19954 0	22468 9	25353 4	28670 0
production	873 1		1373 2	1618 0	1882 9	2223 7	2606 3	3035 3	3514 1	4048 4	4656 7	5356 2	6169 0	7122 8	8244 7
commerce and services	3356 9		4792 6	5507 1	6245 4	7187 8	8204 3	9297 6	10464 3	11712 5	13080 8	14597 8	16299 9	18230 7	20425 2
tot value added inf enterp (% GDP)	25 0		25 5	26 3	27 1	27 9	28 7	29 5	30 3	31 2	32 0	32 9	33 8	34 6	35 5
production	5 2		5 7	6 0	6 3	6 6	6 9	7 3	7 6	8 0	8 4	8 8	9 3	9 7	10 2
commerce and services	19 8		19 9	20 3	20 8	21 3	21 8	22 2	22 7	23 2	23 6	24 1	24 5	24 9	25 3
ave value added/informal worker (Bs)	5569		7657	8600	9540	10740	12000	13323	14706	16153	17715	19429	21338	23494	25934
ave value added/Bol labor force (Bs)	7047	8483	9476	10329	11115	12138	13154	14164	15158	16146	17178	18281	19486	20827	22334
ave value added inform wkr (% natl)	79 0		80 8	83 3	85 8	88 5	91 2	94 1	97 0	100 0	103 1	106 3	109 5	112 8	116 1
ave value added inf worker (90 base)	5568		5734	5966	6225	6462	6717	7004	7328	7685	8075	8506	8982	9509	10093
ave value added growth/inf wkr (%)				4 0	4 3	3 8	4 0	4 3	4 6	4 9	5 1	5 3	5 6	5 9	6 1
ave value added growth ntl econ (%)		5 0	1 7	4 0	4 2	3 7	3 9	4 2	4 5	4 8	5 0	5 2	5 5	5 7	6 0
nominal GDP (millions of Bs)	16920 2	20986 8	24136 8	27086 9	30020 4	33765 2	37689 7	41803 7	46092 4	50572 3	55401 2	60689 5	66570 5	73202 0	80697 9

Based on R Morales Analyses 5/92 A Beasley and F Mollinedo Surveys /93 and INE Data Series

TABLE 4

Bolivia Proforma Microenterprise Operating Parameters and Aggregates 1990 2004

Description	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
microenterprise sales (mns of Bs)	20411 4					44822 2	49090 1	53394 1	57694 6	62012 7	66525 3	71332 6	76554 2	82322 2	88708 2		
production	3371 1					8520 0	9523 7	10576 3	11660 1	12633 4	14076 7	15444 5	16965 1	18661 5	20623 7		
commerce and services	17040 3					36302 2	39566 4	42815 9	46014 5	49179 3	52446 6	55888 1	59589 1	63640 7	68084 5		
microenterprise sales (mns of 90 Bs)	20411 42					26965 93	27476 01	28087 52	28751 00	29503 25	30324 32	31228 27	32225 21	33320 39	34524 20		
microenterprise real sales growth (%)							1 9	2 1	2 4	2 6	2 8	3 0	3 2	3 4	3 6		
microent intermed inputs (mns of Bs)	18181 4					35410 7	38279 5	41061 2	43716 2	46251 9	48787 6	51378 6	54085 3	56968 6	60038 2		
production	2498 0					6296 3	6917 5	7543 0	8166 0	8785 1	9422 1	10088 2	10796 1	11558 8	12379 0		
commerce and services	13683 4					29114 4	31362 1	33518 3	35550 2	37466 8	39365 8	41290 3	43289 2	45410 0	47659 3		
micro labor costs incl owners (mns Bs	3607 6					8032 8	9223 8	10518 8	11917 7	13431 9	15109 9	16990 3	19122 3	21566 0	24373 8		
production	761 9					1934 0	2261 1	2626 8	3033 6	3466 2	4000 0	4589 5	5272 9	6072 9	7012 1		
commerce and services	2845 7					6098 8	6962 8	7892 0	8884 1	9945 8	11109 9	12400 8	13849 5	15493 1	17361 5		
micro annual labor costs/wkr (Bs)	4746 3					9166 8	10236 6	11363 5	12537 8	13765 8	15090 9	16543 3	18159 6	19984 1	22047 6		
production	5540 1					11019 5	12269 7	13575 2	14930 8	16341 2	17857 1	19513 1	21350 8	23419 5	25753 5		
commerce and services	4573 3					8702 8	9716 3	10779 0	11887 2	13045 2	14293 6	15661 1	17162 2	18897 5	20836 8		
micro w/c requirements (mns of Bs)	1115 85					2564 90	2815 36	3088 76	3322 81	3578 25	3845 05	4128 88	4436 39	4774 96	5146 30		
production	479 82					1210 55	1341 34	1476 06	1613 60	1754 69	1903 68	2063 83	2236 75	2432 54	2647 50		
inputs	416 33					1049 38	1152 91	1257 16	1361 00	1464 18	1570 34	1681 37	1799 34	1926 46	2063 16		
wages and salaries	63 49					161 17	188 43	218 90	252 60	290 51	333 34	382 46	439 40	506 08	584 34	675 00	750 00
commerce and services	635 74					1354 35	1474 03	1592 70	1709 01	1823 56	1941 37	2065 04	2197 64	2342 43	2500 80		
merchandise and other inputs	526 28					1119 78	1206 23	1289 16	1367 32	1441 03	1514 07	1588 09	1664 97	1746 54	1833 05		
wages and salaries	109 45					234 57	267 79	303 54	341 70	382 53	427 30	476 95	532 67	595 89	667 75		
micro fxd capital require (mns of Bs)	887 80					1696 56	1933 87	2191 66	2470 54	2773 72	3112 21	3495 26	3934 66	4445 01	5040 04		
production	155 07					426 00	514 28	616 92	735 68	872 99	1034 32	1225 42	1453 76	1728 91	2061 34		
commerce and services	732 73					1270 58	1419 59	1574 74	1734 87	1900 74	2077 90	2269 84	2480 90	2716 10	2978 70		
chg in micro fxd capital (mns of Bs)							237 29	257 79	278 88	303 18	338 49	383 05	439 40	510 34	595 04		
production							88 28	102 64	118 75	137 31	161 33	191 11	228 34	275 15	332 43		
commerce and services							149 01	155 15	160 13	165 87	177 16	191 94	211 07	235 19	262 60		
change in micro w/c (mns of Bs)							250 46	253 40	254 05	255 44	266 80	283 82	307 51	338 57	373 34		
production							130 79	134 72	137 74	140 89	148 99	160 15	174 91	193 79	214 96		
commerce and services							119 67	118 68	116 31	114 55	117 81	123 67	132 60	144 78	158 38		
cum new w/c require (mns of bs)							250 46	503 86	757 91	1013 35	1280 15	1563 97	1871 49	2210 06	2583 40		
production							130 79	265 51	403 25	544 14	693 13	853 28	1028 20	1221 99	1436 95		
commerce and services							119 67	238 35	354 66	469 21	587 02	710 69	843 29	988 07	1146 45		
micro credit req balance (mns of Bs)							291 33	463 28	662 25	814 76	981 12	1164 64	1372 22	1609 37	1676 40	2200 00	2500 00
production							127 19	235 50	320 67	409 75	507 55	616 88	740 82	883 52	1047 48	1200 00	1400 00
new capital investment							61 80	102 75	119 05	137 68	160 99	190 24	226 72	272 52	329 01		
working capital							65 39	1 275	01 62	272 07	346 56	426 64	514 10	610 99	718 47		
commerce and services							164 14	227 78	341 57	405 01	473 57	547 76	631 40	725 85	830 92	1000 00	1100 00
new capital investment							104 31	108 61	164 24	170 41	180 06	192 41	209 75	231 81	257 69		
working capital							59 84	119 16	177 33	234 60	293 51	355 35	421 65	494 04	573 22		
USAID equity invest (mns of US$)							1 02	1 65	2 03	1 02	0 08						
USAID equity invest (mns of Bs)							5 01	9 32	10 47	5 32	0 40	0 00	0 00	0 00	0 00		
leverage from new equity (mns of Bs)							8 01	27 73	61 13	106 32	170 11	244 28	303 98	331 28	335 59	335 80	335 80
1996							8 01	12 82	20 51	32 81	52 50	55 08	55 08	55 08	55 08	55 08	55 08
1997								14 91	23 88	36 18	61 08	97 73	10 52	10 52	10 52	102 52	10 52
1998									16 78	26 61	42 90	66 64	109 83	115 22	115 22	115 22	115 22
1999										6 51	13 62	21 80	34 88	55 80	58 54	58 54	58 54
2000											0 65	1 03	1 66	2 65	4 24	4 45	4 45
ave micro cr port/lev (mns of Bs)							4 01	17 67	44 43	83 72	136 21	207 19	274 12	317 61	333 43	335 69	335 80
chg ave micro cr port/lev (mns of Bs)							4 01	13 66	26 56	39 29	54 49	68 98	66 93	43 49	15 82	2 7	0 10
micro lending w/lev (mns of Bs)							10 01	43 78	106 67	196 99	318 71	468 22	607 07	669 32	709 17	699 71	685 93
micro lending w/lev (mns of 95 Bs)							9 32	38 25	88 35	155 77	241 45	340 67	424 71	463 71	458 71	440 07	418 25
ave turnover of av portfolio							2 50	2 45	2 40	2 35	2 31	2 26	2 21	2 17	2 13	2 08	2 04
cum micro loans w/lev (mns of Bs)							10 01	53 80	160 47	357 46	676 17	1144 38	1751 45	2440 77	3149 94	3849 65	4535 58
1995 deflator index						100 00	107 49	114 46	120 74	126 47	132 00	137 44	142 94	148 65	154 60	159 00	164 00
cum micro lns w/lev (mns of 95 BS)							9 32	47 57	135 91	291 68	533 13	873 80	1298 51	1762 22	2220 93	2661 00	3079 25
cum nicro lns w/lev (mns of 95 US$)							1 97	10 04	28 67	61 54	112 47	184 35	273 95	371 78	468 55	561 39	649 63
value added ass w/micro cr (mns of Bs)							4 51	2 71	69 52	152 83	286 40	481 16	730 93	1010 77	1295 43	1574 65	1846 53
first year							4 51	19 70	48 00	88 65	143 42	210 70	273 18	310 19	319 13	314 67	308 67
succeeding years								3 00	21 52	64 19	142 98	270 47	457 75	700 58	976 31	1259 97	1539 86
credit assist val add (% of sector)							0 04	0 18	0 50	0 97	1 61	2 41	3 25	3 99	4 52	4 90	5 23
credit assist empl generation annual							338	1196	2721	4261	6035	7738	8541	7691	6235	0	0
credit assist empl generation cum							338	1534	4255	8516	14550	22289	30830	38721	44956	29070	29070
cum cr assist empl (% sector empl)							0 04	0 17	0 45	0 87	1 45	2 17	2 93	3 59	4 07	2 57	2 53
mean w/c requirements to sales ratio	0 055					0 057	0 057	0 057	0 058	0 058	0 058	0 058	0 058	0 058	0 058		
production	0 142					0 142	0 141	0 140	0 138	0 137	0 135	0 134	0 132	0 130	0 128		
commerce and services	0 037					0 037	0 037	0 037	0 037	0 037	0 037	0 037	0 037	0 037	0 037		
mean value added to sales ratio	0 207					0 210	0 220	0 31	0 242	0 254	0 267	0 280	0 294	0 308	0 323		
production	0 259					0 61	0 274	0 287	0 301	0 315	0 331	0 347	0 364	0 381	0 400		
commerce and services	0 197					0 198	0 207	0 217	0 227	0 238	0 249	0 261	0 274	0 288	0 300		
mean lal or remun to sales ratio	0 177					0 179	0 188	0 197	0 207	0 217	0 227	0 238	0 250	0 262	0 275		
production	0 231					0 227	0 37	0 248	0 60	0 272	0 284	0 297	0 311	0 325	0 340		
commerce and services	0 167					0 168	0 176	0 184	0 193	0 202	0 212	0 222	0 232	0 243	0 255		
mean input cost to sales ratio	0 793					0 790	0 780	0 769	0 758	0 746	0 733	0 720	0 706	0 692	0 677		
production	0 741					0 739	0 726	0 713	0 699	0 685	0 669	0 653	0 636	0 619	0 600		
commerce and services	0 803					0 802	0 793	0 783	0 773	0 762	0 751	0 739	0 726				
mean capital /etc remun to sales ratio																	
production	0 033					0 034	0 036	0 039	0 041	0 044	0 047	0 050	0 053	0 056	0 060		
commerce and services	0 030					0 030	0 031	0 033	0 034	0 036	0 038	0 039	0 041	0 043	0 045		
mean fixed assets to yr sales ratio																	
production (illustrative)	0 046					0 050	0 054	0 058	0 063	0 068	0 073	0 079	0 086	0 093	0 100		
commerce and services (illustrative)	0 043					0 035	0 036	0 037	0 038	0 039	0 040	0 041	0 042	0 043	0 044		

