

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
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GUATEMALA

SOCIAL ENTREPRENEURSHIP PROGRAM

PROPOSAL FOR FINANCING AND TECHNICAL COOPERATION FUNDING FOR:

ASOCIACIÓN DE DESARROLLO INTEGRAL DE SAN ANTONIO ILOTENANGO (ADISA)

SUPPORT FOR PRODUCTIVE ACTIVATION OF THE SOUTHERN REGION OF QUICHÉ

(SP/TC-00-03-03-4-GU)

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EXECUTIVE SUMMARY

Executing agency: Asociación para el Desarrollo Integral de San Antonio Ilotenango [Association for the overall development of San Antonio Ilotenango] (ADISA)

Amount and source:	IDB (US\$)	Local (US\$)	Total (US\$)
Financing:	500,000		500,000
Nonreimbursable technical cooperation:	<u>250,000</u>	<u>100,000</u>	<u>350,000</u>
Total	750,000	100,000	850,000

The funds will be drawn on the net income of the Fund for Special Operations (FSO) in foreign currency.

Financial terms and conditions:

Amortization period:	15 years
Grace period:	5 years
Execution period:	3.5 years
Disbursement period:	4 years

Interest rate: equivalent to local inflation rate plus 500 basis points, to be adjusted semiannually on 1 January and 1 July of each year, based on changes in the consumer price index established by the Instituto Nacional de Estadística [National Institute of Statistics] (INE).

Objectives: The *general* objective of the program is to promote the business and economic development of microentrepreneurs in rural communities in the department of El Quiché, specifically the municipio of San Antonio Ilotenango. The *specific* objectives are to: (i) meet the growing credit demands of microentrepreneurs in ADISA's service area; and (ii) make the microentrepreneurs' production more competitive and strengthen their marketing capacity.

Description: The components will be funded under the program, one involving financing, the other technical cooperation.

- a. **Financing component:** This component has a total value of US\$500,000 and will be financed with reimbursable Bank resources. The funds will be earmarked for the credit program, which seeks to assist some 1,500 poor microentrepreneurs with production potential. The loans will be used for working capital and fixed assets to improve agricultural, commercial, industrial, and artisanal productivity.
- b. **Technical cooperation:** This component has a total cost of US\$350,000, of which US\$250,000 will be provided by the Bank on a nonreimbursable basis. The following activities will be financed: (i) administrative, technical, and financial strengthening of ADISA, to improve its credit administration by making it more efficient and financially sustainable; and (ii) strengthening of ADISA's Production and Marketing Department, to help microentrepreneurs ensure that their products are competitive and support their marketing capacity.

The strengthening of ADISA will finance the following activities: (i) drafting of an institutional business plan that includes priority-setting and programming guidance, a marketing and technical assistance strategy in support of the credit program, and the design of an institutional and financial policy for credit management; (ii) fine-tuning of the credit regulations and credit methodology; (iii) separation of the ADISA Revolving Fund operations and accounting records from the rest of the institution's programs; (iv) procurement and setup of an accounting and financial management information system; (v) training for ADISA technical staff in new procedures and the use of information systems; (vi) equipment for the Revolving Fund Unit (systems and transportation); and (vii) technical strengthening of the Production and Marketing Department according to the marketing and technical assistance strategy developed under the ADISA institutional business plan.

**Environmental
and social
review:**

At its meeting of 21 July 2000, the Committee on Environment and Social Impact considered the project profile and made recommendations that have been taken into account in the design of this proposal. The technical-cooperation plan of operations was considered at the 3 November 2000 meeting.

Beneficiaries: The target group consists of 1,500 poor microentrepreneurs in the western region of the country, whose annual family income, for the most part, does not exceed US\$800.

Risks: One risk is that the markets that will be absorbing the microentrepreneurs' increased production have not been secured or identified. This factor could put repayment of the loans granted under the project and project sustainability at risk. To offset this risk, the nonreimbursable technical-cooperation component will seek to help ADISA prepare an institutional business plan that includes a marketing and technical assistance strategy that will enable it to coordinate its program actions and thereby ensure the credit program's success. Through these actions, ADISA will be able to identify and secure markets for the microentrepreneurs in advance and assist them in the area of quality.

A second risk is that ADISA will not achieve the capacity to make the operation sustainable. To offset this risk, the activities financed under the technical-cooperation component include administrative, technical, and financial strengthening of ADISA to help it achieve sustainability.

The Bank's country strategy: The main objective of the Bank's strategy is to reduce poverty. To achieve this objective, the Bank focuses its efforts on three strategic lines: (i) promote sustainable economic growth and competitiveness; (ii) support equity, social protection, and sustainable development; and (iii) strengthen modernization of the State and governance (country paper approved in October 2000¹—document GN-1924-1). This proposal is consistent with points (i) and (ii) of the strategy.

Special contractual clauses: In addition to the general contractual clauses, it is recommended that the financing and technical-cooperation agreement include the following special contractual clauses:

Prior to the first disbursement of the financing component resources, ADISA must present: (i) the institutional business plan for the loan program execution period; (ii) evidence that the new credit regulations have entered into force; (iii) evidence that technical staff has been hired for the Revolving Fund Unit; and (iv) evidence that the financial and credit management information system is operating adequately, with financial statements for the last fiscal year of the revolving fund and the institution generated with the new information system and certified by ADISA's chief accountant.

¹ The document was approved by the Bank's Programming Committee but approval by the government and the Bank's Board of Executive Directors is still pending.

As a condition precedent to the first disbursement of technical-cooperation resources, ADISA must present evidence to the Bank that, according to Bank procedures, it has selected the consulting firm that will provide technical advisory services for its technical and administrative strengthening, to help it manage its portfolio efficiently and in a sustainable manner.

ADISA will be the object of two interim evaluations, the first prior to having access to the first disbursement under the financing component and the second after 40% of the financing component has been disbursed.

To gain access to the first disbursement of the financing component, evidence must be presented, to the Bank's satisfaction, that ADISA has implemented the corrective measures agreed upon with the Bank, based on the findings of the first interim evaluation.

For access to disbursements of 70% of the technical-cooperation component, ADISA must present evidence that it has disbursed at least 20% of the funds provided under the financing component. In this regard, resources used to purchase transportation equipment may not be used until this condition has been met.

For access to disbursements of 50% of the financing component, evidence must be presented, to the Bank's satisfaction, that ADISA has implemented the corrective measures agreed upon with the Bank on the basis of the findings of the second interim evaluation.