U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
La Paz, Bolivia

April 30, 1993

Mr. Peter Marion
Director of Technical Programs
Credit Union National Association, Inc. (CUNA)
World Council of Credit Unions, Inc. (WOCCU)
5810 Mineral Point Rd.
Madison, WI. 53705

Subject: Cooperative Agreement No. 511-0596-A-00-3048-00
Credit Union Financial Strengthening Program

Dear Mr. Marion,

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 Credit Union National Association, Inc. as implemented by the World Council of Credit Unions, Inc. (hereby referred to as " CUNA/WOCCU " or "Recipient"), the sum of $ 3,000,000.00 to provide support for a credit union financial strengthening program, as described in the Schedule of this Cooperative Agreement and the Attachment 2, entitled "Program Description."

This Cooperative Agreement is effective and obligation is made as of the date of this letter and shall apply to commitments made by the Recipient in furtherance of program objectives during the period as set forth in the Schedule in paragraph B.

This Cooperative Agreement is made to the Recipient, on condition that the funds will be administered in accordance with the terms and conditions as set forth in Attachment 1, entitled the "Schedule," Attachment 2, entitled "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 to acknowledge your acceptance of the terms and conditions established and return the original and six (6) copies to the Agreement Officer, Regional Contracts Office, USAID/Bolivia.

Sincerely yours,

Clement J. Bucher
Agreement Officer
USAID/Bolivia

USAID - Bolivia
APO AA 34032

Telephones: 350120 - 350251
Telefax 591-2-391552

Casilla 4530
La Paz, Bolivia

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ACKNOWLEDGED BY:

SIGNATURE: Pete Crear
NAME: Pete Crear
TITLE: Executive Vice President/Chief Staff Officer
DATE: 05/05/93

ATTACHMENTS:

1. Schedule
2. Program Description
3. Standard Provisions

FISCAL DATA

Project Number	: 511-0596	
PIO/T Number	: 511-0596-3-80457	: 511-0596-3-90315
Appropriation	: 72-11M1021 (P880694)	: 72-1191021 (E890520)
Budget Plan Code	: LDNA-88-25511-KG13	: LDSA-89-25511-KG13
Amount	: $ 714,980.00	: $ 1,095,000.00
PIO/T Number	: 511-0596-3-00344	: 511-0596-3-20247
Appropriation	: 72-1101021 (E900508)	: 72-112/31037 (E920318)
Budget Plan Code	: LDNA-90-25511-KG13	: LES2-92-25511-KG13
Amount	: $ 200,000.00	: $ 990,020.00
Total Obligated Amount	: $ 3,000,000.00	(CA 05963048)
Total Estimated Amount	: $ 6,482,833.00	
Funding Source	: USAID/Bolivia	

FUNDS AVAILABLE
29 ABR 1993
Signature

SCHEDULE

A. Purpose of Cooperative Agreement

The purpose of this Cooperative Agreement (CA) is to provide support for the recipient's program which will strengthen the credit union movement in Bolivia, thus permitting improved credit and savings services to microentrepreneurs and persons of limited resources.

B. Period of Cooperative Agreement

1. The effective date of this Cooperative Agreement is the date of the cover letter. The period covered by this Cooperative Agreement is from April 1, 1993 through September 30, 1997.

2. Funds obligated hereunder are available for program expenditures for the estimated period of April 1, 1993 through December 31, 1993 as shown in the Cooperative Agreement financial plan below.

C. Amount of Cooperative Agreement and Payment

1. The total estimated amount of this Cooperative Agreement for the period indicated under B.1 above is $ 6,482,833.00.

2. A.I.D. hereby obligates the amount of $ 3,000,000.00 for program expenditures during the period set forth in B.2 above and as shown in the Financial Plan below.

3a. Payment shall be made to the Recipient in accordance with procedures set forth under Attachment 3, Standard Provision entitled "Payment - Letter of Credit" for all line items not listed under 3b.

3b. Payment shall be made to the Recipient in accordance with procedures set forth under Attachment 3, Standard Provision, entitled "Payment - Periodic Advance" for the Stabilization Fund, and the Capitalization Fund.

4. The obligation of additional funds up to the total amount of the Cooperative Agreement shown in C.1 above is subject to the availability of funds, and to the requirements of the Standard Provision, entitled "Revision of Grant Budget."

D. Financial Plan

The following is the cooperative agreement budget with the estimated schedule for periodic disbursements, including local cost financing items, if authorized. The anticipated Bolivian Government (GOB) contribution listed here is for information purposes only. The recipient will sign a separate agreement with the GOB for counterpart funds obligation and financing. The financial requirements stated under this agreement apply to USAID financing only.

Revisions to this budget shall be made in accordance with Standard Provision of this Cooperative Agreement, entitled "Revision of Grant Budget."

FINANCIAL PLAN AND EXPECTED DISBURSEMENTS BY YEAR (IN U.S.DOLLARS)

Cost element	From 04/01/93 To 12/31/93	From 01/01/94 To 09/30/97	TOTAL
	AID CONTRIBUTION	AID CONTRIBUTION	AID CONTRIBUTION
Salaries	$ 70,792	$ 262,690	$ 333,482
Fringe Benefits	21,946	81,434	103,380
Allowances	56,441	200,263	256,704
Travel & Relocation	37,320	67,909	105,229
Equipmt./Commodities	18,000	1,207	19,207
Project Support	67,962	249,140	317,102
Other Direct Costs	5,480	24,802	30,282
Evaluation	19,422	15,494	34,916
Sub Total	$ 297,363	$ 902,939	$1,200,302
Indirect Costs	111,851	339,046	450,897
Total WOCCU	$ 409,214	$1,241,985	$1,651,199
Sub-Agreements:			
Project Mgt. Office	124,546	608,088	732,634
Supt. of Banks	50,396	98,604	149,000
Participant Audits	9,050	40,950	50,000
Pass-Throughs:			
Stabilization Fund	2,381,794	1,418,206	3,800,000
Development Grants	25,000	75,000	100,000
TOTAL USAID	$3,000,000	$3,482,833	$6,482,833
Government of Bolivia (DIFEM) Contribution:			
Stabilization Fund	$ 500,000	$ 700,000	$1,200,000

Incremental funding of the above budget will be provided through periodic disbursements to implement the dollar costs of this project in accordance with the payment provisions described above. USAID will disburse to the Recipient in dollars. The Recipient will procure local currency as necessary from the

dollar account at the maximum legal exchange rate available in Bolivia on the corresponding transaction date and will maintain separate dollar and local currency (Boliviano) records, as appropriate.

The Recipient may adjust individual line items of the dollar budget by a factor not to exceed 15%, provided the total amount obligated remains unchanged. Any adjustment exceeding 15% per line item, or any increase in the total Cooperative Agreement amount, requires the prior written approval of USAID/Bolivia's Agreement Officer.

Funds from the Government of Bolivia (through the Ministry of Planning's Dirección de Financiamiento Externo y Monetización, DIFEM) are scheduled to cover part of the Stabilization Fund requirements for participating credit unions.

E. Reporting and Evaluation

CUNA/WOCCU will present all financial and program reports as described below. Should the recipient fail to submit these reports, USAID may proceed to rescind Letter of Credit rights for future activities under this Agreement.

1. Program Reporting Requirements:

- CUNA/WOCCU will present Annual Operating Plans at the beginning of each calendar year, with proposed activities, estimated level of effort, and a tentative budget, for approval by the Trade and Investment Office.

- CUNA/WOCCU will present for TI Office information by the *fifth working day* each month a ***brief*** monthly plan of work to be performed by the Stabilization and Regulatory Advisors, consultants, and home office technical and administrative support staff. A brief monthly report of activities and accomplishments from the previous month will accompany the monthly plan.

  The monthly report will include data on performance indicators, such as the following, to be agreed upon between the recipient and USAID:

  Institutional Development

  a. Membership growth by gender
  b. Savings-number savers and volume
  c. Savings market share
  d. Loans-number borrowers and outstanding amount
  e. % loans for micro and small business (if possible)
  f. Loan delinquency

  Financial Stabilization

  g. Number credit unions being stabilized

h. Volume of Stabilization Fund outstanding
i. Stabilization fund earnings
j. Capitalization fund: # loans and outstanding

Regulatory Strengthening

k. No. of credit unions under full supervision
l. Credit union examination fees/credit union regulatory unit operating costs.

At the onset of the technical assistance, the CUNA/WOCCU advisors will make a recommendation to the Trade and Investment Office as to the five most important indicators to be used for reporting purposes to A.I.D./Washington (such as through the Action Plan or the Semi-Annual Report).