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Caution Based on small samples Inferences indicative projections illustrative of potential only

MEMORANDUM

TO: Elizabeth Rhyne, Microenterprise Office, USAID/W

FROM: Steve Smith, Economic Opportunity Office, USAID/Bolivia

SUBJECT: A Justification and Request for a GC Ruling on Equity Donations as an Allowable Use of USAID Funds

THROUGH: Carl Leonard, Director, USAID/Bolivia

DATE: June 8, 1994

As you probably know, we in USAID/Bolivia are developing a new microfinance project The New Activity Description (NAD) for $10 million, which I have attached, has been approved by the Mission Unfortunately, due to budget cuts and the many "directives" applicable to USAID appropriated funds, funding for the project may not be available until FY 1996 Therefore, we have decided to amend our current Microenterprise Development project in order to begin implementation of the new activity as soon as possible We think we can pull together between $2 to $3 million of existing project funds for this activity

The principal component of this new activity would involve equity investments in solid micro finance institutions In discussions with the Mission RLA and Controller the question arose as to whether or not equity investments are an allowable use of USAID funds The purpose of this memo is to ask that your Office request a ruling from GC on the allowability of AID donations for equity We provide below a programmatic justification (*) for doing this, using Bolivia as the prototypical case The preliminary view of RLA/Bolivia as to the legality of such equity investments is provided as an attachment

I. The Predicament

Microfinance today faces a predicament which can be characterized simply and with little risk of controversy

> (1) Successful programs in widely scattered countries have shown that we now have at our disposal new financial technologies which are capable of bringing efficient formal financial intermediation within the reach of very large numbers of poor households

* Much of the programmatic justification described herein has been extracted from Richard Rosenberg's "Beyond Self-sufficiency Licensed Leverage and Microfinance Strategy "

(2) In no country have we yet succeeded in reaching anything like the majority of those poor households, market penetration by microfinance seldom exceeds five percent, indeed, few countries have achieved as much as one percent

(3) Even the roughest calculations of potential market size reveal a need for microfinance assets far in excess of donor funding available for the purpose

II. A Typology of Microfinance Programs

The issue of financial self-sufficiency has obvious relevance for the predicament described above But the predicament calls for an analysis of microfinance that goes beyond self-sufficiency If we have the technical tools to bring efficient finance to massive numbers of the poor, and we don't have the funds to saturate that market, then leverage has to be the linchpin of our strategy Thus, the following typology of microfinance programs is based on a simple "bottom line" question

> **If donors put one dollar into a program today, how much in microfinance assets will that dollar have generated after, say, five years?**

The five levels of leverage laid out below are not airtight compartments They don't form an exhaustive taxonomy some programs fall between the cracks But these levels do clarify the dynamics of financial leverage, and thus speak directly to a program's ability to respond to our real life predicament

Level One. At this level, a microfinance program does not break even on a cash flow basis i e more cash drains out as expenditure than flows in as revenue (even without including any imputed cost for the program's soft funding) The vast majority of microfinance programs fall into this category The bottom line at this level is that if a donor puts one dollar in today, by Year Five there will be less than a dollar still available to provide ongoing finance for poor people

Level Two. A program at this second level has achieved a breakeven in cash flow revenues are at least equal to expenditures The program may even have gone on to a fuller self-sufficiency, a state in which income covers all expenses, including non-cash expenses like depreciation, inflation, and the opportunity cost of its funds But for a program at this second level, most of its microloan portfolio is financed by money the program has borrowed from donors Thus it has little or no equity (equity = net worth = assets minus liabilities = the difference between what a program owns and what it owes) Such a program cannot leverage its donor funds by further borrowing from commercial sources Because of the absence of an "equity cushion", even a modest loss in the institution's microloan portfolio assets would imperil its ability to honor its debts

Thus, the bottom line for a Level Two program is that for each dollar donors put in today, the program will continue to have about one dollar available in later years for microfinance

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Level Three. Like a Level Two program, a program at this third level has reached breakeven or better But in contrast to the previous level, the program has substantial equity funding, which some development agency has granted, rather than lent, to the program On the basis of this positive net worth, the program can then finance expansion of its portfolio by borrowing from commercial sources, such as banks Experience around the world suggests that commercial lenders will not lend much more than $1 00 or at most $1 50 for each dollar of equity which this kind of program has available to back up the loan Therefore, at Level Three a dollar of donor's grant money leads to about two dollars of total microfinance resources available for poor clients (The assumption here is that the program's profits are not high enough to produce a rapid multiplication of its equity capital)

Level Four. A program reaches this fourth level when it has, not only a self-sufficient cash flow and a significant equity base, but also a license as a bank or other formal financial institution Because the program is certified as meeting the requirements of a credible regulatory authority which maintains ongoing supervision, outside parties are willing to loan or deposit money into the institution in amounts up to eleven times the institution's equity base Why eleven? Because this limit is the international standard which more and more countries are adopting More precisely, the ratio comes from the "Basel Convention" rule that an institution's equity must be no less than eight percent of its risk-weighted assets The outside sources of funds for a Level Four intermediary can be diverse e g deposits from microclients, deposits from larger commercial investors, interbank loans, or Central Bank credit facilities

The bottom line for donors after five years, a Level Four program will have leveraged each dollar of equity they have donated into as much as twelve dollars of assets available for continued microfinance

[Level Five This level is in brackets because no one has reached it yet, anywhere in the world A program would arrive at this level when, in addition to meeting all the requirements of the previous levels, it is making profits that are so high that other investors begin to start their own microfinance institutions, for motives which are not social but purely financial We already know that it is possible to operate a microfinance bank profitably But we do not yet know whether it is possible to generate profits that are rich enough to attract a lot of purely commercial competition If this level can be achieved, the donor's original dollar would catalyze an indefinitely large amount of resources going to serve the microfinance clientele A review of the present state of the art suggests that microfinance is unlikely to reach this level in most countries, over the medium term at least]

III. Core Strategic Considerations, with Illustrations from the Bolivian Case

Level Four is Real The prospect of massive leveraging of donor microfinance resources, up to eleven to one, is not a pipe dream Nearly all of Bolivia's commercial banks leverage their equity at a ratio of close to eleven to one, as do banks in most countries around the world Regarding microfinance, Banco Solidario in Bolivia obtained its banking license in 1991 with about $5 million in equity, provided by USAID, other donor groups and socially motivated investors Drawing deposits from a wide variety of sources, by mid 1994 it had parlayed that equity into a microloan portfolio of about $30 million In another year or so, its portfolio will have grown to about $60 million, representing the maximum legal leverage of its original $5 million equity capital Bank Rakyat Indonesia's Unit Desa program provides another demonstration of the practicality of this kind of leverage (although the Unit Desa system's status as a department of a state bank complicates the accounting presentation)

While real, Level Four is not easy Institutions of this sophistication do not develop spontaneously Some conditions for building programs at this level are discussed below.

If Donors Rely on Programs Below Level Four, They Have Little Chance to Satisfy the Demand for Poor Peoples' Finance Taking the Bolivian example, something like $300 million in assets are estimated to be necessary to saturate the market for microfinance Assuming that donors in Bolivia rely on superb Level Three programs, and further assuming that donors provide all their funds to these programs as equity (donations) rather than loans, the market can be saturated only if the supply of donor funds is about $150 million This would be impossible to attain given budget levels for Bolivia and other demands on donor funds The results of similar calculations for other countries are unlikely to be broadly different

If Donors can Structure Level Four Programs, Saturating the Market is Well Within Reach A Level Four Program, because it enjoys the credibility stemming from certification and supervision by a capable financial regulatory authority, can borrow up to $11 of commercially sourced (and priced) funds for every $1 of equity it starts out with In the Bolivian case, the $300 million in assets needed to respond to the demand for poor people's finance can be raised on an equity base of as little as $25 million This figure is within easy reach for Bolivia's donors Almost half this amount is already lodged in the equity capital of BancoSol and four other sound Bolivian microfinance programs, and the remainder is unlikely to strain the budgets of USAID and the InterAmerican Development Bank Group over the next three or four years

Another important difference between a Level Three and a Level Four institution is the ability to provide savings services Although savings services are not central to the subject here, it is worth mentioning their inseparable role in microfinance Aside from being a major source of portfolio financing for the institution, savings are critical to liquidity management for the microenterprise or poor household Savings increase equity by providing increased security and returns for the saver, and encourage client self-financing for investments They benefit the economy as a whole by increasing funds available for productive investment Contrary to popular belief, poor people will save if good saving services are available In Bank Rakyat Indonesia (BRI), for example, where savings services were introduced years after the credit program, total customer deposits are now more than double the value of the loan portfolio For every outstanding loan, BRI has approximately four savings accounts BancoSol's pilot savings program has demonstrated that the demand for micro savings in Bolivia is also significant

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Therefore, another important difference between a Level Three and a Level Four institution is the ability to provide savings services

IV. Three Conditions for Market Saturation

If we accept the proposition that market saturation requires institutions whose ability to leverage commercial funds is at Level Four, then three requirements emerge as conditions for the development of such institutions These institutions must have a substantial equity base They must have access to licensing by a credible and competent financial regulatory agency And, since many if not most of these institutions will have begun life looking more like a socially oriented NGO than a bank, they will usually require heavy **technical input** to support their transformation into a professional and efficient financial intermediary

V. What Bolivia Needs to Satisfy the Conditions for Market Saturation

Equity: We estimate that, among Bolivia's microfinance intermediaries that have reached Level Three, there is about $12 million in equity capital Assuming an eventual leverage ratio of 11 1, the system would require another $13 to $15 million to achieve market saturation As a side point, only about $5 million of the equity currently in the system is being leveraged at a ratio greater than 1 1 (by Banco Solidario, which is at almost 6 1)

USAID's new Microfinance project (511-0637) proposes to infuse another $8 to $10 million into the system The InterAmerican Development Bank Group also has expressed considerable interest in contributing equity capital to Bolivian microfinance intermediaries

Independent Licensing and Supervision: Banco Solidario has already proved that microfinance can be done with a regular commercial bank license But the minimum equity requirement for such a license (about $5 million) is much too steep for the other sound programs USAID, with support from the IDB and the World Bank, has convinced the Superintendent of Banks to open up a separate licensing window for non-bank microintermediaries For a number of reasons, which we will not enter into here, the requirements that need to be met in order to acquire a license must be very stringent Here are a few of the key elements proposed for Bolivia

- a minimum equity requirement of about $2 million
- a track record of three years of successful operations and a concrete, detailed business plan
- under the new window, a microfinance intermediary will not be allowed to leverage at a ratio of 11 1 at the outset They will be restricted to perhaps five-to-one for the first two or three years, with later gradual increases toward 11 1

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- ownership of the microfinance institutions will be limited to non-profit entities Any of these institutions could convert at a later point in time to for-profit ownership by qualifying for a regular bank license

- with the exception of the equity requirement, licensed microintermediaries will be governed by most of the same reporting and prudential requirements that are imposed on commercial banks

Technical Support· All of Bolivia's microintermediaries began life as socially oriented NGOs The transition to an efficient financial intermediary is difficult, psychologically no less than technically

Banco Solidario already receives considerable outside technical support, mainly from Acción International All the other institutions will require significant technical support, not as a one-shot affair, but as an ongoing process for the first five years or so The kind of technicians who are needed are people who not only have extensive nuts-and-bolts experience with real microfinance programs, but also have the financial and systems expertise to translate their experience into the requirements of a successful micro-banking operation

USAID/Bolivia has begun a program of seminars and technical assistance to assist the microintermediaries The new Microfinance project will expand this program, including more intensive assistance for the institutions receiving equity contributions

