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UNITED STATES AID MISSION to BOLIVIA
c/o American Embassy
La Paz, Bolivia

PD-AM4-056
11-572.45

USAID - BOLIVIA
APO MIAMI 34032

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Casilla 673
La Paz, Bolivia

May 13, 1988

Mr. Jaime Gutierrez
Vicepresident
Unión de Bancos Bolivianos (UBB)
La Paz, Bolivia

Dear Mr. Gutierrez:

Subject: Cooperative Agreement No. 511-0000-A-00-8221

Pursuant to the authority contained in the Foreign Assistance Act of 1961, as amended, the Agency for International Development (hereinafter referred to as "A.I.D." or "Grantor") hereby grants to the Unión de Bancos Bolivianos (hereinafter referred to as "UBB" or "Recipient") the sum of US\$60,000 to assist in the implementation of a Loan Guaranty Facility with UBB in order to encourage the extension of new loans to small and medium enterprises by private Bolivian commercial banks under market terms. The activity is described in the Schedule of this Cooperative Agreement (CA) and in Attachment 2, entitled "Summary Program Description."

This CA is effective and obligation is made as of the date of this letter and shall apply to commitments made by the Grantee in furtherance of program objectives until October 31, 1989, which is the expiration date of this CA.

This CA is made to UBB on the condition that the funds be administered under the terms and conditions as set forth in Attachment 1, entitled

"Schedule," Attachment 2, entitled "Summary Program Description," and Attachment 3, entitled "Standard Provisions," which have been agreed to by your organization.

Please sign the original and seven (7) copies of this letter and return the original and six (6) copies to the Office of Contract Management, USAID/Bolivia.

Sincerely yours,

Michael J. Hacker
Michael J. Hacker
Director, a.i.

ACKNOWLEDGED:

Jaime Gutierrez
By: Jaime Gutierrez
Title: Vicepresident
Unión de Bancos Bolivianos

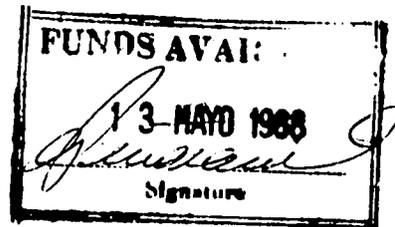
Date: May 13, 1988

Attachments:

- 1. Schedule
- 2. Summary Project Description
- 3. Standard Provisions

72-1181021.6
 PDNA-88-29511-KG11
 940-0002.60 \$30,000.00
 AG 80073

PDNA-88-29511-KG11
 940-0002.60 \$30,000.00
 AG 80074 \$60,000.00
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ATTACHMENT 1

SCHEDULE

A. Purpose of the Cooperative Agreement (CA)

The purpose of this Agreement is to assist in the implementation of the Loan Guaranty Facility signed with the Unión de Bancos Bolivianos (UBB) on October 23, 1987 in order to encourage the extension of new loans to small and medium enterprises by private Bolivian commercial banks under market terms.

B. Period of the CA

1. The effective date of this Agreement is May 13, 1988. The expiration date is October 31, 1989.

2. Funds obligated hereunder are available for program expenditures for the estimated period of May 13, 1988, to October 31, 1989, as shown in the Financial Plan below.

C. Amount of Agreement and Payment

1. The total estimated amount of this CA is \$60,000.

2. AID hereby obligates the amount of \$60,000 for program expenditures during the period set forth in Section B above, and as shown in the Financial Plan below.

3. Payment of AID's contribution shall be made to the recipient on a cost reimbursement basis only.

D. Financial Plan

1. The following is the Financial Plan. Revisions to this Plan shall be made in accordance with the Standard Provisions of this CA entitled "Revision of Financial Plans."

2. UBB will provide a total of \$20,875 (26%) of the total CA costs by October 31, 1989. These monies will be used to finance salaries for the project manager, project operator, secretarial support and office material, in addition to related contributions in-kind such as the time of UBB officers and office space.

3. AID will provide a total of \$60,000 (74%) of the total CA costs to finance: a) a Bolivian LT technical advisor (\$24,000), b) travel/transportation (\$7,500), c) commodities (\$8,500), and d) training/short-term consultancy (\$20,000.)