- CUNA/WOCCU will provide the TI Office with a copy of all trip reports by international consultants, WOCCU Advisors, or home office technical support. A trip report should be prepared for all TDY's to Bolivia, as well as for travel from Bolivia to other countries, regardless of the length of the trip.

- FENACRE Business Plan Should USAID and WOCCU agree to work with FENACRE, the recipient and the directors of the *Unidad Financiera* of FENACRE will prepare a business plan which will include financial projections of income and expenses of the *Unidad Financiera.* The plan will include a schedule of cash contributions from the credit unions, contributions from the credit unions through the Capitalization Fund, and contributions from the Stabilization Fund. All contributions projected from credit unions must be backed up by a letter of financial commitment from the credit union. The plan will also include recognition of the trust (*fideicomiso*) arrangement with PL-480 and a plan for repaying the debt which will remain with FENACRE (this amount is currently estimated to be somewhere between US$800,000 and US$1,000,000). Although this plan can be adjusted as time goes by, it will represent the plan against which progress will be monitored. This plan will be presented to USAID/Bolivia and the Superintendency of Banks for their approval.

- Final Report At the end of the Agreement, WOCCU will present to USAID a final report on the program's accomplishments, including a section on lessons learned.

2. Financial Reporting Requirements:

- USAID will receive a copy of the monthly Financial Report for the Letter of Credit, which will include the summary page by line item as well as a breakdown of each line item. This detail can be drawn from the general ledger. It will include a report on time charged by each staff person and consultant to the project. WOCCU should also present a copy of all financial reports to the Office of Financial Management in A.I.D./Washington.

- The Recipient is required to submit quarterly financial reports as detailed in Attachment 3, Standard Provision entitled "Payment - Periodic Advance" for funds provided thereby. A final fiscal report is required at the completion of the agreement.

3. Monitoring and Evaluations:

The recipient shall be responsible for its performance under the Cooperative Agreement and, where appropriate, ensure that time schedules are being met, projected work units by time periods are being accomplished, and other performance goals are being achieved.

WOCCU will have direct responsibility for developing, installing and managing a program monitoring system.

The project will be monitored on a day-to-day basis by the five-year Stabilization Advisor. This advisor will report monthly to USAID/Bolivia on progress achieved in fulfilling the annual operating plan and budget. WOCCU home office staff will also monitor progress and coordinate with on-site personnel to assure timely performance of required of-site services.

Project impact will be assessed periodically using financial and operating statistics of participant credit unions and FENACRE processed by the Superintendency. The Regulatory Advisor will assist the Superintendency to install a standard reporting and analysis system to aid in evaluating credit union and federation safety and soundness.

Annual workshops may be held by the participating credit unions to review accomplishments, problems and lessons learned and to prepare recommendations for the future. Should the project work with FENACRE, an annual meeting of the directors for the *Unidad Financiera*, USAID, the Superintendency of Banks and WOCCU may also be held to review progress against planned financial targets described in the FENACRE Business Plan.

There may be at least two independent evaluations of the revised project, ideally during or at the end of years two and four. These would assess both implementation quality and impact. Other evaluations will be carried out as needed based on implementation experience.

F. <u>Substantial Involvement Understandings</u>

1. Prior to implementation, USAID/B will approve operational plans and operating budgets for all program related activities.

2. USAID/B will approve the selection and hiring of local and international consultants that may be contracted as required to execute program activities. Before hiring or replacing key short or long-term technical assistance personnel, the Recipient must request approval for proposed salary levels from the Agreement Officer or the Mission Local Salary Committee, through the TI office.

3. No staff or consultant time will be billed without prior USAID/Bolivia/TI approval, notwithstanding the existence of line items for such time in the agreement budget. Such approval may be on a case-by-case basis or a more general basis, and may be granted if necessary by telephone, subject to immediate confirmation by fax from WOCCU or TI. Inclusion of staff or consultant time in the monthly work plan will not constitute the necessary approval.

4. The USAID/Bolivia/TI Office will approve in advance all international travel related to program funded activities of the local staff, WOCCU staff and consultants. A scope of work will be required for all technical assistance consultants travelling to Bolivia. The recipient shall inform the TI Office and request country clearance on any such proposed travel not less than 10 days prior to the proposed departure date.

5. WOCCU will present for USAID/Bolivia/TI approval all policies and procedures regarding the development grants and the Stabilization and Capitalization Fund programs.

6. USAID reserves the right to terminate this Cooperative Agreement, after reasonable notice to WOCCU, in the event that it determines that the number of credit unions subject to supervision (by legal requirement or voluntary submission) is insufficient to justify maintenance of this project component.

7. Prior to the disbursement of funds in favor of individual credit unions, the following will be required:

a) Execution of a financial stabilization contract signed between the WOCCU Project Management Office and the credit union, with the approval of the SBFI.

8. Prior to the disbursement of any funds in favor of FENACRE, the following will be required:

a) Execution of a financial stabilization contract which includes stringent financial and administrative conditions as well as financial targets. The contract will be signed by FENACRE and the WOCCU Project Management Office, and have the approval of USAID and the SBFI. The contract will include specific targets for the dismantling of the *Programa de Mobilización de Ahorros*

b) A demonstration satisfactory to USAID of the credit union's financial commitment to capitalizing FENACRE.

9. Any agreement between the WOCCU Project Management Office and FENACRE will include a clause to the effect that the agreement is valid only if FENACRE:

a) maintains three separate cost centers represented by the *Unidad Financiera* (which acts as a second story institution), the *Unidad Central* (which is the representational arm of the credit union movement), and the *Unidad de Desarrollo Cooperativo* (which handles all technical assistance and training to the credit unions). The *Unidad Financiera's* balance sheet will include all financial activities as well as all assets of FENACRE;

b) advises WOCCU and USAID of any negotiations for loans, grants, or any other such financial involvement in the *Unidad Financiera*. WOCCU will retain the right to analyze the effect of such financial involvements on the financial well-being of the *Unidad Financiera*; and

c) maintains itself in compliance with the conditions and targets set forth in the financial stabilization fund contract.

10. The WOCCU Project Management Office will work *only* with those credit unions which are registered with the Superintendency of Banks and have received authority to operate or are in the process of receiving that authorization from the Superintendency.

11. WOCCU will coordinate with other donors and consultants working with the Bolivian credit unions and advise USAID of any such coordination.

G. Special Provisions

Funds

Funds granted to CUNA/WOCCU for the Stabilization and Capitalization Funds (or other such financial mechanisms used to strengthen FENACRE and the credit unions) will be owned by the Recipient during the life of the project. At or near the conclusion of the project, USAID and the GOB will determine whether or not, and how, to institutionalize the activities of the funds by a jointly signed Project Implementation Letter (PIL). In the unlikely event the USAID and the GOB fail to agree on disposition of the funds prior to the project completion date, the Recipient will hold the remaining loan notes in trust as well as all cash reflows in an interest bearing account until such an agreement between the two governments is reached. (Should GOB funds be used for the Stabilization Funds, the same mechanism for determining disposition of funds will be used, that is through a PIL.)

Earned Interest

Any interest generated from initial disbursements to CUNA/WOCCU for the Stabilization and Capitalization activities (as well as for other operating expenses of the program) will be returned to the U.S. Treasury. Interest earned on Stabilization Fund loans by CUNA/WOCCU to credit unions and FENACRE will become the property of the borrowers. Interest earned on Capitalization Fund loans by CUNA/WOCCU (which may use an intermediary for this purpose) will serve to capitalize the fund. Subject to USAID/Bolivia approval, some of the interest may be used to pay costs of a bank guarantee or other such costs associated with the maintenance of the fund.

Audits

There will be annual recipient audits under WOCCU responsibility following the "Guidelines for Financial Audits Contracted by the Beneficiaries" established by RIG/A/T on the uses of the Stabilization and Capitalization Funds. USAID will retain the right to approve the audit scope of work and the audit firm selected to perform the financial and compliance review. $50,000 has been set aside for this purpose.

Employee Salary Level, Benefits, Allowances and Conditions of Employment

It is mutually agreed that the Recipient shall hire all Bolivian agreement employees with salary payments in local currency, in accordance with all applicable Bolivian labor laws regarding benefits, allowances and conditions of employment, and the Recipient's labor policies. Salary levels shall be in accordance with the employee's salary history and the established compensation plan of the Recipient and shall be agreed to in writing by the USAID Local Salary Committee and/or the Agreement Officer.