VI. <u>How the Equity Contribution Would Work</u>

USAID is generally prohibited from holding equity shares in any institution by Section 635(g)(3) of the Foreign Assistance Act (The restriction refers only to "loans" made under the FAA, and not to "grants ") Under the new project, we plan to grant funds to a third party which, in turn, would buy equity shares in one or more microintermediaries USAID's grant to the third party would be made under a cooperative agreement The third party would be a development agency or NGO with considerable interest and experience in microfinance development Its role would be to purchase shares, and then actively provide strategic and operational guidance to the microintermediary It would have access to the technical assistance necessary to achieve this, whether provided with USAID's or its own funding

We know of several institutions capable of carrying out this third party role effectively This model has already been successfully tested Acción International, for example, owns equity in BancoSol Over the past year Acción has effectively assisted in steering BancoSol in the right direction Acción has even provided critical technical assistance where it was needed
Other NGOs and donors have similar relationships with other microfinance institutions in Bolivia and in other countries

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Before any grant is made to the third party, USAID and the third party would have agreed upon the final institutional destination of the equity funds Obviously, an intensive institutional analysis would be performed on the microintermediary which would, at a minimum, evaluate the following

- Management and Institutional Structure
- Institutional Strategy and Goals
- Financial Policies
- Delivery Mechanisms
- Financial Performance
- Potential to Expand Outreach

The purchase of equity shares would be negotiated and executed between the third party and the microintermediaries It would be subject to USAID approval USAID's monitoring responsibilities would not end once the purchase is executed Through the Cooperative Agreement with the third party, USAID would regularly monitor the microfinance institution's progress in expanding services to a greater number of poor households USAID would also monitor the areas listed in the previous paragraph in order to ensure the long-term health of the institution (Since USAID may not have all the required monitoring capability in-house, the full-time services of an expert in this field would likely be needed) On the other hand, USAID would not track the use of each dollar donated as it does with traditional grants for loans and operating expenses

VII. The Argument for Equity instead of Traditional USAID Grants for Loan Portfolios and Operating Costs:

Traditional USAID donations for loans and operating costs have, over recent years, been appropriate for the development of microcredit institutions The extensive accounting procedures and oversight were necessary as these AID-supported institutions got on their feet Practically speaking, USAID/Bolivia could carry out the project described above using the same disbursement mechanisms The problem is that it would be a distant second best alternative We are no longer concerned as to whether microfinance institutions can deliver credit services on a sustainable basis Our concern now is that the strong institutions in Bolivia expand their services to significantly greater numbers of poor households We believe the way to do this is through equity investments It is not important to us what the microfinance institutions use these funds for, provided they are used for costs and activities normally associated with a financial institution, and provided they are not used in ways prohibited under the FAA On the other hand, we will closely monitor the institution's progress towards the project's main goal outreach We will also monitor the institutional and financial health of the microintermediary, and provide critical technical assistance wherever needed Below are some of the key reasons why implementation of such a program would be more successful using equity investments than traditional USAID disbursement mechanisms

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(1) <u>Leverage</u> The potential of the model described above lies in the ability to leverage equity capital These are the only assets we can be sure the Superintendency will permit to be leveraged Microintermediary assets provided by USAID or the third party for loan portfolios could not be leveraged until they were returned to the microintermediary from the microclient as reflows It is possible that an exception to this could be made by qualifying the loan funds as subordinated debenture Under such an arrangement, the donor or third party makes a long-term loan to the micro finance institution, and agrees that its rights to the repayment of the loan will be subordinated to the rights of the institution's other creditors But there is no guarantee the Superintendency would be willing to treat this as equity

(2) <u>Control</u>· With the purchase of shares, the third party would be given management control of the microintermediary equal to its proportion of ownership We view this as critical to the project's success Although we believe that an agreement could be reached between the third party and the microintermediary to count funds tied to loan portfolio as ownership equity, the accounting responsibilities of the third party would divert its attention from its critical role, which would be to provide strategic and operational guidance Furthermore, the third party's percentage of ownership would be constrained by the rate at which loan portfolio funds are disbursed

(3) <u>Timeliness</u> With equity donations, strong Bolivian microintermediaries could qualify quickly for licensing and begin to leverage equity capital thereafter The full technical assistance component could also be implemented right away under the ownership control of the third party Under a traditional USAID loan portfolio arrangement, funds would be allocated to the microintermediary incrementally, based on a demonstration of loan disbursements This would slow the rate at which otherwise qualified microintermediaries receive licenses It would also slow the rate at which the Bolivian poor receive microfinance services

VIII. <u>Action Requested:</u>

That GC provide a ruling that donations as described above constitute an allowable use of USAID funds, both under the FAA and recent Appropriations Acts, and under the cost principles stated in OMB Circulars applicable to HB 13 Grants and Cooperative Agreements to U S and non-U S NGOs

EO.SSmith
Clearances·
RLA:SAllen (in draft)
PDI PNatiello (in draft)
CONT RGoughnour (in draft)
A/DD RGoughnour ____

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ATTACHMENT

PRELIMINARY VIEW OF RLA/BOLIVIA

1 The question of whether the purchase of equity by a Grantee or Recipient of a Cooperative Agreement is an allowable cost under the applicable laws and regulations (under the FAA, recent Appropriations Acts, HB 13, OMB Circular A-122, etc) is of Agency-wide significance, and should be thoroughly discussed among G, OP, and GC If this is the best way to expand microfinancing, we should support grants and C A s which expressly permit and authorize the grantee/recipient to purchase equity in microfinance institutions The following are thoughts on whether this is legally permissible

2 FAA 635(a) gives USAID broad authority to furnish assistance on a grant basis on such terms as are "determined to be best suited to the achievement of the purposes of this Act " FAA 635(b) echoes this broad authority FAA Sec 103(b)(1) ("organization of a system of financial institutions which provide both savings and credit services to the poor)" and Sec 106(d)(5) ("programs of urban development with particular emphasis on small, labor intensive enterprises, marketing systems for small producers, and financial and other institutions which enable the urban poor to participate in the economic and social development of their country") authorize microfinance activities in both urban and rural areas

3 FAA 635(g)(3) prohibits only acquisition of equity by the USG (by USAID) through USAID-direct loans It does not forbid the recipient of a grant from USAID from purchasing equity (Nor does this Section prohibit USAID from directly making equity investments with <u>grant</u> funds, although for policy reasons, including organizational conflicts of interest, USAID would probably never decide to do so) No other section of the FAA nor of any recent Appropriations Act (e g FY 93 and FY 94) bears directly on this subject, nor prohibits grants to NGOs for equity investments to stimulate microfinance Congress has expressed, however, in recent Appropriations Acts and Committee Reports, a substantial interest in expanding microloans to poor people (See, e g Title II of the FY 94 AA, Sen Report 102-419 (September 23, 1992), pp 97-98, Sen Report 103-142 (September 14, 1993), p 77

4 Handbook 13 Grants and Cooperative Agreements generally refer (in a note to the Standard Provision on "Allowable Costs", HB 13, App 4C and 4D) to OMB Circular A-122 The latest version of Circular A-122 available to the RLA is dated July 8, 1980 (45 FR 46022) In Attachment A to the Circular, "General Principles," factors affecting the "allowability" of a cost are its <u>reasonableness</u> and <u>allocability</u> to a particular cost objective If a grant were written with the express purpose of purchasing equity in microfinance institutions to expand credit available to the poor

through leveraging, these criteria would be satisfied Attachment B to the Circular are "Selected Items of Cost " The first paragraph provides that, "Failure to mention a particular item of cost is not intended to imply that it is unallowable, rather determination as to allowability in each case should be based on the treatment or principles for similar or related items of cost " Equity investment is not listed in Attachment B The most similar item listed is No 13, "Equipment and Other Capital Expenditures, which are generally "<u>unallowable except with the prior approval of the awarding agency</u> " (Emphasis added) Hence, it appears that equity investments, similar to capital expenditures, may be determined to be an allowable cost by USAID as awarding agency, by so stating in the Schedule of the Grant or Cooperative Agreement

As a last resort, not needed here, Attachment C to Circular A-122 provides that an awarding agency may negotiate the non-applicability of the Circular to a particular organization

RLA/Bolivia SAllen 06-09-94

To Stephen Smith@TI EXE@LAPAZ,James Watson@ETIO@QUITO
James Watson@SEGO@QUITO,Tony Shiels@ETIO@QUITO
Tony Shiels@SEGO@QUITO
Cc Richard Rosenberg@PRE AA@AIDW
Elisabeth Rhyne@PRE SMIE@AIDW
Michael Kitay@GC SA2@AIDW,Robert B Meighan@GC@AIDW
Steve Allen@GC@AIDW
Bcc
From Paul Weisenfeld@GC SA2@AIDW
Subject Equity for Micro Finance
Date Wednesday, August 31, 1994 17 02 47 BOL
Attach
Certify N
Forwarded by

Gentlemen -

Rich Rosenberg and Beth Rhyne asked me to respond to an inquiry from USAID/La Paz regarding the use of USAID grant funds to acquire equity in micro finance institutions As I understand it, the proposal is to extend a grant to an NGO that would, in turn, use the grant funds to purchase shares of a Bolivian micro finance institution The two concerns we've been asked to address are (1) whether there are any legal prohibitions on a grantee using USAID funds to acquire an equity interest in a financial intermediary, and (2) what tracking requirements apply to the use of the dollar funds

(1) On the first issue, we agree with the analysis in the legal memoramdum prepared by Steve Allen, the former RLA from La Paz Although USAID cannot directly acquire equity interests for its own account, there are no legal prohibitions on a grantee using USAID funds to acquire an equity interest in a micro finance institution As noted in Steve Allen's memorandum, we think it would advisable to indicate clearly in the grant agreement and project documentation that the purpose of the grant is to allow the NGO to capitalize or strengthen the equity of the micro finance institutions

(2) As long as the purpose of the grant is clearly stated as allowing the NGO to capitalize the financial intermediary, our opinion is that USAID/La Paz need not track the dollars beyond the acquisition of an equity interest in the financial intermediary, for the purpose of ensuring compliance with the host of legal and policy restrictions applicable to USAID funds (e g , abortion equipment, citrus for export, luxury goods, pesticides, etc) We've raised this issue with others in GC, and our experience is that IG audits focus on whether the purpose of the grant has been met and do not track dollar funds beyond the achievement of that purpose If the purpose of the grant were to fund microloans, however, we believe the mission would have to track the dollar funds to each disbursement to a qualified borrower, and arguably to the use by each borrower

Of course, these types of tracking requirments are entirely different from the monitoring and evaluation of the project's performance that the project manager deems appropriate For instance, in order obtain data for project-level indicators, the project manager may require the NGO or micro finance institution to supply information on borrowers receiving micro loans

One last point, its probably a good idea to deal with the issue of dividends
86 and capital gains that will accrue to the NGO by virtue of th ir shar s We

suggest including a provision in the grant agreement that says something along the following lines consistent with the non-profit status of the NGO dividends accruing to the NGO shall be used for the agreed purposes of the grant

Hope this is helpful

Paul

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UNITED STATES GOVERNMENT

action memo to the director

DATE April 18, 1995

REPLY TO ATTN OF Stephen H Smith, EO

SUBJECT Possible Participation of non-U S First World Institutions in the Microfinance Program

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BACKGROUND: USAID/Bolivia has played an important role in the development of Bolivia's microfinance sector since PRODEM was initiated in 1986 By the end of 1994, almost 100,000 permanent microfinance clients were served by USAID assisted institutions

The Economic Opportunity Office has recently designed a new microfinance program in an effort to massively expand the number of poor people with access to financial services The program will begin under the current Microenterprise Project (511-0596) and be continued under the Microfinance Project (511-5637) It will consist of three major components (1) equity investments in microfinance institutions, (2) technical assistance and training to microfinance institutions and (3) support to the Superintendency of Banks and Financial Institutions The equity component in particular is state-of-the-art in this field By taking a sector-wide approach, i e developing intensive working relationships with as many as half a dozen of Bolivia's strongest microfinance institutions, the program could potentially have a major impact on microfinance in Bolivia and even worldwide The program is very ambitious in that it will try to build licensed, formal bank-like financial intermediaries out of NGO credit programs

