PD-ABL-829

PROJECT ASSISTANCE COMPLETION REPORT

May 22, 1995

I. PROJECT DATA

Project Title: Market Town Capital Formation (MTCF)

Project Number: 511-0573

Loan Number: 511-T-071

PACD: Original: 07/22/91, amended: 01/23/94

II. PROJECT BACKGROUND

The Market Town Capital Formation (MTCF) project was a follow-on assistance program to two previous USAID funded projects, the Rural Development Planning Project (RDP) and the Departmental Development Corporations (DDC) Project. An evaluation of the RDP/DDC projects concluded that a future project should strengthen the Financial Credit Units (FCUs), more fully utilize the capacity of participating Intermediate Credit Institutions (ICIs), and concentrate on financing and implementing sub-projects in rural areas by further developing cooperation among FCUs, ICIs and investors. The MTCF project was the outgrowth of those recommendations.

The MTCF project was authorized on July 21, 1986. The project contemplated US$15,000,000 in loan funds and US$3,500,000 in grant funds over a five year period to help in financing foreign exchange and local currency costs for the project, to provide credit to help develop and finance agro-industrial and service industry investments in secondary areas in Bolivia and to strengthen intermediate credit institutions through which the credit would flow, strengthen the decentralized investment financing system already established, and develop equity participation schemes to generate resources within the secondary areas themselves for local investment.

On February 13, 1989, the MTCF project authorization was amended (Amendment 1) to lift the geographical restrictions of the project, thus permitting lending to sub-projects which are located in the main urban areas of La Paz, Cochabamba and Santa Cruz. The flexibility in the geographical restrictions was extended to achieve the following:

- Re-focus on the urgent priority needs of Bolivia's economic reactivation.
- Maintain an emphasis, included in the Project Paper, to generate positive impacts in rural areas.
- Reach a volume of lending necessary for achieving the financial self-sufficiency of the system.

On November 3, 1989, the Project Paper was further amended (Amendment No. 2) to reduce the authorized amount of loan funding by $2,996.555 from $15,000,000 to $12,003,445; the authorized amount of grant funding was increased by $2,996,555 from $3,500,000 to $6,496,555.

Project Goal and Purpose

The goal of the project was to achieve a higher standard of living through increased employment and production, in Bolivia's rural and semi-urban areas.

The purpose of the project, as amended, was to increase the level of productive private sector investment in Bolivia's rural and semi-urban areas.

Project Strategy

The project had to adopt a three-fold strategy in providing the assistance necessary to address the factors that were impeding increased private sector investment in Bolivia's secondary market towns. It should have built on the initial successes of the Financial Credit Units set up under the Departmental Development Corporations Project. It should have actively investigated and promoted investment opportunities in secondary market towns, working closely with interested investors. Lastly, it should have helped capitalize a permanent Government fund for rediscounting ICI investment loans arranged with the assistance of the FCUs.

Project Components

The project had three major components:

a) Further development of a decentralized investment financing system, composed of DDC project reflows and new funds from USAID and the PL 480 Title III Program. The fund would be used to refinance ICI loans made for rural private sector investments which the FCUs would help to develop:

b) Investment promotion. At least five, and probably up to 10, priority market towns would be selected by the FCUs, for which they would undertake market studies and promotional efforts designed to increase investment:

c) Improvement of the capabilities of the institutions involved in the project ("Institution building"). The objective of this component was to strengthen the organizations involved in the Credit Fund refinancing system --principally the FCUs and the PCU, and, indirectly, the participating ICIs.

III. PROJECT STATUS

A. FINANCIAL PLAN - LIFE OF PROJECT COST

1. AID Grant and Loan Contribution

A total of $18.5 million ($12 million Loan and $6.5 million Grant) were provided by USAID as shown in the Life of Project Cost chart (Table I). Funds were provided as follows:

- A total of $15 million were furnished for the market town investment refinancing facility from USAID loan and grant funds.

- The technical assistance budget component included USAID grant financing in the amount of $1.5 million for the international institutional contract.

- The training activity, consisted of workshops/seminars organized by the PCU for project related personnel and orientation /observation trips to Latin American countries plus courses mainly for FCU/PCU personnel, totalling $230,000.

- $1.6 million were provided to finance: a) salaries and other direct costs for the PCU staff; b) FCU operating costs and commodity procurement for the PCU and FCUs consisting of vehicles and computers; c) investment research in priority market towns; and d) USAID project coordinator.