TABLE 1
LOP FINANCIAL PLAN
UBB CA

	<u>COMPONENT</u>	<u>FUNDING SOURCES</u>		<u>TOTAL</u>
		<u>UBB</u>	<u>AID</u>	
1.	<u>Facility Staffing</u>			
	Project Manager (12pm) part time (1/2) (3 pm)	\$3,000	-	\$3,000
	Legal Advisor part time (1/2) (3 pm)	3,000	-	3,000
	Project Operator full time (6 pm)	2,400	-	2,400
	Long Term TA (Bolivian 12 pm)	-	24,000	24,000
	Secretarial Support part time (1/4) (1.5 pm)	600	-	600
	Office material	875	-	875
	Other contributions in-kind *	11,000	-	11,000
2.	<u>Commodities</u>			
	Microcomputer/printer	-	6,000	6,000
	Software	-	1,000	1,000
	Microcomputer training	-	500	500
	Communications	-	1,000	1,000
3.	<u>Training/Short Term Technical Assistance</u>			
	Participant Bank Training and Short-Term Consultancies	-	20,000	20,000
4.	<u>Travel & Transportation</u>			
	Periodic Site and Observation Visits	-	7,500	7,500
	TOTAL	<u>\$20,875</u> =====	<u>\$60,000</u> =====	<u>\$80,875</u> =====
	Percentage of total CA costs:	(26%)	(74%)	(100%)

* Includes the time of UBB officers, office space, etc.

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4. The recipient can adjust individual cost lines by a factor not to exceed 15%. Any adjustment exceeding 15% requires prior written approval of USAID/Bolivia.

4. Fund transfers will be made in Bolivianos except for international technical assistance and offshore procurement such as equipment, vehicles, etc. Contracting for local services and goods will be done by UBB with AID approval. Procurement of commodities from outside Bolivia will be performed by the UBB, if applicable unless otherwise agreed in writing by the Agreement Officer. Documentation for importing all goods tax free will be the responsibility of the UBB.

E. Substantial Involvement by AID

1. AID Mission review and approval will be required for the following UBB activities: a) annual detailed activity plans; b) documentation related to local procurement of commodities; c) evaluations of program progress, identifying required design changes and refocus of implementation target; d) annual auditing exercises; e) technical and administrative staff selection and contracts; and f) annual financial plans and projections.

2. A report will be submitted to the AID Private Sector Office, beginning July 31, 1988 and every three months thereafter in order to monitor the program and evaluate progress toward achievement of the program objectives listed in the Detailed Program Description. Each report will summarize program progress relating to reaching program purpose and output levels, delineating constraints to program implementation, and efforts to resolve problems.

F. Financial Management System Certification

USAID/Bolivia has arranged a review of the Recipient's Financial Management System and found it acceptable (See MC-88/364, dated 4/21/88). The system to be used by UBB must comply with Standard Provision No. 2, "Accounting, Audit and Records."

Should subsequent review indicate deficiencies in any of the above mentioned areas, the Recipient must take action to rectify such deficiency within 120 calendar days to continue receiving AID funding. Failure to take such action may result in a cessation of AID funding and a termination of the Cooperative Agreement, in accordance with Standard provision entitled "Termination and Suspension."

G. Title to Property

Title to all property financed under this CA shall be vested in the grantee and subject to the provisions as set forth in the attached standard provisions.

H. Authorized Geographic Code

The authorized geographic code for procurement of goods and services under this CA is the United States and the cooperating country, as set forth in the attached standard provisions.

ATTACHMENT II

SUMMARY PROJECT DESCRIPTION

I. PROJECT PURPOSE

The purpose of the CA is to assist in the implementation of the Loan Guaranty Facility signed with the Unión de Bancos Bolivianos (UBB) on October 23, 1987 to encourage the extension of new loans to small and medium enterprises by private Bolivian commercial banks under market terms.

II. PROJECT VERIFIABLE INDICATORS

A. End of Project Status

The following conditions will exist by the end of the Loan Guaranty Facility Project:

1. A loan guaranty facility established by UBB, with staff trained to continue managing the facility without outside assistance.
2. Each participating bank will have its staff trained in implementing the guaranty facility through training seminars and, as needed, the provision of short-term technical assistance.
3. A project manager trained locally on the usage of spread sheet analysis and other reporting systems developed for the guaranty facility.
4. New clientele to the participating banks that before had no access to the banking system due to insufficient collateral.
5. Increased confidence of banks to participate in development loans to small and medium clients.

B. Outputs

1. The establishment by UBB of a loan guaranty facility unit.
2. Up to 200 guaranteed loans extended to small and medium enterprises.
3. Training of participating officials at the credit extension and management levels.
4. A micro-computer with a printer and the related software installed.

III. PROJECT COMPONENTS

On October 23, 1987 USAID and the UBB entered into an agreement to implement a loan guaranty facility. Established at \$2.0 million, this facility will increase the amount of short and medium-term local currency credit extended by UBB member banks to small and medium-sized private enterprises in Bolivia that produce, process or distribute agricultural products or are engaged in small-scale industrial, artisanal or handicraft production. This will be achieved through the partial guarantee of eligible loans through the issuance of standby Letters of Credit which the UBB member banks will have access to, pursuant to the loan agreement.