We expect to provide assistance to a single institution, which will have overall responsibility for implementing the equity and T A components of the program under a cooperative agreement with USAID The estimated value of this assistance could reach $9 million, most of which would be used for equity investments in microfinance institutions Success for this program will require an implementing unit with extensive capabilities and experience in microfinance, particularly with experience on the ground in Bolivia On March 21, 1995, a PIO/T was signed instructing the Contracting Office to solicit Requests for Assistance from two qualified institutions, Acción International and FUNDA-PRO Planned competition was limited to these two institutions because of their considerable microfinance experience in Bolivia Each institution had also expressed interest in implementing the program

DISCUSSION: Since my Office drafted the PIO/T in February, the probability that Acción or FUNDA-PRO could implement the program has been severely reduced Acción, although interested in the program, has stated that it would limit its participation inasmuch as it would relate to BancoSol and PRODEM only FUNDA-PRO, on the other hand, has experienced several internal problems that would appear to make it a less qualified candidate

In order to ensure that we find the best possible implementing institution, we intend to broaden the list of solicited organizations Unfortunately, there is a very short list of institutions worldwide with proven microfinance experience that would be capable of effectively implementing our program Similarly, the list of capable microfinance experts is very short

Through our Office's experience in this sector, we have become familiar with these institutions We have also discussed the issue of possible implementing institutions with several of the most knowledgeable microfinance representative in USAID/W, including Elizabeth Rhyne, Director of the Microenterprise Office We agree on which institutions may be qualified to implement the program All have at least several years experience in the field of micro and small enterprise finance in several countries, and possess considerable internal financial capabilities, which will be critical to the Microfinance project Apart from Acción and FUNDA-PRO, both of which will still receive an RFA, the list includes the following organizations

Calmeadow Foundation - Canada
FUNDES - Switzerland
Opportunity International - U S
Seed Capital Development Fund - U S , with French Parent Organization

Three of the four institutions above are based in first world countries outside the United States All are familiar with Bolivian microfinance, particularly FUNDES and Calmeadow Foundation FUNDES operates a small enterprise support program out of Cochabamba, while Calmeadow has provided financial and technical assistance to BancoSol and PRODEM, and is planning to open its first foreign office in Bolivia Experience in Bolivia and knowledge of Bolivian microfinance is an important part of the technical selection criteria It is also important because we expect that the chosen institution will commit itself to Bolivian microfinance over the long term, well beyond the PACD of the Microfinance project

As you know, USAID has stringent restrictions on the source, origin and nationality of goods and services it procures and, in Bolivia, procurement is generally limited to the U S and defined categories of local goods and services These rules do not apply to NGO assistance arrangements, and we frequently fund assistance through NGOs based in other Latin American countries Nevertheless, assistance to an NGO from an advanced industrialized country such as Canada or Switzerland, could present policy issues, particularly in light of the growing number of U S NGOs involved in microfinance throughout USAID supported countries We will make every effort to provide RFAs to all qualified U S microfinance NGOs and will consider the nationality of the entity in the selection process For example, should two NGOs provide the strongest proposals of nearly equivalent technical quality, preference will be given to the U S NGO However, given the advanced state of Bolivian microfinance and the small number of institutions capable of administering highly focussed technical assistance and of taking equity positions in several microfinance institutions, EO considers it essential that the non-U S organizations identified above be allowed to compete

ACTION· The Economic Opportunity Office intends to instruct the USAID Contracting Office to extend solicitations for RFAs to the institutions listed above, and possibly additional U S NGOs, as well Your agreement is requested to issue these solicitations, knowing that competition could result in support to a non-U S , first world institution

APPROVED ______________

DISAPPROVED ______________

DATE 4/25/95

EO SHSmith
Clearances
PD&I OCarduner (draft)
RLA PRamsey______ 4/24/95
RCO MKidd______ 4/24/95
A/DD ESzepesy______ 4/25

NEW ACTIVITY DESCRIPTION

1. Basic Data

(a)	Project Title	Microfinance
(b)	Project Number·	511-0637
(c)	Funding Source	To be determined
(d)	Duration·	Shelf 1995 FY 1996-1997
(e)	LOP Funding	$10 million

2. Strategic Fit with Agency/Bureau Goal

Micro enterprise development has been given priority emphasis in the Agency's new "Economic Growth" policy This project is directed at microenterprises and poor households USAID/Bolivia supports the Agency policy guidance which indicates financial services as the most successful means of assisting microenterprises. The project directly supports two Program Outcomes, (1) increased employment opportunities in non-coca industries, and (2) broadened access to financial markets

3. Consistency with Mission Strategy

(a) Project Goal: The project's goal is to increase income and employment of the Bolivian poor by significantly broadening access to financial services. This project supports the Mission's "Expanded Economic Access and Opportunity" strategic objective.

(b) Project Purpose: To enhance the capacity of a small group of microfinance institutions to deliver financial services to the poor

(c) Project Description: In the last decade, new financial technologies developed in various countries have provided efficient financial services (credit and savings) to poor households, including those households' income-producing activities (microenterprise). These technologies have been proven and refined in Bolivia over the last six years. The challenge is to extend these services to the massive numbers of poor households who would find them valuable

Rough estimates suggest a potential reachable clientele for such services in Bolivia of perhaps 600,000 poor households Assuming an average loan balance rising over the years to $500 per household, the capital requirement will be around US$300 million. Only 10% of this demand is being served right now ($30-35 million reaching about 60-70,000 poor households), mainly by PRODEM and Banco Solidario, both of which sprang from USAID/Bolivia's Micro and Small Enterprise Development Project

Donor agencies fund microfinance programs with donations (equity) and loans (debt). Generally donor debt finance in such programs cannot leverage additional commercial-source funding, and equity finance (including guarantee authorities) rarely leverages more than two dollars of total finance for each dollar of donor input. At this rate, $150 million in donor funds would be required for adequate service of Bolivia's market for poor people's finance

However, once a microfinance program reaches the stage of being able to qualify for a banking license or its equivalent, it can quickly leverage *twelve* dollars in poor peoples' finance for each dollar of equity (i e , donated) input Operating on this basis, the required $300 million of microlending can be financed from commercial sources if an equity base of $25 million can be assembled Banco Solidario is already leveraging its $5 million in equity capital (principally from USAID and other development agency sources) There are several other good Bolivian microfinance programs, who account for approximately another $5 million in equity at their disposal, but none of them has yet been able to get a banking license Individually they do not have the $5 million required for a full bank license, and the Superintendency of Financial Institutions is reticent to opening a new window to license them on a lower equity capital basis

Thus, there is a double gap which needs to be filled in order to spread efficient new microfinance technologies to all the poor Bolivians who can practically use them:

Funding: Additional equity of perhaps $15 million, principally from donations, will be needed;

Licensing: Banking licenses, or some equivalent which allows commercial leveraging, must be structured for a few more microfinance programs (in addition to Banco Solidario)

The proposed project could go a long way to filling these gaps Most of the requested resources would be donated to sound microfinance NGOs, on the condition that they be invested by those NGOs as equity in licensed microfinance intermediaries (including Banco Sol and other intermediaries which would complement it and compete with it). Each dollar so invested will predictably leverage twelve dollars of microlending. We have little doubt that other development agencies would be willing to add equity funds to those provided by the USAID project, based on past successes in attracting such matching funds

Perhaps 5-10% of the requested resources would be used to finance technical assistance and training to help a very few good NGO programs raise themselves to the level of operations controls necessary to comply with the Superintendency's licensing requirements, and perhaps to subsidize, for a very few years, the Superintendency's supervision costs for microfinance institutions.

The key objective against which the project will be designed and managed is providing a major improvement in the <u>efficiency and cost</u>

<u>of financial services</u> available to the <u>majority of poor Bolivian households</u>, including their income producing activities In terms of the quality of services, the principal indicator will be reduction in the cost of financial intermediation * The higher-level purpose of improvement in financial intermediation is to better the efficiency of poor people's economic activities, thereby raising incomes and reducing poverty. Rigorous measurement of these latter changes and their dependable attribution to project interventions is extremely expensive if not impossible. Whether the project attempts to measure these variables directly will depend on the outcome of current AID/W research on monitoring methodology. In the meantime, we are satisfied with the benefits of a project which accomplishes a massive lowering of costs of financial intermediation for poor people who have formerly been excluded from the formal finance system The existence of such benefits is attested by the massive numbers of poor people who rush to take advantage of such services when they are offered, even though they are charged the full cost of the services (Banco Sol's client base is already at 50,000 households, and is doubling every year.)

In addition to measuring the *quality* of the financial services in terms of intermediation costs, we will also measure the *extension* of those services in terms of the percentage of poor Bolivian households which have access to them

(d) Anticipated impact on poverty alleviation, access and participation, including gender level impact: In the economic area, Agency strategies focus on growth and access The impact of the proposed project on poor people's access to the economic and financial systems of their country is too obvious to require analysis As to the growth aspect, it should be sufficient to observe that in any country, sector, or economic level that economists have ever studied, growth is always strongly correlated with the efficiency, cost, and volume of financial intermediation.

As of the end of 1993, about 70% of Banco Sol and PRODEM's 60,000 customers were women, thanks to systems which respond well to their particular needs. We would expect the majority of customers served by this project to be women.

(e) Dialogue Agenda: Bolivia's macroeconomic framework requires no change to make this project viable. The important policy component will be a dialogue with, and possible support to, the

* For example, before PRODEM/Banco Sol began operations, the cost of intermediation in a typical poor community would be about 500% the effective annual cost of a loan from an informal moneylender (say, 500%), minus the effective annual return on the usual savings instrument (0% on cash under the mattress) But once the same community has access to a full-service Banco Sol office, loans are available at an effective annual rate of about 35%, while save, liquid savings deposits pay about 10%, for a cost of intermediation which is one twentieth of that which prevailed previously

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Superintendency of Banks to smooth the way for licensing of a few of the better NGO microfinance programs The availability of significant resources to put these programs on a solid financial footing should be an important factor in convincing the Superintendent

(f) Donor Coordination: During the pre-design USAID/Bolivia has already coordinated with the World Bank, the German bilateral donor agency, and about a half dozen NGOs. The IDB also will be brought into the process. Other donors and NGOs will be involved throughout the project, either in coordinating roles or direct project participation

4. Policy and Design Issues

(a) Sustainability of Proposed Activities: Financial self-sufficiency of participating institutions would not be an outcome of this project; on the contrary, it would be a precondition for participation. Bolivia, fortunately, has several microlending NGOs who are already at this stage, in addition to Banco Sol

(b) Potential Issues: The excessive "directives" assigned to USAID/Bolivia do not permit the flexibility to start this activity in FY95 unless the OYB is increased (possibly from the Administrator's Microenterprise Fund) Therefore, it is submitted as a "shelf" activity for FY95 and firm start in FY96

(c) Linkages to and Utilization of Global Resources and LAC Regional Programs: Because non-directed Mission resources are severely limited, the Mission may request access to the Microenterprise Fund. USAID/Bolivia has actively participated in the centrally funded GEMINI project. We will continue to do so, especially to access key technical assistance and to keep abreast of new developments in the micro finance field.

(d) Management and Support Requirements: The staff of the Mission's Economic Opportunity office is unusually well-versed in microfinance issues, and already has established close working relationships with several of the best microfinance experts in the world who are applying in Bolivia the lessons learned in hundreds of microfinance programs all over the world. The additional staff time necessary to manage this project will be available through the termination of other projects.

(e) Timetable and Resource Requirements for Developing the Assistance Proposal: We expect to complete the project design during the first quarter of FY 1995, followed by a second quarter authorization and obligation of funds. This requires AID/W to provide an increased OYB for FY95 or relief from the "directives" of USAID's DA OYB and an early FY 95 budget allowance.

(f) Recommendations on Delegation of Authority for Further

Review and Approval: Given the Mission's experience and success in this area, a complete delegation of all subsequent stages of project design and approval is appropriate.

