

**PROPOSAL FOR FINANCING AND TECHNICAL-COOPERATION FUNDING TO
SUPPORT THE FOUNDATION FOR THE DEVELOPMENT AND EDUCATION OF
INDIGENOUS WOMEN (FUNDEMI)**

SP/TC-99-02-02-5

EXECUTIVE SUMMARY

Amount and source:	IDB: Financing:	US\$500,000
	Technical cooperation:	US\$162,000
	Total:	US\$662,000

The resources for this program will be drawn on the European Union Special Fund for the Financing of Microenterprises in Latin America administered by the Bank.

Financial terms and conditions:	Amortization period:	15 years
	Grace period:*	5 years
	Commitment period:	3 years
	Disbursement period:	4 years
	Interest rate:**	inflation rate + 500 basis points (in October 1999, the annualized inflation rate was 7.57%, so the interest rate would be 12.57%)

* The grace period will only apply to the principal.

** An annual interest rate will be charged, adjusted semiannually on January 1 and July 1 of each year according to the consumer price index issued by the National Statistics Institute (INE).

Objectives: The general objective of the program is to promote the business and economic development of agricultural and commercial microenterprises in rural communities in the northern region of the country, especially in the department of Alta Verapaz. Its specific objectives are to: (i) expand the credit program to meet the growing demand for credit on the part of organized groups of small producers in the area of influence of FUNDEMI; and (ii) strengthen the credit department of FUNDEMI and achieve its independent operation so that it can improve its management efficiently and sustainably and thus handle a larger portfolio.

Description: FUNDEMI is a nongovernmental organization that provides services for community management to some 300 rural communities in Alta Verapaz, one of the poorest departments in the country. Thanks to FUNDEMI's intervention, many groups of small producers have begun to take collective action for the sale of their products in order to negotiate better marketing conditions.

In order to support the initiatives of the beneficiary groups and help achieve their economic and business development, FUNDEMI established a credit program under its organizational structure. However, it still needs to strengthen and expand its credit services to meet the growing demand for credit from the rural small producers who receive technical assistance from it.

The proposed program consists of the following components:

- a. Credit component: US\$500,000 will be allocated for the FUNDEMI credit program. FUNDEMI will have two lending modalities. Under subprogram A, group loans may be granted to groups that are not yet formally established as associations (US\$200,000). Under subprogram B, group loans may be granted to legally established organizations such as cooperatives and associations (US\$300,000). The resources for the two subprograms will address the needs of the rural small producers who carry out productive agricultural and nonagricultural activities. The difference in benefits between the two subprograms lies in the fact that the beneficiaries organized in legally established organizations (subprogram B) have better technical and financial expertise. In addition to credit, the beneficiaries of subprogram A will therefore receive training in those areas.

The program will benefit approximately 1,600 poor small producers.

- b. Technical cooperation: US\$162,000 in nonreimbursable funding will be granted to finance activities designed to support FUNDEMI in: (i) separating the credit department from the other units of the agricultural services department of FUNDEMI and achieving its independent operation; and (ii) administrative, technical, and financial strengthening of the FUNDEMI credit department to improve its management efficiently and sustainable so that it can handle a larger portfolio.

Environmental classification: At its October 22, 1999, meeting, the Committee on Environment and Social Impact (CESI) considered the profile of this project and made recommendations that were incorporated into the proposal design.

Poverty-targeting and social sector classification:	The target group will be 1,600 poor small producers in the northern region of the country, particularly the department of Alta Verapaz, where the annual per-capita income of most of the population does not exceed the equivalent of US\$600.
Risks:	The main program risk is that FUNDEMI may not strengthen its credit department enough to handle the growth in the credit program portfolio generated by the project. To mitigate this risk, the resources of the technical-cooperation component will be used for administrative, technical, and financial strengthening of the credit unit and to establish an appropriate institutional arrangement that will ensure the financial sustainability of the credit operation.
The Bank's country strategy:	The Bank's country strategy focuses on four areas: (i) inclusion of the poor, indigenous, and rural populations in the process of sustainable development; (ii) expansion and improvement of social services; (iii) modernization of the State; and (iv) development and growth of private production sectors (country paper for Guatemala, document GN-1924-1, approved in October 1996). The proposed program is consistent with points (i) and (iv) of the strategy.
Special contractual clauses:	<p>It is recommended that, in addition to the general contractual conditions, the agreement for financing and technical-cooperation funding include the following special conditions:</p> <p>Prior to the first disbursement of the resources under the credit component, FUNDEMI must: (i) submit a business plan acceptable to the Bank to strengthen its credit services (paragraphs 4.6 and 4.12); (ii) implement credit regulations for subprograms A and B acceptable to the Bank (paragraphs 4.2 and 4.12); and (iii) appoint the technical and administrative staff for the credit department (paragraphs 4.3 and 4.12).</p> <p>Prior to disbursement of the resources under the technical-cooperation component, FUNDEMI must submit evidence to the Bank that it has hired the consulting firm to provide the technical advisory services to FUNDEMI to prepare and implement the business plan, which will include the criteria for establishment of an independent department that will operate the credit program (paragraph 4.8).</p> <p>In addition, within 180 days after the date of the first disbursement, FUNDEMI will submit to the Bank the minutes of its Annual Meeting at which an independent department is established to operate the FUNDEMI credit program and the necessary measures are taken to ensure its separate status (paragraph 4.7).</p> <p>At FUNDEMI's request, the Bank may establish a revolving fund of up to 20% of the total amount of the technical-cooperation funding (paragraph 4.10).</p>

FUNDEMI will undergo a mid-term evaluation once 40% of the credit-component resources have been disbursed (paragraph 4.13). Based on the findings of that evaluation, the remaining resources of the financing will be released.

The final evaluation will be conducted using resources from the nonreimbursable technical-cooperation component, according to the design set forth in the mid-term evaluation (paragraph 4.16).