Security Requirements

La Paz and the cities of Santa Cruz and Cochabamba are all rated medium terrorist threat areas by the Department of State. Trinidad and Chimore are rated high terrorist threat areas. Recipient personnel are urged to exercise caution while travelling and working in Bolivia.

Travelers are advised that they must plan to spend their first working day in La Paz or Cochabamba, Bolivia for a security briefing given by the USAID Executive Officer or his/her representative. Under no circumstances are USAID/B funded travelers allowed to travel within Bolivia without a security briefing.

Emergency Locator Information

The Recipient agrees to provide the following information to the Mission Executive Officer on or before the arrival in the Cooperating Country of every recipient employee or dependent who travels to Bolivia in order to perform work under this contract:

a. The individual's full name, home address, and telephone number.

b. The name and number of the agreement, and whether the individual is an employee or dependent.

c. The name, address, and telephone number(s) of each individual's next of kin.

d. Any special instructions pertaining to emergency situations such as power of attorney designees or alternate contact persons.

Physical Fitness

The altitude of La Paz (12,000 feet above sea level) can have a deleterious effect on the health of persons with pre-existing medical problems and/or respiratory infections. Individuals with hypertension, diabetes, angina pectoris, coronary heart disease, asthma, emphysema, chronic bronchitis, or any history of heart attack, heart disease, or lung disease, should have a thorough evaluation by their physician prior to traveling to La Paz. Persons with any respiratory infection, such as cold, bronchitis, or pneumonia should delay travel to La Paz until they have fully recovered. Persons with sickle cell trait or disease should not come to high altitude at any time. Individuals who are significantly overweight do not do well at high altitude and should not come to La Paz unless specifically cleared by a physician to do so.

Adjustment to the altitude usually requires only a few days. Personnel should, if at all possible, limit their physical activity for the first 36-48 hours after arrival in La Paz. Try to rest, eat light meals, avoid alcoholic beverages, smoking and gas-producing food, and increase intake of fluids. Limit carbonated drinks or allow them to go flat before drinking them.

Prophylaxis Prior to Arrival. The Health Unit in the American Embassy La Paz strongly recommends that all adults coming to La Paz take the drug DIAMOX (Acetazolamide) contraindicated with sulfa allergy, 250 milligrams by mouth twice a day for three days prior to arrival. This drug must be obtained by prescription from a physician. DIAMOX significantly reduces and in most cases prevents the symptoms of high altitude sickness.

Infectious hepatitis, amoebic dysentery, bacillary dysentery, giardiasis, cholera, rabies and typhoid are endemic in Bolivia. Yellow fever and malaria are present in tropical areas of Bolivia. The usual sanitary precautions concerning food and water should observed and all immunizations should be up to date prior to arrival in country. Gamma globulin and typhoid vaccine are recommended for all adults. Yellow fever vaccine is mandatory for all personnel traveling to tropical areas. Rabies pre-exposure prophylaxis (not the low-dose intradermal injections) is recommended for all personnel who plan to spend considerable time outdoors on foot. The Embassy Health Unit can advise personnel traveling to tropical areas concerning malaria prophylaxis on a case by case basis. The precautions and need for medications are determined by the duration of travel, the extent of exposure, and drug allergy history.

For long-term technical assistance, the following applies:

A pre-departure physical fitness examination of each employee shall include the following requirements: within 90 days of departure to post each long term (over 1 year) U.S./expatriate employee and accompanying dependent(s) should pass a complete medical examination, including physical examination, chest X-ray, electrocardiogram (for individuals 40 years of age or older), complete blood count, urinalysis, and stool examination for ova, parasites and blood, and vital capacity (preferably time vital capacity). In addition, the employee must have a negative history of any serious chronic physical or mental disorder. Any past history of pulmonary cardiovascular disease including hypertension is to be considered as disqualifying.

For short-term technical assistance, the following applies:

USAID/Bolivia requires a doctor's statement declaring that incoming short-term personnel are not afflicted by any of the above pre-existing medical problems. If such problems exist, a full physical exam as described above for long-term advisers is required prior to departure for Bolivia.

The Recipient shall exercise reasonable precautions in assigning local employees for work under this agreement to assure that such employees are physically fit for work.

H. Indirect Cost Rate

Pursuant to the Standard Provision of this grant entitled "Negotiated Overhead Rates-Provisional," a rate or rates shall be established for each of the Recipient's accounting periods which apply to this grant.

11

Pending establishment of revised provisional or final indirect cost rates for each of the accounting periods which apply to this agreement, provisional payments on account of allowable indirect costs shall be made on the basis of the following negotiated provisional rate(s) applied to the base(s) which are set forth below.

Type	Overhead Rate	Ceiling Rate	Period
Provisional	32.2%	33.2%	Until Amended

Base of Application

Total direct costs which includes technical assistance, institutional support and subaward costs. Institutional support in excess of $25,000 per year per agreement and subawards in excess of $25,000 per year per agreement shall be excluded from the base.

I. Title to Property

Title to all property financed under this Cooperative Agreement shall vest in the Recipient until termination of program activities, subject to the conditions set forth in Attachment 3, Standard Provision entitled "Title to and Use of Property (Grantee Title)."

Non-Expendable Property: At or near the PACD, WOCCU will present to A.I.D. a list of all non-expendable property with a value of $500 or greater purchased under this Cooperative Agreement and will request instructions as to its disposition. A.I.D. will issued a letter of instructions. In all likelihood, non-expendable property such as computer and other office equipment, furniture, and vehicles will be transferred as a "bonus" to those credit unions that have shown the greatest progress under the financial stabilization program. Should it be unclear which credit unions have performed best, or should there be too many worthy credit unions, a panel composed of individuals from the Superintendency of Banks, USAID and WOCCU may be formed in order to decide upon the most worthy recipients of the property.

J. Authorized Geographic Code

The authorized geographic code for procurement of goods an services under this Cooperative Agreement in "000" (the United States) and Bolivia as applicable per Attachment 3, Standard Provision entitled "A.I.D. Eligibility Rules for Goods and Services" and "Local Cost Financing."

TABLE OF CONTENTS

		Page
I.	PROPOSAL PURPOSE	1
II.	BACKGROUND	1
III.	PROBLEM AND STRATEGY STATEMENTS	3
	A. Needs Statement	3
	B. Strategy	3
IV.	PROJECT DESCRIPTION	8
	A. Goal	8
	B. Purpose	9
	C. Project Outputs	9
	D. End-of-Project Status	10
	E. Project Inputs	10
V.	INSTITUTIONAL DEVELOPMENT COMPONENT	13
	A. Finance and Administration	13
	B. Savings Mobilization	14
	C. Credit Improvement	15
VI.	FINANCIAL STABILIZATION COMPONENT	17
	A. Purposes	19
	B. FENACRE Level	19
	C. Credit Union Level	20
VII.	REGULATORY STRENGTHENING COMPONENT	22
	A. Purposes	22
	B. Description	22
VIII.	IMPLEMENTATION ARRANGEMENTS	24
	A. Project Management Office (PMO)	24
	B. Obligating and Implementation Mechanisms	25
	C. Future of the Stabilization and Capitalization Funds	26
	D. Project Personnel	27
	E. Implementation Steps	27
	F. Illustrative Implementation Schedule for Key Activities	30
	G. Monitoring, Evaluation and Audit	32

I. PROPOSAL PURPOSE

In this document, the World Council of Credit Unions (WOCCU) proposes to USAID/Bolivia a *Credit Union Financial Strengthening Program* to assist the micro and small scale enterprise sector in Bolivia through assistance to the National Federation of Credit Unions (FENACRE), approximately 30 credit unions and the Superintendency of Banks. The proposed program will stabilize and strengthen credit unions as viable financial intermediaries serving the formal and informal economic sectors. As a result, the Bolivian national credit union system will offer expanded and enhanced savings, credit and related financial services to increasing numbers of micro and small enterprises.

II. BACKGROUND

The "Small and Micro Enterprise Development Project" (SMEDP) focussed on channelling credit funds provided by USAID/Bolivia through credit unions to the informal business sector. The disbursement of these funds was inhibited, however, by financial and managerial weaknesses in the credit union system which were not adequately identified during the project design.

These weaknesses were the result in large part of Bolivia's hyperinflation during the early and middle 1980s. This hyperinflation destroyed confidence in Bolivia's national currency and financial assets in general, distorted credit union financial and operating structure and caused the loss of some U.S.$30 million in the purchasing power of members' savings. Difficulties at the national credit union federation (FENACRE) in recovering loans funded by both external development credits and retail savings deposits compounded these problems.