- $145,000 were furnished for the project evaluation and annual audits.

- $8,000 for contingencies.

2. Host Country Contribution

a) Private Sector

A total of $36 million were provided by investors and participating ICIs for sub-project financing, in the form of cash and in-kind contributions.

b) FCU Support

The Departmental Development Corporations helped finance the Financial Credit Units operating costs with $400,000 during the life of project.

c) GOB Contribution

The equivalent of $6,500,000 in bolivianos were loaned to the PCU from PL 480, Title III resources for sub-project financing.

The Office of the Controller verified the GOB and private sector contributions to the project and concluded that they had been completed[1].

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[1] See memos CONT/93-0553, dated June 16, 1993 and CONT/93-0838, dated September 14, 1993.

On August 22, 1991, an agreement was signed between the Government of the United States and the Government of Bolivia regarding the discharge $341 million owed to the Government of the United States, which included the $12,003,445 owed under the MTCF project (511-T-071).

In addition, the PL 480 loan was repaid by the PCU in June 1993. Therefore, as of the project termination date, there were no financial liabilities.

TABLE 1
LIFE OF PROJECT COST
(In US$000)

Element	Source		Totals
	AID	GOB	
1. Technical Assistance	1,537	0	1,537
2. Training	230	0	230
3. Project Support	1,576	400	1,976
4. Evaluations & Audits	145	0	145
5. Investment Financing	15,000	6,500	21,500
6. Contingencies	8	0	8
Total	**18,496**	**6,900**	**25,396**

B. TECHNICAL ASSISTANCE

Background

On May 5, 1987 a two-year contract (contract No. 511-0573-C-00-7152-00) was signed with Development Associates, Inc. (DAI) to provide technical assistance, help supervise the market studies and promotional efforts designed to increase investment which will be undertaken in the market towns; assist in drafting and negotiation of interinstitutional agreements for the coordination of the investment promotion efforts in market towns; assist in training personnel from the FCUs and ICIs on how to prepare sub-projects proposals for small enterprises, including the marketing aspects; train the FCU personnel in small business management techniques; conduct marketing studies at both regional and national levels, including those related to market towns; assist in making sub-project marketing arrangements, both nationally and internationally; and to provide technical assistance in other related areas.

The DAI contract underwent 3 modifications and was closed-out on November 6, 1992.

Accomplishments

Pursuant to its two year contract with USAID ending May 31, 1989, Development Associates provided technical assistance to the participants in the Bolivia MTCF project Highlights include:

- Identifying and inaugurating three market towns in secondary areas, promoting private investments and facilitating loan applications and approval processes in the three market towns;

- providing management services to the PCU in terms of clarifying goals, objectives and procedures;

- preparing and disseminating studies in banking, angora rabbits and chickens, as well as several smaller papers;

- providing seminars and workshops, representing over 1,400 person-days of training in marketing, business organization and planning, finance and production, to 780 participants --mostly Bolivian business persons but also bankers, and PCU and FCU staff;

- searching for U.S. buyers for products originating from the sub-projects;

- providing technical assistance to sub-projects;

- identifying "implementation problems" and recommending "corrective actions"; and

- visiting DDC sub-projects and identifying their technical assistance needs.

Constraints

Many of the contractor's activities were behind schedule. Some delays were due to forces beyond the control of Development Associates (the overall MTCF project was behind schedule), yet others were due to directing energy and manpower toward activities that have been process, rather than results, oriented. In addition to delays in the placement of long- and short-term personnel, there were delays in providing substantive outputs as called for in the scope of work and as requested by the Project Manager. The team spent an inordinate amount of time debating, defining and refining goals, objectives, procedures, plans and project limitations. This was a valuable effort and, while it was not necessarily within the DAI scope of work, it focussed attention on broad and important issues. Most of 1988 was been dominated by the preparation of manuals and guides. In essence, more than one half of the technical assistance contract focussed on definitions and process rather than on the provision of technical assistance or on actions leading to increase investment.

C. TRAINING

1,062 participants were trained in the following areas: marketing, exporting, finance and accounting, project preparation, business organization and planning, finance and

production, other dealt with specific products or industries including brazil nuts, crude rubber, furs and milk. The participants were mostly Bolivian business persons but also bankers, and PCU and FCU staff. Seminars and workshops were held in all the Departments of Bolivia, except Pando.