In carrying out the loan guaranty facility, the UBB has committed to make available the requisite resources to carry out the facility and serve as facility Administrator. To this end, a project manager has been designated with an annual commitment of up to 12 person months. He will be assisted thru direct participation of the UBB Executive Secretary for up to 3 person months per year. Secretarial support of up to 2 months per year will be provided. In developing the capacity and systems to implement the facility, technical assistance will be required.

IV. TECHNICAL ASSISTANCE PROGRAM

A. Rationale

The rationale for proposing a joint UBB/USAID technical assistance program to support the development and implementation of the guaranty facility lies in the current status of the Bolivian financial community, the importance of reaching an important target group and the fact that this will be a new program area for UBB and its member banks.

The misguided and inconsistent economic policies which preceded the Government of Victor Paz Estenssoro led to a chaotic economic situation which had significant negative effects on UBB member banks. These included the well known dedollarization of the banking system, a period of intense hyperinflation and the undercapitalization of the financial sector.

Under the present government, great strides have been made to consolidate and strengthen the financial community. Progress is being made, yet more needs to be done. UBB member banks have had prior experience with guaranty facilities in part due to the previous assistance provided by USAID under the PCGP program. At the current time, a guaranty facility is perceived as positively impacting on the productive sector as well as on UBB member banks.

The target group to be included in the program includes the small to medium-scale enterprises whose total assets are not more than Bolivianos 200,000. This group currently cannot meet the prevailing collateral requirements in commercial banking. The guaranty facility will enable a larger segment of the economy to have access to term credit.

The UBB member banks will be strengthened by including the above target group to a greater extent in its lending programs. Moreover, the experience gained by the UBB and member banks will serve to demonstrate the importance of serving this target sector in terms of overall economic growth. The role of the UBB in supporting member banks will be enhanced and the skills of the member banks to carry out this sector of lending will be increased.

B. The TA Program

The program has been developed taking into consideration current and proposed banking related technical assistance, potential donor assistance for Asociación de Bancos Nacionales (ASOBAN) and the relative needs of the UBB and UBB member banks to carry out the guaranty facility.

Two components of assistance have been identified. First, while the UBB will provide a full time project manager and partial coverage by the Executive Secretary, the association will need limited commodities, technical assistance support, limited in-house training and modest support for travel and transportation. Second, the participating banks (to be identified) will receive training at the senior and middle management levels.

1. UBB Component

A micro-computer with a printer will be provided along with related software. The project manager will be trained locally on the usage of spread sheet analysis and other reporting systems developed for the guaranty facility. Throughout the life of the facility, a limited allowance for office supplies will be provided.

A full time Bolivian consultant will be provided for the first year of the facility. This consultant will assist the UBB in developing the internal UBB systems to monitor facility implementation, assist in the design of the training seminars, develop with the UBB bank manuals detailing how to use and report on the facility, participate in quarterly reviews, site visits and resolution of ad hoc problems which may arise.

It is projected that no external consulting assistance will be needed after the first year.

One trip to visit AID/W is planned. Other trips in Latin America to observe the operations of similar loan guaranty programs and the potential role banking associations can have in facilitating credit extension are planned. Quarterly site visits to participating banks outside the La Paz area are also planned.

2. Participant Banks Component

Of the fourteen member banks of the UBB, it is envisaged that up to six banks will qualify and participate under the guaranty facility. While it is beyond the capabilities of the UBB to finance and carry out across-the-board training, seminars will be carried out using local training institutions at the credit extension and management levels.

The specific areas to be covered will be determined by the UBB in consultation with the participating banks. This consultation will take into consideration the particular features of the guaranty facility, ongoing and proposed donor and privately financed training programs and the specific training needs of each bank. However, training most likely will be in the areas of credit analysis and management, financial controls and analysis management, information systems and problem loan management.

Each seminar will most likely last between 20-40 hours and be participating-bank specific. The consultant provided to the UBB will have overall responsibility for designing the training programs with the UBB and participating bank. In addition to the training seminars outlined here, joint and individual participating bank orientation seminars will be held at the UBB. These will explain the "how-to" of facility utilization and reporting. No costs are anticipated for these orientation seminars. Finally, to augment the training seminars and orientation programs, CA funded short-term technical assistance is envisaged. The type and duration of the assistance will be determined by the UBB in consultation with the participating banks.

V. PROJECT ADMINISTRATION

A Project Manager will be contracted part-time and will be responsible for the design and implementation of the activities under the Cooperative Agreement. The Project Director will work with the long-term Bolivian Advisor to: (1) identify staffing requirements, (2) supervise and coordinate technical assistance, and (3) develop activity plans for all components. He will also oversee the necessary administrative/logistic support. He will be responsible for (1) personnel actions, (2) financial management, accounts and budgets, (3) logistics, maintenance and support services, (4) procurement of local commodities and services. USAID Bolivia will provide a USDH Project Manager to oversee the Grant's activities assisted by other USAID offices, as required.