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ACTION: AID-1
INFO: AMB-1 DCM-1 CHRON-0

Rec'd 6/21

File PRM

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Reply 6/28

E O. 12356· N/A
TAGS·
SUBJECT [redacted]

Action tkn NAP ALL 6/22/94

1 THE FY 95-96 ACTION PLAN FOR BOLIVIA WAS REVIEWED ON MAY 25, 1994 THE DAEC WAS CHAIRED BY AA/LAC MARK SCHNEIDER. IN ATTENDANCE WERE REPRESENTATIVES FROM G, M, PPC, LPA, STATE AND ALL APPROPRIATE LAC OFFICES THE AA/LAC AND DAA COMPLIMENTED THE MISSION ON THE QUALITY OF THE ACTION PLAN THE USAID DIRECTOR, CARL LEONARD, AND STAFF MEMBERS LEWIS LUCKE AND GENE SZEPESY PRESENTED THE ACTION PLAN. THE ACTION PLAN WAS APPROVED BY THE BUREAU, SUBJECT TO THE GUIDANCE PROVIDED BELOW

2. POVERTY ALLEVIATION. AA/LAC QUESTIONED THE APPARENT LARGE NUMBER OF USAID/BOLIVIA PROJECTS AIMED AT ECONOMIC GROWTH WHICH SEEM TO WORK ONLY INDIRECTLY TO ALLEVIATE POVERTY. THE MISSION EXPLAINED THAT MANY OF THE PROJECTS WITH AN INDIRECT APPROACH REFLECT AN EARLIER STRATEGY FOCUSSING ON TRADE AND INVESTMENT AND ARE NEARING COMPLETION USAID/BOLIVIA POINTED OUT THAT ITS ENTIRE PROGRAM EMPHASIZES POVERTY ALLEVIATION DIRECTLY, EVEN THOUGH SOMETIMES ACHIEVEMENT OF THE OBJECTIVES REQUIRES INDIRECT MEASURES

3. GOB POPULAR PARTICIPATION/DECENTRALIZATION DAEC REVIEWERS WERE VERY SUPPORTIVE OF MISSION PLANS TO ASSIST THE GOB IN ITS AMBITIOUS POPULAR PARTICIPATION PLAN PARTICIPANTS WERE, HOWEVER, CONCERNED THAT MANAGEMENT OF THE 20 PERCENT OF GOB RESOURCES TO BE MADE AVAILABLE TO 301 MUNICIPALITIES STARTING IN 1995 MIGHT OVERWHELM MUNICIPALITIES WHICH HAVE LITTLE EXPERIENCE OR EXPERTISE IN DEVELOPING AND MANAGING CAPITAL PROJECTS THE MISSION

96

EXPLAINED THAT THE GOB AND MISSION STAFF ARE WELL AWARE OF THE RISKS ASSOCIATED WITH THIS MASSIVE AND COMPLEX UNDERTAKING, AND THAT THIS IS WHY THE MISSION HAS PROPOSED THE FY 95 NEW ACTIVITY ENTITLED DEMOCRATIC DEVELOPMENT AND CITIZEN PARTICIPATION THEY WILL ALSO BE COORDINATING CLOSELY WITH OTHER DONORS THE DAEC RECOMMENDED THAT THE MISSION REVIEW THE EXPERIENCE OF OTHER COUNTRIES IN THE REGION WHICH HAVE DECENTRALIZED GOVERNMENT FUNCTIONS SUCH AS EL SALVADOR AND CHILE

4 COUNTERNARCOTICS· IN RESPONSE TO A QUERY FROM AA/LAC ON THE DIFFICULTY THE GOB IS HAVING IN MEETING THE COCA ERADICATION TARGETS, THE MISSION EXPLAINED THAT PART OF THE PROBLEM WAS DUE TO LACK OF POLITICAL WILL DURING THE 1993 ELECTIONS, AND THE CHANGE OF ADMINISTRATION IN BOLIVIA, AS WELL AS TO THE INCREASING PRICE OF COCA THE MISSION POINTED TO THE SUCCESS ALTERNATIVE CROPS ARE HAVING IN THE PRIME COCA GROWING AREAS AND EXPRESSED THE HOPE THAT STEPPED-UP INTERDICTION EFFORTS AND ENHANCED POLITICAL WILL WILL CONTRIBUTE TO REDUCING THE PRICE TO FARMERS FOR ILLICIT COCA AND RENEWING INTEREST IN THE ERADICATION PROGRAM.

5. BUDGET: THE MISSION WAS MADE AWARE OF THE FURTHER STRESS WHICH IS LIKELY TO BE PLACED ON THE ESF BUDGET AND ADVISED TO CONSIDER WHICH ESF-SUPPORTED PROGRAMS ARE MOST CRITICAL TO THE ACHIEVEMENT OF MISSION OBJECTIVES IN RESPONSE, THE MISSION STATED THAT IN SUPPORTING THE USG'S COUNTERNARCOTICS OBJECTIVES, IT WOULD BE PARTICULARLY IMPORTANT TO ENSURE CONTINUANCE OF SUPPORT TO
AND THE COCHABAMBA
REGIONAL DEVELOPMENT PROJECT (CORDEP). THE MISSION EXPRESSED ITS DEEP CONCERN ABOUT THE CONSTRAINTS PLACED ON THE MISSIONIS FLEXIBILITY BY VARIOUS FUNDING "DIRECTIVES" IT RECEIVES EACH YEAR THE DAEC NOTED THE LIMITATIONS THESE DIRECTIVES PLACE ON THE MISSION'S ABILITY TO RESPOND CREATIVELY AND EXPEDITIOUSLY TO PROGRAM NEEDS AS THEY ARISE. IN RESPONSE TO THE ACTION PLAN PLEA TO PROVIDE FUNDING ALLOCATIONS IN A MORE TIMELY AND PREDICTABLE MANNER, THE MISSION WAS ADVISED TO TAKE FULL ADVANTAGE OF

LAC/DPPIS ANNUAL OFFER TO MEET URGENT FIRST QUARTER FUNDING NEEDS.

6. TRAINING FOR SUSTAINABLE DEVELOPMENT: THIS PROJECT WAS QUESTIONED ON THE GROUNDS THAT IT DID NOT APPEAR TO HAVE ANY DIRECT LINK TO ACHIEVEMENT OF USAID/BOLIVIA'S PROGRAM OBJECTIVES. THE MISSION CLARIFIED THAT, WHILE INDIVIDUAL PROJECTS DO HAVE THEIR OWN TRAINING ELEMENTS, THERE ARE INEVITABLY GAPS IN THE MISSIONIS ABILITY TO FUND TRAINING

NEEDED TO IMPLEMENT THE OVERALL SUSTAINABLE DEVELOPMENT PORTFOLIO IN BOLIVIA ALL THE PROJECTIS TRAINING WILL SUPPORT THE STRATEGIC OBJECTIVES

E O
SUBJECT.

7. FEMALE EDUCATION CONCERN WAS EXPRESSED ABOUT THE EXTENT OF MISSION ACTIVITIES SUPPORTING EDUCATION, ESPECIALLY FEMALE EDUCATION THE MISSION STATED THAT EDUCATION OF GIRLS, PARTICULARLY AT THE PRIMARY AND SECONDARY LEVELS, IS VITAL TO ACHIEVEMENT OF DEMOCRACY, HEALTH, POPULATION AND ECONOMIC GROWTH OBJECTIVES HOWEVER, AS AGREED IN USAID/W'S APPROVAL OF USAID/BOLIVIA'S STRATEGY, SUPPORT TO EDUCATION WOULD BE LEFT TO OTHER DONORS WITH USAID/W AND THE MISSION PROMOTING POLICY DIALOGUE INVOLVING THE GOB, OTHER DONORS AND CIVIC ORGANIZATIONS, AND MONITORING PROGRESS OF REFORMS THE MISSION BELIEVES THAT THE SUBSTANTIAL EDUCATION PROGRAMS PLANNED BY THE GOB WITH OTHER DONOR SUPPORT, ESPECIALLY LED BY THE WORLD BANK, SHOULD DEVOTE PARTICULAR ATTENTION TO FEMALE EDUCATION REDOUBLED POLICY/PROGRAM DIALOGUE ON KEY ISSUES TO ENSURE ADEQUATE ATTENTION TO FEMALE EDUCATION AND MONITORING EFFORTS AT BOTH THE USAID/W AND USAID/BOLIVIA LEVEL WILL BE NEEDED TO ENSURE THE DESIRED OUTCOME OF INCREASING THE QUANTITY AND QUALITY OF FEMALE EDUCATION AND CLOSING THE GAP BETWEEN BOYS AND GIRLS. AS A FIRST STEP, USAID/W (LAC/DR/EHR) WAS ASKED TO REVIEW THE WORLD BANK PROJECT DOCUMENTATION TO ENSURE THAT THIS ISSUE IS RECEIVING APPROPRIATE ATTENTION FOR ITS PART, USAID/BOLIVIA WILL DIALOG WITH APPROPRIATE GOB AND LOCAL WORLD BANK EDUCATION PLANNING STAFF ON THE CRITICAL IMPACT OF FEMALE EDUACTION IN ATTAINING SUSTAINABLE ECONOMIC GROWTH AND OTHER KEY STRATEGIC OBJECTIVES

8 [redacted] ALL MEMBERS OF THE DAEC AGREED THAT THE PROPOSED MICROFINANCE ACTIVITY COULD PLAY A MAJOR ROLE IN POVERTY ALLEVIATION AND ECONOMIC GROWTH WHILE THE ENVIRONMENT FOR THIS TYPE OF INTERVENTION IS RIGHT FOR AN IMMEDIATE NEW START, THE MISSION EXPLAINED THAT THE SUBSTANTIAL PROPORTION OF ITS PROGRAM WHICH MUST BE DEVOTED TO MEETING NUMEROUS AGENCY "DIRECTIVES", LEAVES IT

VERY LITTLE ROOM TO MANEUVER TO TAKE ADVANTAGE OF EVEN THIS VERY PROMISING OPPORTUNITY. ALTHOUGH THERE ARE CURRENTLY NO CENTRALLY HELD FUNDS FOR MICROENTERPRISE PROMOTION, THE DAA ADVISED THE MISSION TO GO "FULL STEAM AHEAD" WITH DEVELOPMENT OF THE PROGRAM SO THAT IF A

FUNDING SOURCE CAN BE IDENTIFIED, THE MISSION CAN MAKE A PROPOSAL PROMPTLY

9 PL 480. A THE MISSION NOTED ITS EXTREME DISAPPOINTMENT WITH USAID/WIS PROPOSED ABRUPT DROP IN THE PL 480 TITLE III LEVEL FROM FY 94 TO FY 95 (DOLS 20 MILLION DOWN TO DOLS 7 MILLION) AND THE POTENTIAL HARM THE LOSS OF LOCAL CURRENCY WILL DO TO COUNTERPART CONTRIBUTIONS FOR ONGOING PROJECTS. THE BUREAU WILL TRY TO OBTAIN ADDITIONAL FUNDS FOR THE PROGRAM THE MISSION INDICATED THAT IN THE EVENT ADDITIONAL TITLE III RESOURCES DO NOT BECOME AVAILABLE, THE MISSION WILL CONCENTRATE THE RESOURCES THAT ARE AVAILABLE ON ACTIVITIES DESIGNED TO ALLEVIATE POVERTY AND IMPROVE FOOD SECURITY

NOTE: NOTWITHSTANDING THE ABOVE, MISSION SHOULD BE PREPARED TO ADDRESS ANY DISINCENTIVE ISSUES (BELLMON) CREATED AS A RESULT OF THE RECENTLY SHIPMENT OF BULK WHEAT BEING PROVIDED BY THE EUROPEANS, AND POSSIBLY BY USDAIS EEP IN FY95, BEFORE ANY TITLE II OR III MONETIZATION PROGRAMS CAN BE AUTHORIZED IN FY95

B. REGARDING USE OF LOCAL CURRENCY NOTE THE RECENT TITLE III GUIDANCE REQUIRES THAT QUOTE MISSION WILL BE EXPECTED TO USE TITLE III RESOURCES TO SUPPORT INTERVENTIONS WITH DIRECT LINKAGES TO INCREASED AGRICULTURAL PRODUCTION AND CONSUMPTION WHICH CAN DEMONSTRATE VISIBLE PROGRESS OVER A THREE TO FIVE-YEAR TIME PERIOD PROPOSALS SHOULD INCLUDE A PLAN TO ENHANCE FOOD SECURITY THROUGH POLICY REFORMS WHICH ADDRESS SECTORAL ISSUES AFFECTING FOOD PRODUCTION AND CONSUMPTION, INCLUDING NUTRITION, AND LOCAL CURRENCY SUPPORT OF ACTIVITIES ADDRESSING SMALL FARMER AGRICULTURAL PRODUCTION (PARTICULARLY FOOD PRODUCTION) AND CONSUMPTION PROBLEMS IN THAT COUNTRY UNQUOTE