D. COMMODITIES

The Grant provided $195,003 for vehicles, computers, equipment and other non financial assets, as follows:

TABLE 2
COMMODITIES

Description	Amount US$
Vehicles	132,760
Computer equipment[2]& other equipment[3]	26,127
Furniture & household effects	36,116
Totals	**195,003**

- Three sets of furniture and household effects were purchased to be used by three long-term advisors. On November 25, 1991, two sets were transferred to the Export Promotion and Micro & Small Enterprise Development Projects, through PIO/Cs 511-0585-4-10162 and 511-0596-4-10169 respectively. The third set, that was stored in Exprinter warehouse, burned on December 12, 1989.

- The nine vehicles donated under the project were delivered to the Ministry of Planning and Coordination on October 22, 1987, and were immediately transferred to the PCU and FCUs. The official transfer of title of the vehicles from MTCF to PCU and FCU was approved on June 10, 1988.

  Amendment No. 10 to the Grant/Loan Agreement stated that the vehicles, equipment and other non-financial assets purchased with DDC and MTCF project resources that were currently in the possession of the MTCF/PCU should become the property of the former Ministry of Planning, and of the respective Regional Development Corporations in the case of assets in possession of the Financial Credit Units.

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[2] Includes 1 computer, purchased to be used by the Project Coordinator, which was transferred to the PCU on November 20, 1992.

[3] Includes fax machines, telephone lines and other office equipment

- USAID/Bolivia, PL-480 and the GOB, through PIL No. 17, dated September 16, 1987, agreed to purchase an office building in La Paz to serve the needs of the MTCF and Private Agricultural Organizations (PAO) Projects as well as those of the Project Coordination Unit which manages them, for a total amount of US$191,500 of PL-480, Title III counterpart funds of both projects. USAID also agreed that the purchases and subsequent owner of the building would be the Government of Bolivia through the former Ministry of Planning and Coordination, on the condition that the premises would be reserved for other USAID/Bolivia-funded activities after the MTCF and PAO projects end.

  Since a market search determined that the cost of a building of the type required by the PCU would substantially exceed the budget originally approved, in January 21, 1988, PIL No. 36 modified the budget and approved new investment of funds up to a total amount of US$352,339. On February 29, 1988, (through PIL No. 45); USAID approved the building purchase in an amount of US$293,500 with $63,040 being provided by the MTCF AID grant funds and $230,460 by the Executive Secretariat PL-480.

  On May 18, 1993, PIL No. 93 authorized that PAO's premises be used as of August 1, 1993, and MTCF's premises be used as of February 1, 1994, by the National Environment Fund (FONAMA) that manages the Enterprise for the Americas Environmental Account and that also will coordinate, representing the Bolivian Government, the new Forestry Management Project.

E. PROJECT LOAN PORTFOLIO

Although the project paper was signed in July of 1986, there was considerable delay in project implementation and the first sub-project loan was not disbursed until July of 1987.

The inputs for the loan portfolio were: US$15 million from AID, US$6.5 million from PL-480 Title III Program (the Bolivian Government), and US$17.4 million carried over from the predecessor USAID DDC project. However, the DDC project had a high percentage of past due loans and its transfer to the FCU credit fund, or another permanent institutional structure, until the end of the project was uncertain.

As of December 31, 1993 funds for 503 sub-projects were disbursed for a total of $31 million, from the following sources:

TABLE 3
LOAN PORTFOLIO INPUTS

Source	US$ 000
AID Loan/Grant	15,000,000.00[4]
PL - 480	6,500,000.00
Reflows	9,556.822.86
Total	**31,056,822.86**

Loan Portfolio Status by Destination and Geographic Location

TABLE 4
LOAN PORTFOLIO STATUS BY DESTINATION AND GEOGRAPHIC LOCATION

As of January 23, 1994 the loan portfolio status was the following:

Location	Projects Financed	Credit Destination		
		Investment	Working Capital	Total
Beni	28	1,757,860.00	370,041.00	2,127,901.00
Chuquisaca	49	1,157,812.00	507,030.00	1,664,842.00
Cochabamba	169	6,944,546.11	2,644,415.50	9,588,961.61
La Paz	60	3,482,919.00	1,392,556.00	4,875,475.00
Oruro	40	2,080,058.50	351,748.00	2,431,806.50
Pando	3	162,901.00	203,550.00	366,451.00
Potosi	44	894,470.39	90,855.21	985,325.60
Santa Cruz	69	5,636,607.50	1,438,060.00	7,074,667.50
Tarija	41	1,013,665.65	927,727.00	1,941,392.65
Totals	**503**	**23,130,840.15**	**7,925,982.71**	**31,056,822.86**

During the first three years (of life) of the project, the investment finance mechanism was characterized by limited lending to market towns and cities outside the central axis, and a very centralized, slow loan approval process. Only $3.5 million was disbursed.