As part of its recovery plan from that inflationary disaster, the government of Bolivia is currently extending its financial sector regulatory coverage to credit unions. The National Credit Union Federation of Bolivia (FENACRE) has requested the World Council to reprogram the current project to improve savings protection and financial soundness under this new regulation and to expand and improve savings and credit services to members. USAID/Bolivia supports this effort since it will contribute to more efficient financial markets and hence increased supply and decreased cost of loan and investment funds for small business, agriculture and consumers.

WOCCU technical assistance provided to FENACRE and the credit unions has contributed importantly to arresting the movement's decline. Of particular importance has been the strategic planning and membership consultation program which has enabled the movement to focus on reorganization, restructuring and retrenchment in the federation. FENACRE is dismantling its non-member savings mobilization program and has significantly downsized its operations. At the same time, credit unions have been made aware of their business potential as specialized financial intermediaries and are

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taking concrete steps to improve their viability. Now is, therefore, the opportune time to focus on financial and managerial strengthening of the movement.

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III. PROBLEM AND STRATEGY STATEMENTS

A. Needs Statement

Popular participation in Bolivia's economic development is constrained by inefficient financial markets. The formal financial intermediaries (principally banks) that dominate these markets concentrate funds for lending and investment in the formal or "big business" sector. The result is under-priced and under-supplied savings and over-priced and under-demanded credit. The supply of credit for the informal sector of small and micro business and agriculture is limited to credit unions and to expensive trade credit and informal lenders, frequently at usurious interest rates. Credit unions open up the financial market by increasing the supply of attractive savings instruments and making small personal loans to members for their business and consumer needs. The proposed project will improve the ability of Bolivia's credit unions to mobilize savings and expand lending, thereby contributing to increased investment, production and incomes in the low and middle income sectors.

B. Strategy

The purpose of the proposed project is to create and/or strengthen financial and institutional mechanisms which will protect and increase credit union members' savings. While sharing the same goals as the SMEDP, this program is fundamentally different from a credit-driven project which substitutes donor funds for locally generated savings. In Latin America, such programs, despite the best of intentions, have often led to high loan delinquency, credit union decapitalization and failure.

WOCCU's successful financial stabilization programs in Guatemala and Honduras (based on decades of stabilization experience in the U.S. and Canada), however, have shown that improved financial disciplines and managerial strengthening can be combined with external financial assistance to achieve rapid and significant credit union savings and loan growth. The result is a stable and permanent savings and capital base available on a self-sustaining basis to meet the deposit and credit needs of small and micro-entrepreneurs as well as the broader population. Key elements of WOCCU's development strategy are summarized below.

1. Participation

Participation by FENACRE and the credit unions in the project is voluntary. Specific criteria shall be established to determine the eligibility of the federation and credit unions to participate in each component of the project. The project is not obligated to accept unqualified or non-complying institutions.

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16

It is recommended that the project be initiated with FENACRE and the credit unions with the best prospects of success. The efforts must be concentrated in small groups of approximately 10 participating credit unions each. The participation is expanded in phases. It is projected that at least 30 credit unions and FENACRE will successfully complete their development and stabilization programs.

2. Methodology

The project will apply a disciplined implementation methodology which has been used successfully in cooperative strengthening projects financed by AID and carried out by WOCCU and COLAC in Honduras and Guatemala.

This six-step methodology (outlined below) has proven successful because it establishes concrete linkages between financial performance indicators, funding and technical assistance.

Based on their diagnostic studies, participant credit unions and the federation prepare business development plans specifying required policy changes, pro-forma financial statements and financial indicators. These indicators must be achieved or financial assistance is terminated.

Staff of the project management office (PMO, the *Unidad Ejecutora*) provide training, technical models and technical assistance in the management processes which must be implemented if the performance indicators are to be achieved. The initial diagnostic study identifies those critical areas which must be strengthened and the baseline against which performance will be measured.

Project management office personnel evaluate federation performance quarterly and credit union performance annually (more frequently for potential problem cases) and measure results against goals. Financial assistance and technical assistance are continued only if projected indicators are met.

This methodology consists of the following processes which are accomplished in stages with each participant:

- DIAGNOSTIC STUDY

  This analysis of leadership, management, financial condition and market potential is carried out together by the project advisors, staff of the federation and the potential participant. It produces specific recommendations for operating and financial policy changes.

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- **BUSINESS DEVELOPMENT PLAN**

  This plan is developed by the participant with the support of advisors from the project and the federation to define the strategic mission, the development strategy to be implemented and its financial plan. The qualification to participate in the project is based on this plan and the diagnostic study, which have to demonstrate the potential viability of the participant.

- **PARTICIPATION AGREEMENT**

  The participation agreement is a contract signed between the qualified participant and the project administrator, which specifies the conditions for participation, the obligations of the participant and the project and penalties for non-compliance.

  It includes the financial operating indicators whose accomplishment is mandatory for the renewal of the agreement. The agreement usually has a life of 12 months.

  Individual agreements may be prepared to participate in each component of the project (e.g., institutional development, stabilization, savings mobilization, etc.) or specific amendments to a general participation agreement may be made for each component.

- **IMPLEMENTATION**

  The participant implements its business development plan with technical advice and training provided by the project and federation staff. It receives the financial resources specified in the agreement. It modifies its policies, procedures and systems to achieve financial and operational viability.

- **EVALUATION**

  Project staff and the participant measure the accomplishment of the indicators on a quarterly and yearly basis.

- **RENOVATION/MODIFICATION/TERMINATION**

  On the basis of the evaluation results, the participation agreement is renewed, amended or terminated.

Four keys to the success of this methodology are: autonomy, contractual commitment, competition and performance-based funding.

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- **Autonomy** means that the project management office is insulated by written agreement from the on-going political and operational affairs of the federation. By delegation from the federation and USAID, the PMO hires, fires and manages the technical personnel needed to direct credit union and federation rehabilitation and development efforts. Emphasis is placed on hiring only highly qualified local personnel capable of entering into the institutional change process. The PMO also manages and disburses project funds, subject to prior USAID approval, thus assuring independent judgement and strict control in making awards.

- **Contractual commitment** means that participants sign duly legalized instruments which specify both their and the PMO's performance obligations, rights and sanctions. This commitment includes participants' counterpart contributions to funded activities as well as their business plan and indicators.

- **Competition** means that participation is voluntary and project-supported financial and technical services are provided only to those institutions which meet qualification criteria and performance standards. All participants, including the federation, must meet initial qualification criteria and continuing performance standards. Any institution is free to discontinue participation at any time and, consequently, assistance is terminated. Scarce project resources are thus concentrated on those institutions both willing and able to make required changes in their operations.

- **Performance-based funding** means that financial assistance is provided by the PMO incrementally and only after project-supported changes have been implemented and positive results achieved. This distinguishes the methodology from loan-based programs, where the gross amount of funding is provided in advance and change may not have fully occurred. The result of such lending is that the participant institution is not capable of managing the borrowed funds adequately and loan delinquency, default and participant decapitalization may result.

Finally, the **PMO is transitory** in nature. Its role is to transfer attitudes and skills to participant credit unions and the federation based on their business development plans. It thus institutionalizes new ways of doing business in the existing participant organizations rather than creating new institutions and fixed costs which must be met from operating revenues in an ever more competitive financial market. At the end of the project, the PMO is disbanded; its personnel may, or may not, be hired by the federation and/or credit unions. The stabilization fund, however, is permanent. Its institutional form and business plan will be prepared during the last two years of the project period. The fund will need to be converted from a funder- and advisor-controlled

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entity to a credit union-financed and controlled institution. A variety of institutional forms exist for stabilization funds and these will be analyzed in the Bolivian context in order to design and establish the project successor entity.

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20

IV. PROJECT DESCRIPTION

A. Goal

The goal of the project is to promote rapid and sustained economic growth in Bolivia (specifically among small-scale enterprises in Bolivia) and to bring about a more equitable distribution of income.

The reprogrammed project will contribute to achievement of these goals in the following key areas:

1. Financial Market Development

The project will increase competition and the depth of financial markets, thereby contributing to more efficient financial intermediation and capital allocation. By strengthening the technical and financial capacity of FENACRE and the credit union system, this increased market efficiency will improve and expand the quality and volume of financial services available to the lower and middle income population largely unserved by the formal financial sector.

2. Increased Savings and Credit Services to Small and Micro Enterprises

Financial and managerial strengthening of the credit union system will increase the mobilization of savings and the volume of credit available to finance small and micro enterprise, agriculture, education, health, housing and other productive and provident activities.

3. Economic Recovery

Increased credit granted by the credit union system will reactivate the economy in the semiformal and informal sectors through increased investments in productive capacity and production and through expanded consumption of goods and services.