C. IN ACCORDANCE WITH RECENTLY ISSUED POLICY GUIDANCE, THE TITLE III PROGRAM WILL BE AUTHORIZED IN USAID/W

D. BHR/FFP RAISED THE QUESTION OF THE DEGREE TO WHICH FOOD FOR DEVELOPMENT RESOURCES ARE INTEGRATED INTO THE MISSIONIS PROGRAM. THE MISSION STATED THAT, ALTHOUGH THE ROLE PL 480 RESOURCES PLAY IN THE MISSIONIS PROGRAM IS NOT TREATED IN EVERY ELEMENT OF THE ACTION PLAN, PL 480 PROGRAMS ARE COMPLETELY INTEGRATED INTO ITS APPROVED STRATEGIC OBJECTIVES. IN A SUPPLEMENTARY DOCUMENT

(DISTRIBUTED TO DR AND BHR/FFP AND WHICH WILL BE INCLUDED IN THE OFFICIAL ACTION PLAN FILE) THE MISSION DETAILED THE INTEGRATION OF THE PL 480 PROGRAM INTO ITS PROGRAM BHR

EXPRESSED ITS SATISFACTION WITH THIS CLARIFICATION OF THE

PL 480 PROGRAMIS ROLE

10 RENEWABLE ENERGY IN THE ACTION PLAN THE MISSION REQUESTED ADDITIONAL RESOURCES SO THAT IT CAN COMPLETE FUNDING OF BOTH THE RENEWABLE ENERGY AND RURAL ELECTRIFICATION PORTIONS OF ITS ENERGY PROJECT THE BUREAU ADVISED THAT IT HAS NO ADDITIONAL FUNDS TO RESPOND TO THIS REQUEST SIMILARLY, THE GEF HAS NO MORE FY 94 FUNDING AVAILABLE G/R&D/E IS FAVORABLY IMPRESSED WITH THE RENEWABLE ENERGY PROJECT, BUT ALSO HAS LIMITED FUNDING AVAILABLE. A G/R&D/E REPRESENTATIVE WILL VISIT BOLIVIA IN JUNE TO REVIEW POSSIBILITIES FOR COLLABORATION

11. VOTER REGISTRATION AS A MEASURE OF POPULAR PARTICIPATION. GIVEN THE SUCCESS OF THE VOTER REGISTRATION PROGRAM, AND THE GOB'S AND AGENCY'S EMPHASIS ON LOCAL EMPOWERMENT, THE MISSION WILL NOW MOVE TO EMPHASIZE AND MEASURE OTHER ASPECTS OF POPULAR PARTICIPATION WHILE THE MISSION WILL CONTINUE VOTER REGISTRATION ACTIVITIES FOR THE REMAINING ONE MILLION RURAL UNREGISTERED PEOPLE, VOTER REGISTRATION WILL BE DROPPED AS AN INDICATOR THE NATIONAL ELECTORAL COURT WILL MONITOR VOTER REGISTRATION

12. COUNTERNARCOTICS AND ALTERNATIVE DEVELOPMENT TWO QUESTIONS WERE RAISED 1) BY RESHAPING ITS STRATEGIC OBJECTIVES, IS USAID SIGNALLING A MOVE AWAY FROM ITS COMMITMENT TO THIS EFFORT? AND 2) IS FOLDING COUNTERNARCOTICS EFFORTS INTO THE ECONOMIC GROWTH OBJECTIVE APPROPRIATE? THE MISSION EXPLAINED THAT IT IS AS COMMITTED AS EVER TO THE SUSTAINABLE ALTERNATIVE DEVELOPMENT APPROACH OF CREATING JOBS AND INCOME THROUGHOUT THE BOLIVIAN ECONOMY AND REDUCING THE OVERALL MACROECONOMIC EFFECT OF COCA PRODUCTION AND TRAFFICKING, BUT THAT THE DRASTIC CUT THE BOLIVIA PROGRAM HAS TAKEN IN ESF RESOURCES MAKES IT IMPOSSIBLE TO CONSIDER THAT TRANSFORMATION OF THE ENTIRE BOLIVIAN ECONOMY IS WITHIN USAIDIS MANAGEABLE INTEREST THE MISSION STILL HAS A MAJOR CONCENTRATION OF DEVELOPMENT RESOURCES IN ILLICIT COCA PRODUCING AREAS (COCHABAMBA), AND IS FULLY COMMITTED TO FOSTERING SUSTAINABLE DEVELOPMENT IN THE CHAPARE AND ASSOCIATED AREAS.

WITH RESPECT TO THE IMPACT OF ALTERNATIVE DEVELOPMENT EFFORTS ON ECONOMIC GROWTH, THE MISSION ARGUED THAT AN

ECONOMY SIGNIFICANTLY RELIANT ON ILLICIT PRODUCTION, CANNOT, BY DEFINITION, BE CONSIDERED SUSTAINABLE THE

MISSION INTENDS TO CONTINUE ITS PROGRAM IN THIS AREA AND WILL PURSUE THIS SUSTAINABLE ALTERNATIVE DEVELOPMENT COUNTRY WIDE, SUBJECT TO THE AVAILABILITY OF FUNDS HENCE, IT MAINTAINS A PLACE IN THE OBJECTIVE TREE IN SUPPORT OF THE ECONOMIC GROWTH OBJECTIVE

13. IMPROVED FAMILY HEALTH STRATEGIC OBJECTIVE· IT WAS POINTED OUT BY DR/HPN THAT THE STATEMENTS OF PROGRAM OUTPUTS UNDER THIS OBJECTIVE DO NOT LEAD DIRECTLY TO ACHIEVEMENT OF THE STRATEGIC OBJECTIVE OF IMPROVED HEALTH IN CONVERSATIONS BETWEEN LAC/DR/HPN AND USAID/BOLIVIA POPULATION/HEALTH PERSONNEL OUTSIDE THE FORMAL REVIEW MEETINGS, USAID/ BOLIVIA AGREED THAT ACHIEVEMENT OF THE THREE PROGRAM OUTCOMES AS PRESENTLY STATED IN THE ACTION PLAN TOGETHER WILL LEAD TO THE STRATEGIC OBJECTIVE OF "IMPROVED FAMILY HEALTH" THROUGH AN INTERMEDIATE STAGE OF "INCREASED UTILIZATION OF HEALTH AND FAMILY PLANNING INTERVENTIONS" THIS INCREASED UTILIZATION LINKS THE PRESENT PROGRAM OUTCOMES WITH THE PROPOSED STRATEGIC OBJECTIVE IT WAS AGREED THAT THE FAMILY HEALTH STRATEGIC OBJECTIVE TREE WILL BE REVISED TO REFLECT THIS RELATIONSHIP, AS DESCRIBED IN THE EHMER-DABBS MEMO OF MAY 17, 1994.

14. DECLINE IN NON-TRADITIONAL AGRICULTURAL EXPORTS THE ACTION PLAN SHOWS A DROP IN EARNINGS FROM NON-TRADITIONAL AGRICULTURAL EXPORTS THE MISSION EXPLAINED THAT SOME OF THE DROP WAS DUE TO A DETERIORATION IN THE TERMS OF TRADE, AND SOME FROM A CRACK-DOWN BY THE GOB ON OVER-INVOICING WHICH HAD INFLATED REPORTED EXPORT EARNINGS IN EARLIER YEARS. HOWEVER, THE VOLUME OF EXPORTS IS INCREASING AND THIS SHOULD LEAD TO HIGHER EARNINGS AS COMMODITY PRICES RECOVER ON WORLD MARKETS

15. NEW ACTIVITY DESCRIPTIONS. THE FOLLOWING NEW ACTIVITY DESCRIPTIONS WERE REVIEWED BY THE DAEC

PROJECT	PROJECT	LOP AMOUNT	RECOMMENDED ACTION
FY94			
511-0568	REPRODUCTIVE HEALTH SERVICES	40,300	APPROVE/DELEGATE
FY95			
511-0594	CBMMUNITY & CHILD HEALTH	26,000	APPROVE/DELEGATE

511-0634	DEMOCRATIC DEV & CIT	5,000	APPROVE/DELEGATE
511-0630	BALANCE OF PAYMENTS SUPPORT	18,000	APPROVE/USAID/W
N/A	PL 480 TITLE III	60,000	APPROVE/USAID/W
511-0637	MICRO-FINANCE	10,000	APPROVE/DELEGATE
FY96			
511-0636	TRAINING FOR SUST. DEVELOP.	5,000	APPROVE/DELEGATE
511-0638	INDIGENOUS RESOURCE MANAGEMENT	5,000	APPROVE/DELEGATE
511-0639	BALANCE OF PAYMENTS	30,000	APPROVE/USAID/W
N/A	PL480 TITLE II	20,000	APPROVE/USAID/W

NOTE: ALTHOUGH AUTHORITY TO DEVELOP AND APPROVE THE TRAINING FOR SUSTAINABLE DEVELOPMENT AND THE INDIGENOUS RESOURCE MANAGEMENT PROJECTS IS DELEGATED TO THE MISSION, FUNDING PRIORITIES WILL BE REVIEWED AGAIN NEXT YEAR

BASED ON CONVERSATIONS BETWEEN LAC/DR/HPN AND MISSION PERSONNEL OUTSIDE THE FORMAL REVIEW PROCESS, THE FOLLOWING CLARIFICATIONS WERE OFFERED. FOR THE REPRODUCTIVE HEALTH PROJECT, CONSIDERATION WILL BE GIVEN TO MAKING THE INDICATORS FOR THE GOAL AND PURPOSE LEVELS PARALLEL TO THE INDICATORS FOR THE STRATEGIC OBJECTIVE AND PROGRAM OUTCOMES OF THE STRATEGY, ESPECIALLY USING CONTRACEPTIVE PREVALENCE AS AN INDICATOR OF THE GOAL, NOT THE PURPOSE LEVEL. FOR THE CHILD AND COMMUNITY HEALTH PROJECT, ACUTE RESPIRATORY INFECTIONS INTERVENTIONS WERE CONFIRMED TO BE A PART OF THE REVISED PROJECT

16. PROGRAM BUDGET: THE CURRENTLY AVAILABLE DA BUDGET LEVELS FOR USAID/BOLIVIA ARE DOLS 19.598 MILLION IN FY 94 AND DOLS 29.16 MILLION IN FY 95. THESE LEVELS ARE CONSISTENT WITH THOSE REQUESTED IN THE ACTION PLAN, AS AMENDED PRIOR TO THE REVIEW THE ESF LEVEL CURRENTLY EXPECTED TO BE AVAILABLE IN FY 94 DOLS IS 32 MILLION DOLS 40.4 MILLION IS REQUESTED FOR FY 95. ANTICIPATED PL 480 TITLE II AVAILABILITY IS 22 055 MILLION IN BOTH FY 94

ACTION MEMORANDUM TO THE DIRECTOR

February 14, 1992

FROM Rich Rosenberg, TI

SUBJECT TI Sector Basis Counterpart Contribution

As you are aware, we have been discussing the possibility of measuring the 25% host-country contribution to our projects (required by FAA 110 for DA projects) on a TI portfolio basis, rather than on a project-by-project basis We have discussed this at length with Steve Allen (who indicates that this can be done within the context of the AID Handbook 3, App 2G) and with Tom Johnstone

There are two reasons for resorting to this approach

1 Some projects, more specifically the INTRA project, cannot meet the 25% requirement (or 33% of DA funds) So, if we take a sector approach, other projects can cover this shortfall

2 We would like to simplify the types of counterpart being tracked The PROCAF element of the SFM project, for example, was to derive about $1 million from the value of the time students spent at the PROCAF courses To track this would have been a nightmare for PROCAF and for the USAID Controller's office Other projects, such as the MSED project, had counterpart related to salaries and other operating expenses FENACRE was having to present on a quarterly basis the salaries of the people that were working with the project, and the actual percentage of time they spent on the project This was a nightmare for them, and probably a waste of time for all of us So, what we have suggested is to track the DIFAD amounts and the private sector counterparts to our various loan programs (what has been called in various project papers "owner's equity") This represents the contributions of private sector borrowers to the productive activities for which the loans are made

We have reviewed each project in the TI portfolio with Steve Allen and Tom Johnstone and have defined the extent and type of counterpart to be offered by each, and the way to monitor it Obviously, some projects have more, others less But taken as a whole, the counterpart offered by the TI projects as a sector far exceeds the required 33% of DA funds Meeting the host-country contribution requirement is easy by the sector method

The attached spreadsheet shows the proposal for each TI project, with the exception of the Low Cost Shelter project (which Steve suggests we take out since it will be ending this year) and the monitoring plan for each The idea is to meet the counterpart with real numbers, but without burdening the implementing agencies or our Controller's office

To proceed with this, Steve has suggested the following

1 To prepare a letter to the Ministry of Planning to explain the new approach, and

2 That as we find ourselves having to amend project agreements or Cooperative Agreements, that we include a paragraph modifying the counterpart to be provided by the project

We think this is a good proposal and hope you think so too!