[4] The project provided $15 million for investment finance, $2,996,555 of grant and $12,003,445 of loan funds.

The International Science and Technology Institute, Inc. (ISTI) mid-term evaluation[5] identified various problems which contributed to the project's slow implementation. The major recommendation pertained to the elimination of the geographical restrictions, which only allowed project financing in rural and semi-urban areas, arguing that the exclusion of the main urban areas of La Paz, Cochabamba and Santa Cruz had limited the ability of the project to reach the volume of lending necessary to achieve the financial self-sufficiency of the PCU/FCU system.

Based on an analysis of the findings and recommendations of the mid-term evaluation, the Mission executed an amendment to the project[6] to allow the financing of sub-projects located in the main urban areas of La Paz, Cochabamba, and Santa Cruz.

As a result, at the end of the project, 298 sub-projects (59% of the portfolio) were financed in the central axis of La Paz, Santa Cruz and Cochabamba, with 229 (77%) being in market town areas.

TABLE 5
CURRENT PORTFOLIO AS OF JANUARY 24, 1994
(In US$)

Region	No. of Projects	Disbursements	Amortizations	Outstanding Balance
Beni	17	1,459,020,00	547,726.38	911,293.62
Chuquisaca	22	658,534,00	315,441,87	343,092.13
Cochabamba	74	4,381,921.93	1,266,431,43	3,115,490.50
La Paz	25	2,476,408.00	741,306.28	1.735,101.72
Oruro	17	1,330,689.30	435,907.64	894,781.66
Pando	1	216,000.00	0.00	216,000.00
Potosi	20	625,876.00	273,028.85	352,847.15
Santa Cruz	39	3,796,387.50	943,983.47	2,852,404.03
Tarija	33	1,564.279.65	698,545.65	865,734.00
Totals	**248**	**16,509,116.38**	**5,222,371.57**	**11,286,744.81**

Interest Rates

During the life of project, different interest rates were applied. From inception to 1990, the interest was based on libor rate, charged by the Central Bank of Bolivia for development

[5] MID-TERM EVALUATION: Market Town Capital Formation Project, dated March, 1989

[6] Project Paper Amendment No. 1, dated February 13, 1989; ProAg amendment No. 6, dated February 16, 1989.

operations, which in 1986 fluctuated around 9% per annum. However, by the end of 1990 the libor rate dropped to 4% per annum, which did not cover even the operating costs. This rate was kept for those projects that had already been financed. During this period, 314 sub-projects were financed for a total amount of $18.9 million. As of the end of the project, only 22% of the portfolio was still under this rate.

In 1991, the PCU and AID agreed[7] to apply the interest rate established by the auction system of the Bolivian Central Bank to the participating banks which request MTCF funds to finance loans, which are used exclusively for working capital, 173 projects (34% of the portfolio) were financed with this interest rate.

Finally, during the last six months of the life of project, a new credit line was established, FOCAS-PRO which provided extra incentives for ICIs to finance projects in under-served regions or projects which did not have the normally-required guarantees. Under FOCAS-PRO credit line, 16 projects were financed for a total amount of $755,000. The interest rate applied was 12.54% per annum.

IV. END OF PROJECT STATUS

There were five to ten priority "market towns" identified in rural and semi-urban areas at the beginning of the project. However, due to reluctance by the commercial banks to lend in these areas, and lack of adequate infrastructure, only two towns, Riberalta and Camargo, actually benefitted under this project. This regional limitation caused delays in disbursements, and jeopardized the project's ability to generate sufficient fee income to sustain itself. As a result, the project was amended in February 1989 (PRO AG Amendment No. 6) to include the major cities of Bolivia (including the central axis of La Paz, Santa Cruz and Cochabamba), provided the investments had forward and backward linkages to rural areas. Also, the amendment allowed for working capital loans exclusively.