4. Increase in Family Incomes

The credit union system will increase family incomes through increases in both the volume and rate of return on savings (a key family financial asset) and through the income derived from productive activities financed by credit union loans.

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21

5. Improvement in Living Standards

Increases in provident loans (i.e., housing, education, health and other consumer credit) will enable the lower and middle income population to increase its use of health and education services and finance the improvement of its housing.

B. Purpose

The purpose of the Project is to stimulate long-term, stable growth and development of Bolivia's small-scale enterprise sector through the provision of needed savings, credit and related financial services.

Accomplishment of this purpose will be measured in terms of credit union system soundness and growth. System soundness means a credit union movement which is operating profitably and is adequately capitalized (i.e., assets valued on a going-concern and market basis exceed members' savings claims and all other liabilities with sufficient margin to absorb all reasonable losses). Growth means that members are satisfied with the services that they are receiving as demonstrated through increases in total membership, in their voluntary investment in credit union savings instruments and in their borrowings for small and micro enterprises.

To achieve the purpose, the project will be implemented through three interrelated components focussed on credit unions, FENACRE and the Superintendency of Banks. These are:

1. **INSTITUTIONAL DEVELOPMENT** to professionalize credit union administration and finance. This will include assistance in mobilizing savings and improving credit management.

2. **FINANCIAL STABILIZATION** to protect mobilized savings through improved asset quality, earnings and capitalization.

3. **REGULATORY STRENGTHENING** to ensure sound financial management through effective examination and supervision.

C. Project Outputs

The project will produce the following four outputs:

1. Diagnostic studies of credit unions and financial stabilization contracts with 30 qualified credit unions.

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2. Diagnostic study of FENACRE and, if it is qualified, a financial stabilization contract with it and its member credit unions.

3. Training of staff and elected officials of 30 participant credit unions.

4. Establishment of a regulatory supervision system for credit unions.

D. End-of-Project Status

The project will produce the following key results in participating institutions (qualified credit unions, FENACRE and the Superintendency):

1. Credit union leadership and management which are operating with sound business plans, policies, procedures and financial systems and which provide high quality services to their members, including their micro and small business members.

2. The national federation and at least 30 leading credit unions are financially stabilized or are in-process and in full compliance with their stabilization agreements.

3. An effective credit union examination and regulation system is in place and participant credit unions' safety and soundness ratings are improving.

4. Participant credit unions will have achieved:

   a. 75% real increase in total savings

   b. 50% increase in total membership

   c. Loan delinquency rates of less than 10%

   d. Savings constitute the principal source of loan funds

E. Project Inputs

1. USAID/Bolivia Mission Inputs

The Mission is requested to provide U.S. dollar funding for:

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a. International technical assistance and training services.

b. Bolivian national technical assistance, training and logistical support personnel.

c. Institutional development grants to FENACRE and credit unions.

d. Regulatory strengthening grant to the Superintendency to develop systems and capabilities for credit union monitoring, supervision and regulation.

e. Stabilization fund to support workouts of participant credit unions and FENACRE.

2. Government of Bolivia Inputs

In addition to the regulatory strengthening grant, the government of Bolivia will fund the operations of the credit union supervisory unit in the Superintendency through general tax revenues and examination fees charged to credit unions.

DIFEM is requested to provide partial local currency funding for the stabilization fund.

3. Credit Union Inputs

Credit unions and FENACRE will fund implementation of business development plans approved by the project, transfer their net operating surpluses to capital to write off losses (i.e., increase the pay-out value of members' savings) and match (or amortize through charges to earnings) the value of project-supplied institutional development grants.

Members will provide the principal funding to credit unions during the project period. Additional savings which will be invested by members in their credit unions are estimated to total at least U.S.$22.5 million (increasing in real dollar terms by 75% from approximately U.S.$30 million to U.S.$52.5 million during the project period).

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Total interest income which will be paid by borrowers to support credit union and FENACRE operations during the project period is estimated to be approximately U.S.$24.2 million.

Total USAID/Bolivia and DIFEM funding for the movement during the project period will represent approximately one-third of either total operating income or loan capital (savings) provided by credit union members.

4. WOCCU Inputs

WOCCU will provide short- and long-term advisory, training and technical assistance services. Financial and institutional development models and systems will be adapted from WOCCU's successful cooperative strengthening projects in Guatemala and Honduras as well as the development experience of WOCCU member organizations in the U.S. and other countries.

5. DGRV Inputs

DGRV is expected to channel funding provided by the German government to FENACRE's *Unidad de Desarrollo Cooperativo (UNDESCOOP)* and to *AUDICOOP* as well as provide technical assistance to FENACRE, credit unions and the Superintendency.

6. Inter-American Development Bank (IDB) Inputs

The IDB is expected to coordinate its micro enterprise and financial sector development assistance programs with the proposed project.

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V. INSTITUTIONAL DEVELOPMENT COMPONENT

This component will strengthen the managerial and business viability of participants through advisory services, training, marketing assistance and investment in facilities and systems. The WOCCU Stabilization Advisor will manage operations of the institutional development component. Three Bolivian advisors with specialties in management, finance and marketing will assist this advisor in implementing participants' institutional development programs. UNDESCOOP and DGRV will work with the WOCCU advisors to design, develop and implement a joint, coordinated technical assistance program for participant credit unions and FENACRE. Technical assistance will be provided in three key areas: finance and administration, savings mobilization and credit improvement.

A. Finance and Administration

This component will provide the managerial tools necessary for staff and elected officials of credit unions and FENACRE to prepare and implement their development and stabilization plans.

1. Purposes

This component seeks:

a. To strengthen the management ability of the participants (FENACRE and qualified credit unions).

b. To create a business mentality in the leadership and managerial staff of the participants.

c. To define the strategic mission and business development plans to guide the development of the participants.

d. To professionalize financial management by the participants.

e. To institute modern financial policies and procedures.

f. To establish the necessary disciplines for sound financial management and savings protection.

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2. Description

This component will include technical assistance and training specializing in:

a. Policies

(1) Competitive interest rates on loans and savings

(2) Granting credit according to repayment capacity

(3) Creation of adequate provisions

(4) Charge-off of bad loans

(5) Capitalization of earnings

b. Controls

(1) Updated and current accounting systems and statements

(2) Delinquency reports

(3) Strategic and annual business plans

(4) Budget

(5) Monthly financial reports

c. Legal Aspects

(1) Updated bylaws

(2) Updated documents and forms

B. Savings Mobilization

This component will provide the technical tools needed by participants to improve the quality of their savings services, based on their successful implementation of business development plans and compliance with required disciplines.

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1. Purposes

This component seeks:

a. To eliminate dependency on outside borrowing and achieve financial self-sufficiency with local savings.

b. To increase the volume of funds available for lending by credit unions to their members.

c. To improve the quality, earnings and diversity of the financial products offered to the members.

2. Description

Technical assistance and training will be provided:

a. To develop a marketing program to increase local market penetration.

b. To establish liquidity management standards in order to avoid deficiencies in credit unions' cash flow.

c. To cofinance (if sufficient funds are available) technical studies, the development of new products and financial services and the improvement of the physical image of credit unions.

C. Credit Improvement

This component will aid credit unions in developing and offering a wider variety of loan products, controlling delinquency, increasing earnings and improving loan quality. It will be focussed particularly on those credit unions with the greatest opportunity for expanding their loan portfolios. Given the high share of loans in credit union assets, this project component is particularly important for protecting both the "real" (purchasing power) and nominal (pay-out) values of members' savings.

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1. Purposes

This component seeks:

a. To improve the technical ability of movement lending personnel to make, administer and collect loans.

b. To create standards for sound lending which will permit loan sales, rediscounting, participation, etc.

c. To expand the type and quality of loan products which credit unions and the federation provide to serve members.

d. To strengthen loan delinquency control, analysis and reduction.

2. Description

Specialized training and technical assistance will be provided in the following areas:

a. Modernization of lending policies, underwriting standards, regulatory rules, bylaws, etc.

b. Provision of updated lending forms, procedures and marketing materials and models.

c. Credit analysis, approval, administration and collection.

d. Development and installation of computer systems and subsystems for loan analysis and management.

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VI. FINANCIAL STABILIZATION COMPONENT

Financial stabilization is necessary to improve credit unions' ability to protect members' savings. This component of the project will strengthen the financial viability of participants by improving their net capital position and thus their ability to absorb losses without impairing members' savings. The project's main focus will be on stabilizing credit unions so that they can more rapidly expand their savings and credit services at the local level.