Approved ______________

Disapproved ______________

Date 2/19/92

Clearance
CONT TJohnstone (in draft)
RLA SAllen (in draft)
DD GDavidson

cc CONT DFernandez
PDI LBarash
TI-Project Officers
Clearing Officers
DP WTate
DD GDavidson

TI LValenzuela
7561n

US AGENCY FOR
INTERNATIONAL
DEVELOPMENT

LAC-IEE-95-25

REQUEST FOR A CATEGORICAL EXCLUSION

Project Location	:	Bolivia
Project Title	:	Microfinance Project
Project Number	:	511-0637
Funding	:	$12 Million
Life of Project	:	Five Years (FY 1995-2000)
IEE Prepared By	:	Stephen Smith USAID/La Paz
Recommended Threshold Decision		Categorical Exclusion
Bureau Threshold Decision	:	Concur with Recommendation
Comments		None

Date 6/30/95

Jeffrey J. Brokaw
Bureau for Latin America
and the Caribbean

Copy to	:	Lewis W Lucke, Acting Director, USAID/La Paz
Copy to	:	Stephen Smith, Director, EO Office, USAID/La Paz
Copy to	:	Patricia Ramsey, RLA USAID/La Paz
Copy to	:	Olivier Carduner, Director, PD&I, USAID/La Paz
Copy to	:	Michael Yates, Environmental Officer, USAID/La Paz

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REQUEST FOR A CATEGORICAL EXCLUSION (cont'd) **LAC-IEE-95-25**

Copy to	:	Bruce Kernan, REA/SA USAID/Ecuador
Copy to	:	Gordon Bertolin, LAC/SPM/SAM
Copy to	:	Dan Lesmez, LAC/SAM
Copy to	:	IEE File

ENVIRONMENTAL DETERMINATION

Project Location	Bolivia
Project Title	Microfinance
Project Number	511-0637

Project Description The goal of the Microfinance project is to broaden and diversify poor peoples' access to financial services The principal indicator for measuring success will be the number of poor households receiving financial services from USAID assisted institutions The project purpose is to support the sustainable growth of efficient, viable microfinance institutions Impact will be measured through tracking institutional performance in a number of areas, including service quality, efficiency and financial viability The project will consist of three major components

(1) Highly focused technical assistance and training to Bolivia's strong microfinance institutions,

(2) Equity investments in a selective group of microfinance institutions with the capability of massive expansion on a sustainable basis, and

(3) Administrative and technical support to Bolivia's Superintendency of Banks and Financial Institutions

Statement of Categorical Exclusion It is the opinion of USAID/Bolivia that the project does not require an initial environmental examination because its activities are within the class of actions described in Section 216 2, paragraph (c)(2)(i) and paragraph (c)(2)(x) of 22 CFR part 216 on "Categorical Exclusions", which read as follows

> Section 216 2(C)(2)(i)
> Education, technical assistance or training programs except to the extent such programs include activities directly affecting the environment (such as construction of facilities, etc)
>
> Section 216 2(c)(2)(x) Support for intermediate credit institutions when the objective is to assist in the capitalization of the institution or part thereof and when such support does not involve reservation of the right to review and approve individual loans made by the institution.

Concurrence of Mission Director

I have reviewed the above statement and concur in the determination that the Microfinance project does not require an Initial Environmental Examination

Lewis W Lucke
Acting Mission Director

DATE

Clearances
PRamsey RLA (in draft)
OCarduner PD&I (draft)

Assistance Checklist for the Microfinance Project (USAID Project No 511-0637)

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance This section is divided into three parts Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources Part B includes criteria applicable only to Development Assistance resources Part C includes criteria applicable only to Economic Support Funds

CROSS REFERENCE IS COUNTRY CHECKLIST UP TO DATE?	Yes Country checklist for Bolivia was updated for FY 1995 in the Project Paper for Democratic Development and Citizen Participation (USAID Project No 511-0634)

A CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1 **Host Country Development Efforts** (FAA Sec 601(a)) Information and conclusions on whether assistance will encourage efforts of the country to (a) increase the flow of international trade, (b) foster private initiative and competition, (c) encourage development and use of cooperatives, credit unions, and savings and loan associations, (d) discourage monopolistic practices, (e) improve technical efficiency of industry, agriculture, and commerce, and (f) strengthen free labor unions	Project encourages efforts in (a), (b) and (c) by providing financial services to Bolivia's small and microenterprises and by strengthening Bolivia's microfinance institutions
2 **U.S Private Trade and Investment** (FAA Sec 601(b)) Information and conclusions on how assistance will encourage U S	Project may indirectly foster increased U S exports

private trade and investment abroad and encourage private U S participation in foreign assistance programs (including use of private trade channels and the services of U S private enterprise)

3 **Congressional Notification**

a **General requirement** (FY 1995 Appropriations Act Sec 515, FAA Sec 634A) If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the Appropriations Act notification requirement has been waived because of substantial risk to human health or welfare)?	Congress has been notified in accordance with standard Agency procedures
b **Special notification requirement** (FY 1995 Appropriations Act Sec 520) Are all activities proposed for obligation subject to prior congressional notification?	No special notification is required for obligations for Bolivia
c **Notice of account transfer** (FY 1995 Appropriations Act Sec 509) If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?	Not applicable
d **Cash transfers and nonproject sector assistance** (FY 1995 Appropriations Act Sec 536(b)(3)) If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U S interests to be served and a description of any economic policy reforms to be promoted?	Not applicable

4 **Engineering and Financial** Yes

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Plans (FAA Sec 611(a)) Prior to an obligation in excess of $500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance, and (b) a reasonably firm estimate of the cost to the U S of the assistance?

5 **Legislative Action** (FAA Sec 611(a)(2)) If legislative action is required within recipient country with respect to an obligation in excess of $500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?	No special action is required
6 **Water Resources** (FAA Sec 611(b)) If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U S C 1962, *et seq*)?	Not applicable
7 **Cash Transfer/Nonproject Sector Assistance Requirements** (FY 1995 Appropriations Act Sec 536) If assistance is in the form of a cash transfer or nonproject sector assistance	Not applicable
a **Separate account** Are all such cash payments to be maintained by the country in a separate account and not commingled with any other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?	Not applicable
b **Local currencies** If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies	Not applicable

(1) Has A I D (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered

into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A I D and that government to monitor and account for deposits into and disbursements from the separate account?

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

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

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

8 **Capital Assistance** (FAA Sec 611(e)) If project is capital assistance (e g , construction), and total U S assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?	Not applicable
9 **Multiple Country Objectives** (FAA Sec 601(a)) Information and conclusions on whether projects will encourage efforts of the country to (a) increase the flow of international trade, (b) foster	See item 1 above

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private initiative and competition, (c) encourage development and use of cooperatives, credit unions, and savings and loan associations, (d) discourage monopolistic practices, (e) improve technical efficiency of industry, agriculture and commerce, and (f) strengthen free labor unions

10 **U S Private Trade** (FAA Sec 601(b)) Information and conclusions on how project will encourage U S private trade and investment abroad and encourage private U S participation in foreign assistance programs (including use of private trade channels and the services of U S private enterprise)	See item 2 above
11 **Local Currencies**	
a **Recipient Contributions** (FAA Secs 612(b), 636(h)) Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U S are utilized in lieu of dollars	The USG owned local currencies are not available However, the host government will contribute certain operating expenses of the Superintendency of Banks and local organizations will also provide counterpart funding
b **U S -Owned Currency** (FAA Sec 612(d)) Does the U S own excess foreign currency of the country and, if so, what arrangements have been made for its release?	No, not applicable
12 **Trade Restrictions**	
a **Surplus Commodities** (FY 1995 Appropriations Act Sec 513(a)) If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U S producers of the same, similar or competing commodity?	Not applicable
b **Textiles (Lautenberg Amendment)** (FY 1995 Appropriations	No

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Act Sec 513(c)) Will the assistance (except for programs in Caribbean Basin Initiative countries under U S Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U S -made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U S exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

13 **Tropical Forests** (FY 1991 Appropriations Act Sec 533(c)(3)(as referenced in section 532(d) of the FY 1993 Appropriations Act) Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

No

14 **PVO Assistance**

a **Auditing and registration** (FY 1995 Appropriations Act Sec 560) If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A I D , and is the PVO registered with A I D ?

Assistance may be provided through and to local, U S and possibly third country NGOs Any NGO that is determined to be a PVO will be registered before direct assistance is provided by USAID

b **Funding sources** (FY 1995 Appropriations Act, Title II, under heading "Private and Voluntary Organizations") If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities

If assistance is provided to a U S PVO, steps will be taken to ensure that the PVO complies with the 20% "privateness" requirement

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from sources other than the United States Government?

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

No agreement covered by the Case-Zablocki Act guidance is anticipated

16 **Metric System** (Omnibus Trade and Competitiveness Act of 1988 Sec 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec 2, and as implemented through A I D policy) Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A I D specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

The metric system will be used to the extent practicable

Bulk purchases are not anticipated

Given the nature of the project, design documents do not describe procurement specifications in terms of physical measures

17 **Abortions** (FAA Sec 104(f), FY 1995 Appropriations Act, Title II, under heading "Population, DA," and Sec 518)

No

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a Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions? (Note that the term "motivate" does not include the provision, consistent with local law, of information or counseling about all pregnancy options including abortion)	No
b Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?	No
c Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?	No
d Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services? (As a legal matter, DA only)	Not applicable
e In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning? (As a legal matter, DA only)	Not applicable
f Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?	No
g Are any of the funds to be made available to any organization if the President certifies that the use	No

of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization?

18 **Cooperatives** (FAA Sec 111) Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?

Assistance will be provided through WOCCU, which generally supports development of cooperatives in Bolivia

19 **U S -Owned Foreign Currencies**

a **Use of currencies** (FAA Secs 612(b), 636(h), FY 1995 Appropriations Act Secs 503, 505) Are steps being taken to assure that, to the maximum extent possible, foreign currencies owned by the U S are utilized in lieu of dollars to meet the cost of contractual and other services

See answers to previous questions relating to local currencies, above

b **Release of currencies** (FAA Sec 612(d)) Does the U S own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No, not applicable

20 **Procurement**

a **Small business** (FAA Sec 602(a)) Are there arrangements to permit U S small business to participate equitably in the furnishing of commodities and services financed?

Any required procurement will be conducted by recipient organizations under standard HB 13 provisions U S small business will not be excluded

b **U S procurement** (FAA Sec 604(a) Will all procurement be from the U S , the recipient country, or developing countries except as otherwise determined in accordance with the criteria of this section?

Yes, see answer to previous item

c **Marine insurance** (FAA Sec 604(d)) If the cooperating country discriminates against marine insurance companies authorized to do business in the U S , will commodities be insured in the United States against marine risk with such

Not applicable

a company?

d **Insurance** (FY 1995 Appropriations Act Sec 531) Will any A I D contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U S insurance companies have a fair opportunity to bid for insurance when such insurance is necessary or appropriate?