The investment finance mechanism has gone through four distinct periods. The first period, from July 1986 until January 1989, was characterized by limited lending to market towns and cities outside the central axis, and a very centralized, slow loan approval process: only US$3.5 million was disbursed. The second period began in February 1989 with the amendment to include La Paz, Cochabamba and Santa Cruz, and working capital loans: disbursements reached US$17 million. During the second period, decision making was decentralized under the automatic refinancing scheme. The third period was a time of crisis, from October 1989 through January 1990, when a few existing projects, but no new projects, were financed. There was uncertainty over the future of the project based on USAID's decision to suspend undisbursed funds (US$7 million), in order to develop a private financial institution. This decision created much controversy with the FCUs and the Bolivian Government, both of which pressured USAID to abandon the private financial institution idea and continue the project. The fourth period began in January 1990, when USAID followed the Bolivian Government's advice.

As of January 23, 1994, 503 projects were financed with US$31 million. The last three years of the project involved re-lending loans (reflows). Some loans have fallen past due, and rescheduling was done on a case by case basis. Commercial banks took all of the credit risk, and had to repay the PCU immediately after a loan fell past due. Finally, the financing mechanism has

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[7] PIL No. 89, dated October 10, 1991.

not been able to meet the demand, (nor have ICIs lent on their own), as there were several viable projects approved by FCUs without financing.

TABLE 6
NUMBER OF PROJECTS BY SIZE AND DESTINATION OF THE CREDIT
(In US$)

Size of the Entreprise	Number of Projects Financed	Credit Destination		Total
		Investment	Working Capital	
Large	54	9,435,174	2,048.328	11,483,502
Medium	213	10,836,626	4,433,028	15,269,654
Small	203	2,765,944	1,335,307	4,101,251
Micro	33	93,096	109,320	202,416
Total	**503**	**23,130,840**	**7,925,983**	**31,056,823**

The project was to achieve financial sustainability based on fees charged by the PCU (1.4% of the total national portfolio) and by the FCUs (2.6% based on the portfolio of their regions). The ICIS earned a spread of 5% on the project's loans. This fee structure created wide disparities in the level of income generated by the FCUs, and generous income levels for the PCU and ICIs. This was due to the size of each FCU portfolio, and also contributions from the Regional Corporations for operating expenses. The FCUs in the less developed regions (Tarija, Beni, Potosi and Oruro), have much smaller portfolios. FCUs have operating surpluses except Potosi and Oruro, which have been, supported by the PCU for several years.

The project was supposed to improve the capabilities of the institutions involved in the investment financing system. It achieved this with the PCU and FCUs, but not the ICIs. The PCU/FCU/ICI system has managed to mobilize the resources available, in spite of uncertainties and bureaucratic delays. However, the system did not achieve its objective to be fully decentralized. Even though all investments under US$250,000 do not need PCU approval under the automatic refinancing mechanism, there still was involvement by the PCU in checking compliance with the project's norms. Most decisions by the ICIs were centralized in La Paz. Also, loans were made on a first come, first serve basis. On the other hand, the project had another purpose, the development of the FCUs as investment promotion entities and intermediaries between potential investors and ICIs. This has been only partially met. Technical assistance from Development Associates was not able to transfer these skills[8]. The FCUs saw themselves primarily as financial intermediaries which have mobilized the funds, and did not develop skills in investment promotion until the last period of the project.

The number of players and competing interest involved, made the PCU/FCU/ICI system a difficult activity to implement. However, the Project has delivered loans to small and medium size business in secondary areas where it would not have been possible before. The system has stimulated private sector participation in the development process. The private sector participates

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[8] See Institutional Options Study by Development Associates.

with 3 members in most FCUs' directorates. As the system functioned, no component had complete control over the loan granting process. FCUs had complete control on project evaluation and on issuing certificates of eligibility. The ICIs performed this function in the central axis, however, they relied on the FCU in the outlying areas, where they don't have offices or sufficient staff, and the cost of project evaluation is high. This is where the FCU activity had the largest impact. The ICIs had control on loan approval, since they took the credit risk. The PCU had control on disbursement to ICIs and on loan approvals for loans above $250,000. Finally until 1991, the whole system was outside the supervision of the Superintendency of Banks.