The financial stabilization fund is an element of the broader financial stabilization process. In a sense, it can be considered the financial *carrot* which provides the incentive for a credit union or a federation to embark on a radical reform process. WOCCU's experience suggests that the critical factor in a successful stabilization operation is a change in the attitudes of leadership and management which produces a concrete financial and operational commitment to reform.

Given the commitment of credit union or federation leadership and strong internal and external controls, financial stabilization can be achieved through a variety of means: zero or low-cost loans to fund higher yielding earning assets (WOCCU's mechanism for credit unions in Guatemala and Honduras) or to fund the recapitalization of technically insolvent secondary institutions through share purchases (a WOCCU mechanism for problem federations); assumption and/or discount of liabilities (also used for federations); direct operating and/or capital grants; conversion to cash of fixed and other non-earning assets; downsizing; assisted mergers (typical for credit unions in the industrialized countries); issuance of guarantees.

As implemented in Guatemala and Honduras, financial stabilization at the credit union level refers to an accounting process in which a credit union diagnosed to have impaired savings or negative net worth (due principally to the fact that reserves for bad loans were never created or are too low) slowly improves its capital position from interest generated from the stabilization fund (allocated to the participant credit union by a secured, low interest loan). The interest earned from the fund becomes the property of the credit union and is used to reduce its previously determined "deferred losses" asset account (in Guatemala, this account is called *"cuentas por liquidar"*). If, for example, the deferred loss of the credit union is determined to be $100,000, the stabilization fund allocation (or loan) is also $100,000. The monies are invested in high yield instruments and the interest earned is used to offset the *"cuentas por liquidar"* account. In this manner, the capital position of the credit union slowly improves.

Financial stabilization at the federation level involves restoring ownership and financial commitment of member credit unions in their secondary institution. While

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30

stabilization of a federation can be accomplished through the mechanism described above, WOCCU's experience in Honduras suggests an alternative approach. Specifically, the federation is recapitalized by its member credit unions which take on debt from the stabilization fund in order to purchase the additional share capital in their federation necessary to offset the *"cuentas por liquidar"* account. Earnings from the proceeds of the recapitalization are used to retire the deferred loss account and thus restore the value of the credit unions' shares to par. The credit unions repay their loans from the stabilization fund. This process requires credit unions to commit funds to the workout of their federation.

The financial stabilization of FENACRE will be complicated by the high amount of the federation's outstanding deposit liabilities to natural persons and its loan liabilities to PL-480. Strong participation by the Superintendency will probably be required.

Under this component of the project, a stabilization fund will be created to replace bad loans and other losses with productive assets generated by the fund. It will be managed by WOCCU under the oversight of USAID/Bolivia and the Superintendency. Based on the Guatemala experience, a period of approximately 60 months is normally required to accomplish this process in each participant credit union. Financial stabilization of a federation proceeds rapidly once a change in management practices and/or personnel has been achieved.

The stabilization process is complemented by specific technical assistance to help the participant to implement the financial policies necessary to minimize future losses and generate positive net income. The Stabilization Advisor will direct activities under this component, but will work closely with the Regulatory Advisor and the Superintendency's credit union examiners.

It should be noted that during the first quarter of the project the alternative stabilization mechanisms described above will be analyzed closely with the Superintendency and USAID/Bolivia in order to determine what adaptations will be required for the Bolivian context. Depending on the level of demand for stabilization funding from credit unions (the key targets of the project), direct grants tied to stringent contracts may be deemed more appropriate than loans. The basic concept, however, of financial stabilization assistance in exchange for management improvements and financial discipline would remain.

The purposes and basic implementation mechanics of financial stabilization are briefly summarized below. Each participant must be qualified through the diagnostic study and business planning process previously described and its stabilization agreement approved by an annual general meeting of the members.

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A. Purposes

This component seeks:

1. To promote ongoing financial discipline with new policies and adequate controls.

2. To strengthen the institutional (equity) capital of the participants and improve their financial condition.

3. To reestablish the public's confidence in the credit union sector.

4. To improve the efficiency and earnings of both FENACRE and credit unions.

B. FENACRE Level

1. Determination of the amount of the loan portfolio and other non-recoverable assets of FENACRE (currently estimated at approximately U.S.$2 million).

2. Separation of this amount into a deferred asset account, subject to authorization by the Superintendency.

3. Preparation of a financial stabilization agreement with a life of one year between FENACRE and the WOCCU Project Management Office (PMO). This agreement shall specify the goals and conditions of fulfillment to renew said agreement and shall be subject to at least a yearly evaluation. The stabilization agreement must include a plan for dealing with the PL-480 loans which are in arrears.

4. Preparation of loan agreements between the PMO/WOCCU and member credit unions to fund the recapitalization of FENACRE. Interest earned on these loans would be paid as a premium to credit unions investing in the guarantee account described below.

5. Constitution of a guarantee account, funded by credit unions with excess liquidity, to secure the recapitalization loans granted to credit unions. Earnings on this account would be returned in their entirety to investing credit unions. The account shall be controlled exclusively by the PMO/WOCCU.

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6. Proceeds of the recapitalization loans and share purchases would be used exclusively to pay down FENACRE's natural person deposits, in combination with the sale of fixed assets and collection of FENACRE's loan portfolio. The PMO/WOCCU shall have exclusive control of these funds.

7. If necessary and appropriate, approval of a stabilization fund loan to FENACRE to cover the rest of the equity loss due to bad loans, with the fund's interest generation. The amount of this allocation shall be recorded in FENACRE as an asset and a liability to the stabilization fund.

8. The proceeds of a possible stabilization fund loan shall be administered and controlled exclusively by the PMO/WOCCU. All the financial income generated by these funds shall be used to offset the deferred asset account on the balance sheet.

9. Quarterly and annual evaluations and ongoing follow-up of the commitments contracted in the agreement shall be carried out to determine whether the contract will be renewed for the subsequent year. *All* stabilization funding shall be subject to stringent conditions which FENACRE must meet to the satisfaction of USAID/Bolivia, PL-480 and the Superintendency.

10. When completing the stabilization process, the interest income generated from the stabilization loan shall be disbursed to FENACRE. This income, plus other income generated as a result of improved management practices, will bring the "deferred losses" asset account to zero (if the federation completes the entire process). The nominal value of the stabilization fund loan will then be available to help other credit unions.

11. The funds lent to credit unions to recapitalize the federation are repaid (or collected directly from the guarantee account) and the nominal value of the recapitalization loans will then be available to help other credit unions.

C. <u>Credit Union Level</u>

1. Selection of credit unions based on their economic potential.

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2. Determination of the amount of the bad loans and other non-recoverable assets (such as loss on a non-financial business) of the participant credit union.

3. Separation of this amount into a "deferred loss" account.

4. Preparation of a financial stabilization agreement with a life of one year between the credit unions and the PMO/WOCCU. The agreement shall specify the goals and conditions for compliance to renew said agreement and it shall be subject to at least a yearly evaluation.

5. The stabilization fund is divided, as needed, among the credit unions and FENACRE participating in the program.

6. The stabilization fund shall be administered and controlled exclusively by the PMO/WOCCU. All the financial income generated by these funds shall be applied to the "deferred losses" asset account on the balance sheet.

7. An annual evaluation of the commitments contracted in the agreement shall be carried out to determine whether the credit union has complied and whether the agreement will be renewed for another year.

8. When completing the stabilization process, the amount of the interest generated shall be disbursed to the participant. The credit union's equity will be strengthened (if it complied with the entire process).

9. The original stabilization fund principal is again invested in a new credit union and the process is repeated.

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VII. REGULATORY STRENGTHENING COMPONENT

This component will assist the Superintendency to design, develop and install specialized regulatory, examination and supervision systems adapted to the unique needs and capabilities of credit unions. It will be directed by an experienced, long-term Regulatory Advisor who will work closely with the Intendent of Non-bank Entities of the Superintendency and its project-funded credit union examiners, the Stabilization Advisor, UNDESCOOP, AUDIOCOOP, DGRV and the IDB.

This project component will include funding for two credit union examiners to be supplied on a decreasing basis during the first three years of the project. By the end of the first year of the project, the Superintendency shall present a business plan to USAID/Bolivia demonstrating how it will incorporate the project-funded examiners into its operating budget. Funding will be provided to the Superintendency under a sub-grant agreement specifying the types of support to be provided to the Regulatory Advisor by the Superintendency and the Advisor's role in developing legislative, regulatory, supervisory and licensing guidelines and directives.

A. Purposes

This component seeks:

1. To support the establishment of a unit specializing in the regulation, inspection and oversight of credit unions within the Superintendency of Banks and Financial Institutions.