No USAID direct contracts are anticipated under the program

e **Non-U S agricultural procurement** (FAA Sec 604(e)) If non-U S procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U S)

Procurement of agricultural products is not anticipated under the Project

f **Construction or engineering services** (FAA Sec 604(g)) Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries)

Procurement of construction and engineering services is not anticipated under the Project Any such services that are required would likely be procured from local or U S sources

g **Cargo preference shipping** (FAA Sec 603)) Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U S flag commercial vessels to the extent such vessels are available at fair

Project will comply will cargo preference requirements in accordance with relevant standard provisions of USAID Handbook 13 instruments

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and reasonable rates?	
h **Technical assistance** (FAA Sec 621(a)) If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?	Yes Project will not utilize facilities and resources of other Federal agencies
i **U S air carriers** (International Air Transportation Fair Competitive Practices Act, 1974) If air transportation of persons or property is financed on grant basis, will U S carriers be used to the extent such service is available?	Yes, in accordance with standard provisions of applicable USAID Handbook 13 instruments
j **Consulting services** (FY 1995 Appropriations Act Sec 559) If assistance is for consulting service through procurement contract pursuant to 5 U S C 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?	Expenditures under any direct contract for consulting services financed under this Project will be a matter of public record and available for public inspection
k **Metric conversion** (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec 2, and as implemented through A I D policy) Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A I D	See previous answers to questions relating use of metric system above

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specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

l **Competitive Selection Procedures** (FAA Sec 601(e)) Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	No direct contracts are contemplated, but cooperating agencies will use competitive procedures to the extent required by standard HB 13 procurement provisions
m **Notice Requirement** (FY 1995 Appropriations Act Sec 568) Will project agreements or contracts contain notice consistent with FAA section 604(a) and with the sense of Congress that to the greatest extent practicable equipment and products purchased with appropriated funds should be American-made?	Yes, in accordance with standard provisions on procurement in USAID Handbook 13 instruments
21 **Construction**	
a **Capital project** (FAA Sec 601(d)) If capital (e g , construction) project, will U S engineering and professional services be used?	Not applicable
b **Construction contract** (FAA Sec 611(c)) If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?	Not applicable
c **Large projects, Congressional approval** (FAA Sec 620(k)) If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U S not exceed $100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress?	Not applicable

22 **U S Audit Rights** (FAA Sec 301(d)) If fund is established solely by U S contributions and administered by an international organization, does Comptroller General have audit rights?	Not applicable
23 **Communist Assistance** (FAA Sec 620(h) Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?	Yes
24 **Narcotics**	
a **Cash reimbursements** (FAA Sec 483) Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated?	Yes
b **Assistance to narcotics traffickers** (FAA Sec 487) Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances), or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance?	Yes, new regulations under FAA Section 487 will be implemented as soon as they are issued
25 **Expropriation and Land Reform** (FAA Sec 620(g)) Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President?	Yes
26 **Police and Prisons** (FAA Sec 660) Will assistance preclude use of financing to provide training,	Yes

advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?

27 **CIA Activities** (FAA Sec 662) Will assistance preclude use of financing for CIA activities?	Yes
28 **Motor Vehicles** (FAA Sec 636(i)) Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U S , unless a waiver is obtained?	Yes
29 **Export of Nuclear Resources** (FY 1995 Appropriations Act Sec 506) Will assistance preclude use of financing to finance--except for purposes of nuclear safety--the export of nuclear equipment, fuel, or technology?	Yes
30 **Publicity or Propaganda** (FY 1995 Appropriations Act Sec 554) Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress?	No
31 **Exchange for Prohibited Act** (FY 1995 Appropriations Act Sec 533) Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?	No
32 **Commitment of Funds** (FAA Sec 635(h)) Does a contract or agreement entail a commitment for the	No

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expenditure of funds during a period in excess of 5 years from the date of the contract or agreement?

33 **Impact on U S Jobs** (FY 1995 Appropriations Act, Sec 545)

a Will any financial incentive be provided to a business located in the U S for the purpose of inducing that business to relocate outside the U S in a manner that would likely reduce the number of U S employees of that business?	No
b Will assistance be provided for the purpose of establishing or developing an export processing zone or designated area in which the country's tax, tariff, labor, environment, and safety laws do not apply? If so, has the President determined and certified that such assistance is not likely to cause a loss of jobs within the U S ?	No
c Will assistance be provided for a project or activity that contributes to the violation of internationally recognized workers rights, as defined in section 502(a)(4) of the Trade Act of 1974, of workers in the recipient country, or will assistance be for the informal sector, micro or small-scale enterprise, or smallholder agriculture?	No

B CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

1 **Agricultural Exports (Bumpers Amendment)** (FY 1995 Appropriations Act Sec 513(b), as interpreted by conference report for original enactment) If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities (1) specifically and principally designed to increase agricultural	Not applicable

exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U S exporters of a similar agricultural commodity, or (2) in support of research that is intended primarily to benefit U S producers?

2 **Tied Aid Credits** (FY 1995 Appropriations Act, Title II, under heading "Economic Support Fund") Will DA funds be used for tied aid credits?	No
3 **Appropriate Technology** (FAA Sec 107) Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?	Not applicable
4 **Indigenous Needs and Resources** (FAA Sec 281(b)) Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country, utilizes the country's intellectual resources to encourage institutional development, and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government	Project will directly support the provision of permanent, formal financial services to Bolivia's lowest economic groups These groups, comprised mainly of indigenous people, have been historically excluded from Bolivia's financial systems
5 **Economic Development** (FAA Sec 101(a)) Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?	Yes
6 **Special Development Emphases** (FAA Secs 102(b), 113,	Project strongly supports (a) through (d) access to financial services will

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281(a)) Describe extent to which activity will (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U S institutions, (b) encourage democratic private and local governmental institutions, (c) support the self-help efforts of developing countries, (d) promote the participation of women in the national economies of developing countries and the improvement of women's status, and (e) utilize and encourage regional cooperation by developing countries	enable Bolivia's microenterprises to increase, improve and diversify their business operations It will contribute to increased jobs and income Notably, the financial institutions supported will be sustainable and play an important role in Bolivia's financial sector Finally, women will be major beneficiaries of these services Several of the microfinance institutions' client base is more than 60% women
7 **Recipient Country Contribution** (FAA Secs 110, 124(d)) Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?	Counterpart contributions for the Economic Opportunity Office portfolio are being calculated on a sector-wide basis and equal more than the required 25% In-kind and recurrent costs contibutions will be made by the GOB to operations of the Superintendency of Banks, Cooperating Agencies will also contribute counterpart
8 **Benefit to Poor Majority** (FAA Sec 128(b)) If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?	The activity will support the expansion of microfinance opportunities for the poor majority
9 **Contract Awards** (FAA Sec 601(e)) Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules	No direct contracts are anticipated under the Project

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allow otherwise?

10 **Disadvantaged Enterprises** (FY 1995 Appropriations Act Sec 555) What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

No specific portion of project funds has been set aside for HBCUs

11 **Biological Diversity** (FAA Sec 119(g) Will the assistance (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity, (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats, (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection, or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas? (Note new special authority for biodiversity activities contained in section 547(b) of the FY 1995 Appropriations Act)

Not applicable

12 **Tropical Forests** (FAA Sec 118, FY 1991 Appropriations Act Sec 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act)

a **A I.D Regulation 16** Does the assistance comply with the environmental procedures set forth in A I D Regulation 16?

Yes, a negative threshold determination was approved by the LAC Bureau environmental coordinator per attached PP Annex

b **Conservation** Does

Not applicable

the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible (1) stress the importance of conserving and sustainably managing forest resources, (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas, (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management, (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices, (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded, (6) conserve forested watersheds and rehabilitate those which have been deforested, (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing, (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation, (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas, (10) seek to increase the awareness of U S Government agencies and other donors of the immediate and long-term value of tropical forests, (11) utilize the resources and abilities of all relevant U S government agencies, (12) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land, and (13) take full account of the environmental impacts of the proposed activities on biological diversity?

c **Forest degradation** Will assistance be used for (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems, (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas, (3) activities which would result in the conversion of forest lands to the rearing of livestock, (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands, (5) the colonization of forest lands, or (6) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?	No
d **Sustainable forestry.** If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of	Not applicable

their total tropical forest resources, with the goal of developing a national program for sustainable forestry?

e **Environmental impact statements** Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A I D regulations requiring an environmental impact statement for activities significantly affecting the environment?

Activity will not significantly affect the environment

13 **Energy** (FY 1991 Appropriations Act Sec 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act) If assistance relates to energy, will such assistance focus on (a) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases?

Not applicable

14 **Debt-for-Nature Exchange** (FAA Sec 463) If project will finance a debt-for-nature exchange, describe how the exchange will support protection of (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves, or describe how the exchange will promote (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management

Not applicable

15 **Deobligation/Reobligation** (FY1995 Appropriations Act Sec 510) If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated,

Not applicable

and have the House and Senate Appropriations Committees been properly notified?

16 **Loans**

a **Repayment capacity** (FAA Sec 122(b)) Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest	Not applicable This project will grant funds to cooperating institutions
b **Long-range plans** (FAA Sec 122(b)) Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?	Yes
c **Interest rate** (FAA Sec 122(b)) If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter?	Funds will be granted
d **Exports to United States** (FAA Sec 620(d)) If assistance is for any productive enterprise which will compete with U S enterprises, is there an agreement by the recipient country to prevent export to the U S of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?	Project indirectly supports productive microenterprises, but these do not generally compete with U S enterprises
17 **Development Objectives** (FAA Secs 102(a), 111, 113, 281(a)) Extent to which activity will (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development	Project strongly supports (a) through (d) Access to financial services will enable Bolivia's microenterprises to increase, improve and diversify their business operations It will contribute to increased jobs and income Notably, the financial institutions supported will be sustainable and play an important role in Bolivia's financial sector Finally, women will be major beneficiaries of these services

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on a sustained basis, using the appropriate U S institutions, (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions, (3) support the self-help efforts of developing countries, (4) promote the participation of women in the national economies of developing countries and the improvement of women's status, and (5) utilize and encourage regional cooperation by developing countries?

Several of the microfinance institutions' client base is more than 60% women

18 **Agriculture, Rural Development and Nutrition,** and **Agricultural Research** (FAA Secs 103 and 103A)

a **Rural poor and small farmers** If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor, or if assistance is being made available for agricultural research, has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made

Not applicable

b **Nutrition** Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value, improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs, and the undertaking of pilot or demonstration programs explicitly

Not applicable

addressing the problem of malnutrition of poor and vulnerable people

c **Food security** Describe extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution

Not applicable

19 **Population and Health** (FAA Secs 104(b) and (c)) If assistance is being made available for population or health activities, describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach

Not applicable

20 **Education and Human Resources Development** (FAA Sec 105) If assistance is being made available for education, public administration, or human resource development, describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development, and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities

Project will provide ongoing economic benefits through financial services to thousands of poor Bolivians Project will help integrate these people into the country's formal institutions As savings clients of formal financial institutions, poor people will have a stake in how the institutions perform, and will participate in monitoring this performance

21 **Energy, Private Voluntary Organizations, and Selected Development Activities** (FAA Sec 106) If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is

a concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production, and facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment,	Not applicable
b concerned with technical cooperation and development, especially with U S private and voluntary, or regional and international development, organizations,	Project will work largely through non-governmental organizations, some of which may be PVOs
c research into, and evaluation of, economic development processes and techniques,	Project will assist development and expansion of new microfinance technologies
d reconstruction after natural or manmade disaster and programs of disaster preparedness,	Not applicable
e for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U S assistance,	Project is closely linked to prior U S assistance in the area of microfinance
f for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development	Project will increase the availability of credit and other financing mechanisms to small and microenterprises

22 **Capital Projects** (Jobs Through Export Act of 1992, Secs 303	Not applicable

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and 306(d)) If assistance is being provided for a capital project, is the project developmentally sound and will the project measurably alleviate the worst manifestations of poverty or directly promote environmental safety and sustainability at the community level?

C CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY

The Microenterprise Project is funded with Development Assistance funds Thus all of Section C is inapplicable

1 **Economic and Political Stability** (FAA Sec 531(a)) Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

2 **Military Purposes** (FAA Sec 531(e)) Will this assistance be used for military or paramilitary purposes?

3 **Commodity Grants/Separate Accounts** (FAA Sec 609) If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? (For FY 1995, this provision is superseded by the separate account requirements of FY 1995 Appropriations Act Sec 536(a), see Sec 536(a)(5))

4 **Generation and Use of Local Currencies** (FAA Sec 531(d)) Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1995, this provision is superseded by the separate account requirements of FY 1995 Appropriations Act Sec 536(a), see Sec 536(a)(5))

5 **Capital Projects** (Jobs Through Exports Act of 1992, Sec 306) If assistance is being provided for a capital project, will the project be developmentally-sound and sustainable, i e , one that is (a) environmentally sustainable, (b) within the financial capacity of the government or recipient to maintain from its own resources, and (c) responsive to a significant development priority initiated by the country to which assistance is being provided (Please note the definition of "capital project" contained in section 595 of the FY 1993 Appropriations Act Note, as well, that although a comparable provision does not appear in the FY 94 Appropriations Act, the FY 93 provision applies to, among other things, 2-year ESF funds which could be obligated in FY 94)

Answers, Initial Draft
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Questions
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