The project met its socioeconomic objectives to increase production, foreign exchange, and employment. The cumulative effect[9] of the seven years included an increase in the annual demand of local inputs of US$63 million, creating indirect annual value added (backward linkages) of US$56 million. Net foreign exchange earnings generated by the project equalled US$32.8 million.

The project created 37,558 (direct and indirect) new jobs since July 1986, or an average investment of $US1,979 per job, based on US$74,324,548 (US$31,056,823 MTCF portfolio and US$43,267,725 owners equity) outstanding as of January 1994. The project has also contributed to export diversification and import substitution, such as the case of Brazil nuts and milk, respectively. The Project has been quite successful in achieving an equitable distribution of funds throughout the country; 69% was concentrated in the central axis, compared to 86% channeled by foreign credit lines through the Central Bank. Finally, the Project also helped create new economic activities in depressed areas.

The project was supposed to create a permanent institutional structure. It has also achieved this objective. As envisioned in the original design of the MTCF project, the Government of Bolivia and USAID agreed on the need to define a permanent institutional structure, which would assure that the project resources would continue to be directed to project purpose on a self sustaining basis for the indefinite future.

Project Implementation Letter No. 87, dated August 13, 1991 defined the basis and procedures for the institutionalization of the MTCF project and its operational system. Amendments Nos. 10 and 11, dated September 18, 1992 authorized the PCU to implement the new system in the following terms:

1. The MTCF/PCU should transfer to the Foundation for the Production (FUNDA-PRO), a non-profit private foundation, that in turn would establish a development bank, based on strict criteria of functionality, efficiency and self-sustaining capability, the entire portfolio, reflows of the MTCF portfolio, with the exception of resources corresponding to the MTCF/PCU's debt to the PL-480 Executive Secretariat. The transfer shall take the form of a 40-year dollar-denominated loan, with a 20-year grace period on principal and an interest rate of 1% per annum on balances outstanding. An additional 3% per annum of penalty interest shall apply to any payments more than one month late.

2. The MTCF/PCU should execute two separate loan contracts with FUNDA-PRO, one to transfer DDC funds and the other to transfer MTCF funds.

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[9] Based on multipliers of the Impact Assessment of the MTCF Project by Asesoría y Representaciones in May, 1991.

3. The loan contracts should provide the earliest practical effective date for the transfers.

4. The loan contracts should stipulate payment of principal and interest when due directly to the General Treasury of th · ·on, reserving to the Ministry of Planning and Coordination the right to designate a different des..ation of payment at any time.

5. The execution of an agreement between USAID/Bolivia and FUNDA-PRO defining USAID/Bolivia's limited participation in the future monitoring of the new system, should be a condition precedent to the transfer of assets to FUNDA-PRO.

6. The vehicles, computers, equipment and other non-financial assets purchased with DDC and MTCF project resources should become the property of the Ministry of Planning and Coordination (in the case of assets currently in the possession of the MCTF/PCU) and of the respective Regional Development Corporation (in the case of assets currently int eh possession of the Financial Credit Units).

7. The MTCF/PCU should cooperate with FUNDA-PRO and the PL-480 Execut ve Secretariat to renegotiate the MTCF/PCU's PL-480 debt, adjusting the terms of that debt as may be acceptable to the parties, substituting FUNDA-PRO for the MTCF/PCU as the debtor, and transferring to FUNDA-PRO ownership and possession of all assets corresponding to the PL-480 debt.

The former Ministry of Planning and Coordination and the MTCF/PCU signed a loan agreement with FUNDA-PRO, regarding the project resources and have transferred to FUNDA-PRO a substantial part of the MTCF portfolio. However, by the PACD, an agreement for the transfer of the Departmental Development Corporations portfolio, under Project Agreement Nos. 511-T-064/W-065 was not reached, due to differing legal interpretations of some of the corporations. The GOB and USAID/Bolivia agreed[10] to a different use of these resources than that already established in PIL No. 87, if any of the Departmental Corporations request the relevant portion of the portfolio assigned before May 31, 1994, subject to agreement by the parties that the proposed use and implementing mechanisms are appropriate.

A. Purpose Indicators/EOPS

Planned	Actual
$60 million of non-traditional exports sales attributable to USAID assistance.	$56 million of exports was generated. The project contributed to export diversification and import substitution.
3,640 permanent male jobs and 1,560 permanent female jobs created by firms/individuals receiving USAID supported services.	The project created 6,201 new male direct jobs and 2,472 new female direct jobs since July 1986. A total of 28,885 indirect jobs were created with an average investment of $827 per job. Most of the employment was generated in small, medium and export-oriented businesses.