2. To create credit union inspection, supervision and monitoring systems to protect the savings of their member-owners and to respect the unique nature of the movement.

B. Description

Specialized technical assistance and training will be provided to:

1. Develop financial indicators and a rating system to facilitate financial analysis and detect in advance the weaknesses of credit unions.

2. Establish uniform accounting and reporting standards for credit unions.

3. Design credit union monitoring and oversight mechanisms.

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4. Perform standard credit union examinations.

5. Conduct credit union liquidations and mergers.

6. Prepare safety and soundness regulations.

7. Implement credit union licensing standards and procedures.

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VIII. IMPLEMENTATION ARRANGEMENTS

A. Project Management Office (PMO)

This office, probably located in La Paz will manage implementation of all project activities. The Stabilization Fund Advisor as well as the two Bolivian technical assistance advisors will be based out of this office. The Regulatory Advisor, who will be working with the Superintendency, will be based at the Superintendency itself.

Key functions of the project management office will include:

1. developing project implementation policies;
2. preparing annual project implementation and disbursement plans for USAID approval;
3. managing project funds;
4. establishing participant qualification and performance criteria;
5. coordinating project activities with the federation and other donors and technical assistance organizations;
6. implementing diagnostic studies;
7. approving participation contracts and their renewal, modification or termination, in coordination with the Superintendency;
8. providing practical advisory and training services to participants and governmental organizations;
9. developing and distributing technical materials, models and publications;
10. establishing performance indicators and monitoring and evaluating participant performance;
11. Prepare progress reports for USAID.

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B. Obligating and Implementation Mechanisms

By amendment of the Project Grant Agreement (PGA), financing for the Stabilization and Capitalization Funds will be obligated to the GOB. As described in the PGA amendment, these funds will be subgranted to WOCCU by USAID through a Cooperative Agreement (CA).* WOCCU will thus become the owner of the funds and their reflows during the life of the project, subject to the joint disposition rights of the GOB and USAID at the conclusion of project activities (at the PACD or earlier if deemed necessary by the two governments.)

Unless otherwise determined by the USAID Controller and WOCCU, funds will be advanced by USAID/Bolivia under the CA for the stabilization and capitalization activities on an as-needed basis, in accordance with U.S. Treasury rules limiting periodic advances to a maximum of 90 days' cash flow requirements. Any interest generated from initial disbursements to WOCCU for the stabilization or capitalization activities (as well as for the operating expenses of WOCCU), before their disbursement for these activities by WOCCU, will be returned to the U.S. Treasury. Interest earned on loans by WOCCU to credit unions of FENACRE from the Stabilization Fund will become the property of the borrower, if all applicable conditions are met and reforms adhered to. Under the terms of both the PGA with the GOB, and of the CA with WOCCU, USAID will provide financing for the Stabilization and Capitalization Funds for approximately 5 years, until the PACD. Substantial reflows to WOCCU are expected from loans from both Funds: the entire principal amounts, plus interest on loans from the Capitalization Fund, should be recovered. Under the terms of these agreements, the GOB and USAID will have the right, and the obligation, to agree by Project Implementation Letter (PIL) before the PACD (or before the termination date of the WOCCU Cooperative Agreement if earlier) on the disposition of the reflows of principal and interest from both Funds held by WOCCU, and to direct WOCCU to transfer all such reflows to a successor institution or to the GOB. (See Future of Stabilization and Capitalization Funds, below.)

The essence of the Stabilization Fund proposed here is the periodic provision of limited capital assistance to credit unions which are complying with reform programs. It is possible that an adjustment in the mechanism described here might be desirable at some point during the life of the project, due to factors such as USAID budgetary constraints: for instance, annual assistance might be disbursed by WOCCU as a sub-grant to a credit union, instead of the more cash-intensive mechanism of loan funding an interest-bearing account. Regardless of which option or options are chosen, they will be cleared with the USAID/Bolivia Regional Legal Advisor and Controller.

The project will be managed by WOCCU, subject to supervision by a Project Management Committee composed of representatives from USAID/Bolivia, WOCCU, and the Superintendency of Banks (GOB). Two advisory committees will be established under the

* In the event GOB/DIFEM funds are used for the Stabilization Fund, these will be granted to WOCCU through a CIF. Disposition of these funds will be determined, as with the A.I.D. funds, by the GOB and A.I.D. through a jointly signed PIL by the PACD.

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Project Management Committee: financial stabilization and technical assistance. The financial stabilization advisory committee will be composed of the WOCCU Stabilization and Regulatory Advisor, the head of FENACRE's Unidad Financiera, and a representative from the Superintendency of Banks and Financial Institutions. The technical assistance advisory committee will be composed of the two WOCCU Advisors, the director of FENACRE's *Unidad de Desarrollo Cooperativo* (UNDESCOOP), and a representative from the German aid organization DGRV, which has been funding UNDESCOOP. In addition to the institutions named here to the two committees, the Project Management Committee may appoint up to two financially sound and self-sufficient credit unions, if any, to each of the two advisory committees.

WOCCU will form the Project Management Office, staffed by the Stabilization and Regulatory Advisors, two Bolivian technical advisors, and support personnel.

USAID/Bolivia and the WOCCU Project Management Office will work closely with the Superintendency's Intendency of Non-bank Entities, which is depending on this program in order to begin the process of incorporating FENACRE and the credit unions under its supervision. USAID/Bolivia and the WOCCU will also coordinate efforts with the PL-480 Title III Executive Secretariat, given that FENACRE's financial insolvency is largely related to the PL-480 loans. The Superintendency and USAID/Bolivia will agree upon and approve the conditions listed in the legally binding stabilization contracts signed between the PMO/WOCCU and participating credit unions and the PMO/WOCCU and FENACRE.

C. Future of the Stabilization and Capitalization Funds

As will be required under the terms of the amended PGA and of the CA with WOCCU (and possibly the CIF with WOCCU), USAID/Bolivia and the GOB will determine whether or not, and how, to institutionalize the activities of the Funds by PIL before the PACD, or before the termination of the CA, whichever comes first. As stated above, USAID, the GOB, and WOCCU expect substantial reflows of principal and interest to WOCCU from loans under both Funds. There are a number of alternatives for institutionalization of the activities of the Funds: transfer of the reflows to FENACRE or another bank or financial intermediary to continue the stabilization and capitalization activities for credit unions, or for other intermediaries likely to loan funds to micro and small enterprises; or transfer to the Superintendency of Banks for this purpose or to expand its credit union supervision department. Any such transfer must be consistent with the overall purpose of the Micro and Small Enterprise Project, that is, to stimulate the long-term, stable growth and development of Bolivia's small-scale enterprise sector. In the unlikely event that USAID/Bolivia and the GOB fail to agree on disposition of the Funds prior to PACD, WOCCU will hold all cash reflows in an interest bearing account until such an agreement is reached. WOCCU will thus hold the reflows in an account in Bolivia in its name, until receiving instructions about disposition of the reflows from USAID and the GOB by jointly signed PIL. These decisions should be based on the success of the stabilization and capitalization activities in returning the credit union system to solvency and

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in providing credit to the small-scale enterprise sector, and whether the need then exists to continue such a program.

D. Project Personnel

The amended credit union component of the project will require the following technical assistance personnel:

1. WOCCU International advisors

   a. Stabilization advisor (5 years, probably in La Paz)
   b. Regulatory advisor (2 years, at the Superintendency in La Paz)

2. International consultants: 50 person-days during five-year period. Potential sources include: COLAC, NCUA, CUNA Mutual and League Insurance, CUNA and affiliates, U.S. Central Credit Union, Southwest Corporate Central Credit Union, other U.S. and international credit union organizations. Key consultancy areas: central liquidity, computing, stabilization, regulation and examination, training, marketing.

3. Project support: WOCCU project advisors and home office specialists based in the USA and on TDY in Bolivia, approximately 2 person-months per year. Key support functions: program design and development (e.g., TDY assistance by Guatemala Chief of Party), preparation of technical materials, training program design and implementation, research, project monitoring and evaluation, logistical support, etc.

4. Local operations staff: Two Bolivian advisors plus 2 support staff. Two advisors (finance and marketing) are needed for all five years. These advisors would both operate the fund and provide on-site assistance and training to credit union staff.

5. Local consultants: Approximately 30 person days per year of consultancy by Bolivian financial sector professionals for assisting on-site personnel in auditing, banking systems, computer systems, training, research, technical materials production, etc.

6. Credit Union Examiners: Two examiners will be funded by the project to support the Superintendency's credit union supervision. By the third year, this expense will transferred to the SBFI's payroll.

E. Implementation Steps

The steps below are the key activities to be implemented during the project. Many activities will be implemented concurrently.

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1. Administrative Matters

- Personnel selection
- Equip Office
- Hire local personnel
- Determine policies and procedures
- In-house training of personnel.

2. Credit Union Selection

- Develop selection criteria
- Identify potential credit unions
- Perform a diagnosis of each potential credit union
- Present findings to credit unions
- Undertake regional seminars with credit unions.

3. Institutional Development

a. Finance and Administration

- Determine the credit union policies to be changed
- Accounting:
  - Ensure the adequate use of nomenclature
  - Review and reformulate the accounting manual
  - Update accounts to coincide with the accounting manual of the Superintendency.
- Profitability:
  - Set interest rates on loans
  - Determine financial margins
  - Determine operating margins
  - Review loan management procedures.
- Capitalization:
  - Set reserves
  - Set member contributions.
- Business Planning:
  - Prepare & analyze financial projections
  - Set targets
  - Develop annual budgets.
- Internal Controls:
  - Update forms
  - Develop operating manuals.
- Computers:
  - Review adequacy of hardware
  - Review adequacy of software programs.

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- Success Indicators:
  - Produce monthly financial indicators
  - Produce program statistics.
- Education:
  - Instill an entrepreneurial mind-set
  - Define role of credit union directors
  - Define roles of employees.

b. Savings Mobilization

- Develop market studies.
- Define products and services to be offered.
- Develop a marketing strategy for each credit union:
  - existing and new markets
  - credit union's physical image
  - promotion
  - publicity.
- Develop budgets.
- Evaluate implementation strategy.

c. Credit Management

- Update statutes, policies, and regulations related to the provision of credit.
- Update credit application and analysis forms.
- Offer seminars:
  - credit analysis
  - administration of credit
  - recovering loan
  - liquidation of goods.

4. Financial Stabilization Program

- Determine amount of fund for each credit union.
- Determine the targets for the credit union.
- Develop legally binding stabilization contracts.
- Select an acceptable investment for fund.
- Sign the contract and disburse the funds.
- Review quarterly progress reports.
- Perform annual evaluation of compliance with targets.

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5. Capitalization Loan Fund

- Determine number of credit unions to participate
- Draw up loan contracts

6. Regulatory Strengthening

- Institutionalize inspection procedures.
- Review and improve norms, policies, and procedures for the credit union sector.
- Design supervision and monitoring systems.
- Offer seminars to Superintendency staff and to credit union financial managers.

F. Illustrative Implementation Schedule for Key Activities

The chart below provides an implementation schedule for key activities under the amended project. The schedule is illustrative: some activities may be moved forward, others may be delayed, as needed, by the WOCCU implementation team.

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ILLUSTRATIVE IMPLEMENTATION SCHEDULE

	YEAR 1				YEAR 2				YEAR 3				YEAR 4				YEAR 5			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
STABILIZATION AND INSTITUTIONAL DEVELOPMENT																				
Install Local Office	x																			
Hire Bolivian Advisors	x																			
Staff Training	x	-	x																	
FENACRE Contract Signed	x																			
FENACRE Contract Evaluated				x				x				x				x				x
First Selection CUs			x	-	x															
Second Selection CUs											x	-	x							
CU Contracts				x	-	x	x	-	x	x	-	x	-	x	-	x	-	x	-	x
CU Contracts Evaluated				x				x				x				x				x
Training CUs: Marketing				x	-	x	x	-	x	x	-	x	-	x	-	x	-	x	-	x

Note: Stabilization Advisor will be in Bolivia for a 5 year period.

REGULATORY STRENGTHENING																				
SBFI Selects Examiners	x																			
Set Inspect. Procedures	x																			
Impl. charter system - CUs	x	-	x	-	x															
Revise Norms/Standards	x	-	x																	
Examiners' Manual			x																	
Train Examiners			x				x													
Census of CUs - en situ			x	-	x															
Training: CU Managers					x															
Training: Merger/Liquidat.							x													
Mergers/Liquidations								x	-	x										
Revise Monitoring System					x		x													
Supervision of CUs								x	-	x										

Note: The Regulatory Strengthening Advisor will work with the SBFI for a 2 year period.

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44

G. MONITORING, EVALUATION AND AUDIT

1. Monitoring

The project will be monitored on a day-to-day basis by the five-year Stabilization Advisor. This advisor will report quarterly to USAID/Bolivia on progress achieved in fulfilling the annual operating plan and budget. WOCCU home office staff will also monitor progress and coordinate with on-site personnel to assure timely performance of required off-site services.

Project impact will be assessed periodically using financial and operating statistics of participant credit unions and FENACRE processed by the Superintendency. The Regulatory Advisor will assist the Superintendency to install a standard reporting and analysis system to aid in evaluating credit union and federation safety and soundness.

Project implementation indicators may include the following:

Institutional Development

a. Membership growth by gender
b. Savings: number savers and volume
c. Savings market share
d. Loans: number of borrowers and outstanding amount
e. % loans for micro and small business
f. Loan delinquency

Financial Stabilization

g. Number of credit unions being stabilized
h. Volume of stabilization fund outstanding
i. Stabilization fund earnings

Regulatory Strengthening

j. No. of credit unions under supervision
k. Credit union examination fees/ credit union regulatory unit operating costs

2. Illustrative Targets

Illustrative targets for the five-year project may include the following:

- 30 credit unions with stabilization programs
- Stabilization program established in FENACRE
- Supervisory system which covers all credit unions above the threshold level defined in the new banking law

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- 75% real increase in participating credit unions' member savings
- 50% increase in membership
- 25% of credit union lending for micro and small business

3. Evaluation

There will be at least two independent evaluations of the project, ideally during or at the end of years two and four. These would assess both implementation quality and impact. Other evaluations will be carried out as needed based on implementation experience.

Project progress will be measured against an initial, three-part baseline to be established during the first year of the project. Progress against the baseline will be assessed during subsequent implementation and end-of-project impact evaluations. The studies will be designed by consultants experienced in the three types of surveys outlined below; actual fieldwork will be done by the Stabilization Advisor and Bolivian advisors using the survey instruments and computer programs developed by the consultants based on WOCCU models. The baseline will include:

a. Financial statistics (balance sheet, income statement, lending and membership data collected from potential participants, processed and stored in an electronic database) used to assess credit union safety and soundness, services and growth

b. Financial policies (savings, lending, investment, liquidity, pricing, capitalization, collections, charge-offs), to assess the adoption of modern financial management disciplines

c. Consumer attitudes (selection of primary financial institution, service/product satisfaction, types of services used, perceptions of safety, reasons for joining/quitting), to assess the impact of improved services on current and potential members and to design effective marketing programs

It is proposed that annual workshops may be held by the participants to review accomplishments, problems and lessons learned and to prepare recommendations for the future. The proceedings of these workshops would be documented for use by USAID/Bolivia, WOCCU, the participants and other interested parties.

4. Audit

There will be a recipient audit conducted on the uses of the stabilization and capitalization funds.

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ATTACHMENT C

MEMORANDUM

January 28, 1993

TO: Clem Bucher, Regional Contracting Officer

FR: Liza Valenzuela, TI

RE: Modifications regarding WOCCU Project Description

The Project Description presented in Annex II of the PIO/T is agreeable to the Trade and Investment Office, except for the following:

1. The WOCCU field office in La Paz will have two, not three, Bolivian technical assistance advisors. (See pages 13 and 27 of WOCCU Project Description.) The new (final) budget presented by WOCCU reflects this change.

2. The text states that the FENACRE stabilization fund would be permanent. (See page 6.) USAID/Bolivia and WOCCU now agree that the fund will be temporary, and its permanence will be the subject of a decision in the last year of the project.

3. The "Implementation Arrangements" section of the Project Description is drawn from the PP Amendment No. 2. This section has been reviewed by WOCCU, which indicates its concurrence with the language.

4. There are numerous references in the Project Description to FENACRE. It is possible, however, that the project *may not* work with FENACRE (in the event the credit unions decide not to participate). Thus, WOCCU and USAID agree that all references to work with FENACRE in the Project Description should be considered tentative and not final.

5. The WOCCU Program Description does not mention the development grants, although they are included in the project budget. These are grants to be provided to credit unions on a competitive basis in order to enhance their physical infrastructure (signs, teller desks, etc.) or improve their equipment and furniture within the credit union. As shown in the budget, $100,000 has been set aside for this purpose.

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CUNA/WOCCU Concurrence

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