[10] PILs Nos. 96 and 97 dated January 4, 1994 and April 11, 1994, respectively.

B. Major Output Indicators

Planned	Actual
$21 million in productive private sector loans approved.	By PACD 503 projects had been financed with over $31 million in loans to small and medium size business.
A self-sufficient system of financing and promoting investments.	The project achieved financial sustainability based on fees charged by the PCU and the FCU. All the FCUs had operating surpluses except Potosi and Oruro, which have been supported by the PCU, these two less developed regions had much smaller portfolios and insignificant DDC support.
8 regional offices with an improved capability to promote investments.	8 FCUs operated continuously during the life of project. All the FCU had operating surpluses except for Potosi and Oruro which did not become self-sufficient due to the small size of their loan portfolios and were supported by the PCU. The project achieved the purpose to improve the capabilities of the FCUs and PCU. The system has managed to mobilize the resources available. However, the project had another purpose, the development of the FCUs as investment promotion entities. This has been only partially met. The FCUs saw themselves primarily as financial intermediaries which had mobilized the funds.
Training 700 male and 300 female participants.	816 male and 246 female participants were trained in the following areas: marketing, exporting, finance and accounting, project preparation, business organization and planning, finance and production, other dealt with specific products or industries. The participants were mostly Bolivian business persons but also bankers, and PCU and FCU staff. Seminars and workshops were held in al the Departments of Bolivia, except Pando.

V. EVALUATIONS

First Interim Evaluation

The evaluation performed by International Science and Technology Institute, Inc. (ISTI) in 1988 involved final evaluations of the Rural Development Planning and the DDC Projects as well as an early mid-term evaluation of the MTCF Project. To a large extent the RDP and DDC projects formed the foundation for the MTCF Project; in fact, the loans extended under the DDC project should have been part of the MTCF portfolio.

Timing for the mid-term evaluation was advanced due to concern over the slow movement of loans under the MTCF Project and questions regarding the financial viability and self-sufficiency of the project.

At this stage of project implementation, the team made the following observations:

- the project was significantly behind its implementation schedule;

- the overall system lacked clear lines of authority and permanence;
- weak PCU management and not results oriented;
- excessive focus on the creation of market towns to the exclusion of operation imperatives;
- geographic and subsectoral restriction limited success;
- red tape and bureaucracy were excessive; and
- self-sufficiency by 1989 was not attainable.

The most fundamental recommendation made was that the overall goal and purpose of the project be broadened to increase the level of productive investment throughout Bolivia, and not exclude urban areas from access to credit. The team also made several operational and institutional recommendations including:

- support lending to the productive private sector;
- emphasize small and medium investors, but do not exclude larger entrepreneurs;
- eliminate geographic restrictions;
- conduct "market town" activity as a pilot project: and
- eliminate working capital restrictions.

Lessons Learned

One of the key lessons learned from this mid-point evaluation was that in order for a private sector project to be effective, it must be founded on free market principles.

The evaluation carried out by ISTI assessed the main problems faced by the project and provided recommendations to overcome them. The general findings concurred with the conclusions reached by the Mission and the GOB implementing unit[11]. Nonetheless, there were some recommendations that the Mission did not fully agree with. These recommendations were either not approved or left pending for further discussions.

The Mission decided not to change the project goal, but only to clarify the purpose to reflect the modification of the geographical restrictions, and to modify the outputs to clarify the objectives and the results which we expected to accomplish.

More importantly the Mission decided not to remove the FCUs from the process of issuing certificates of eligibility and the approving of sub-projects, which would have left the ICIs totally responsible for credit judgement. This matter would be considered during the study which would define the "institutionalization" of the current system.

The Mission and PCU implemented the evaluation recommendations by mid 1989.

Second Interim Evaluation

The second interim evaluation was carried out by Management Systems International (MSI), their major findings and conclusions were:

The project had achieved:

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11 Internal evaluation carried out in April 1988.

- The highest socioeconomic impact in terms of creating employment increasing production and encouraging non-traditional exports in the less developed regions.

- Employment generation in the small and medium businesses, and export-oriented projects, in particular.

- Better regional distribution that other Central Bank credit lines.

However, the project:

- Did not directly address the constraints to increasing capital formation in secondary market towns. Instead, the project emphasized sustainability.

- Has channeled funds to some large projects which generate little employment.

- Has not achieved its objective to be decentralized. Some of the functions overlap, such as project evaluation.

Lessons learned

- There should not be a multiplicity of objectives, such as supporting secondary areas vs. financial sustainability, or financial intermediation vs. investment promotion, which cause confusion and require tradeoffs in implementation.

- AID should ensure any type of financial institution it creates be subject to adequate supervision and control (by the Superintendency of Banks, and subject to regular internal audits), to contribute to institutionalization after PACD.

- The fee structure for FCUs throughout the country should be more flexible to accommodate different stages of development and risk.

The evaluation reviewed the most important documents, visited almost all the departments where the project had financed investments and interviewed a good number of people who had been directly or indirectly involved in the program. The evaluation was objective, pointing out the achievements as well as the constraints that affected project implementation. But, on the other hand, the methodology used to assess the impacts in indirect employment and foreign exchange was not very accurate and the data base was insufficient. Also, they did not provide sufficient evidence on the additionality of the sub-projects financed.

USAID/Bolivia and the GOB concurred with most of the findings, but did not agree with most of the recommendations for the last year of the project. With respect to the proposal to create a Private Development bank as a way to institutionalize the current PCU/FCUs system, even when we thought that this was a viable alternative to "house" the DDCs and MTCF portfolios into a permanent and self-financed institution, the consultants failed to provide and in-depth analysis of other institutional alternatives that could build on the experience that MTCF project had in financing small businesses in less developed regions.

Most of the evaluations recommendations were implemented by the end of 1991.

VI. AUDITS

Eight audits were completed to date, consisting of 1 federal audit, 1 recipient audit for the period 1986-89 and 6 internal audits contracted with PCU's own resources. The last two audits were not originally included in recipient audit universe; however, since project funds were exhausted in 1992, the audits were redrafted following the AID audit regulations to provide for a close-out audit. The auditors opinion included in the final audit report the fund accountability statement of the project presented fairly the cash receipts and disbursements; its internal control structure was appropriate; the PCU complied with the agreement terms and applicable laws and regulations and; that the follow up actions were taken on the matters contained in the previous audit.

VII PROJECT INSTITUTIONALIZATION

To date, the main aspects of the Project structure have been established. Fundación para la Producción (FUNDA-PRO), has been legally created and its statutes and by-laws were approved by Supreme Resolution 21183, dated August 20, 1992. FUNDA-PRO has developed a pre-feasibility study and has fulfilled the legal requirements imposed for the creation of a development financial entity, with a shareholders structure composed of six non-profit corporate institutions. This study and its annexes have been submitted to the Superintendency of Banks and Financial Entities for licensing.

FUJDA-PRO, the financial development entity that was organized for the institutionalization of the MTCF Project will finance private, economic activities, primarily those of productive nature, especially the activities of medium and small size enterprises. Its operational procedures are oriented towards expanding and facilitating access to credit, attempting to make it available to investors who would ordinarily be unable to obtain adequate financing from the conventional sources.

In compliance with the Project Agreement, the former Ministry of Planning and Coordination and the PCU signed a loan contract with FUNDA-PRO, which has been ratified by Supreme Decree 23632, dated September 3, 1993, regarding the MTCF Project resources. The PCU completed the transfer of the MTCF project resources to FUNDA-PRO by January 23, 1994.

In addition, FUNDA-PRO and USAID/Bolivia executed an agreement defining USAID/Bolivia's limited participation in the future monitoring of the new system. In this context, a Letter of Understanding was signed on January 14, 1994 agreeing that the following stipulations should apply until January of 1999:

1. FUNDA-PRO will provide to USAID in January of each year a concise report including the future targets of the Foundation and the performance against past targets (concentrating especially on quantifiable targets).

2. In the event that USAID believes that FUNDA-PRO is deviating from the effective fulfillment of its original purposes, USAID should raise its concern in a consultation with FUNDA-PRO's Board of Directors.

This document was intended to satisfy the requirement of an agreement between USAID and FUNDA-PRO set forth in Amendment No. 10 and PIL No. 87 of the MTCF Project.

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Clearances:
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PD&I:SAraníbar (in draft)
CONT:JBarton (in draft)
RCO:MKidd (in draft)
RLA:PRamsey (in draft)