

BOLIVIA
PROJECT TO EXPAND RURAL PRODUCTIVE MICROLEASING
(SP/TC-00-07-00-1-BO)

EXECUTIVE SUMMARY

Requestor: *Asociación Nacional Ecuménica de Desarrollo (ANED)* [National Ecumenical Development Association]

Executing agency: *Asociación Nacional Ecuménica de Desarrollo (ANED)*

Amount and source:	IDB (US\$)	Local (US\$)	Total (US\$)
Financing:	400,000	200,000	600,000
Nonreimbursable technical cooperation:	<u>175,000</u>	<u>31,500</u>	<u>206,500</u>
Total	575,000	231,500	806,500

The resources are from the net income of the Fund for Special Operations (FSO).

Terms and conditions:

Financing:

Amortization period: 10 years
 Grace period: 4 years (+)
 Interest rate: 3% in US dollars
 Execution period: 36 months
 Disbursement period: 42 months
 (+) The grace period applies only to the capital.

Technical cooperation:

Execution period: 36 months
 Disbursement period: 42 months

Objectives:

The problem: Significant progress has been made in Bolivia in developing microfinancing, particularly in applying microcredit technologies, which generally make it possible to serve clients' working capital needs, with small sums, short terms, and frequent payment modalities, bypassing the financing of capital goods with longer terms for improving the productivity of small businesses and microenterprises in urban areas and small producers in rural areas. Therefore, small businesses and microenterprises have had limited access to financing for capital goods that become profitable in the medium and long term. One appropriate mechanism for financing capital goods is leasing, which is gaining acceptance every day and has been identified by Bolivian microfinance institutions as a potential product for diversifying services tailored to the needs of their clients.

The general objective of the project is to help improve microentrepreneurs' and rural small producers' access to medium- and long-term financing, under financial conditions consistent with their productive investment needs, enabling them to procure capital goods and hence increase their productivity.

The specific objectives are to: (i) expand leasing services and make them sustainable in rural areas in the departments of La Paz, Santa Cruz, Potosí, Oruro, and Tarija, covering approximately 800 new clients; (ii) strengthen ANED's technical and operating capacity to consolidate the microleasing modality with a view to forming an enterprise; and (iii) lay the foundation for creating the new microleasing enterprise (MLE) through inputs that make it possible to form the legal, structural, financial, and operational design elements of the institution.

Description:

The project. The project will finance two components – a financing and a technical cooperation component. The first, which totals US\$600,000, including US\$400,000 in reimbursable funding from the Bank, will be directed at: (i) expanding ANED's available resources for microleasing; and (ii) diversifying the number of goods selected and available to the client.

The second component totals US\$206,500 in nonreimbursable financing, of which the Bank will finance US\$175,000 and ANED, US\$31,500. This component will be geared towards helping ANED strengthen its operating and technical capacity to consolidate the microleasing product, to lay the foundation (in terms of legal, structural, financial, and operational design elements) for creating the new microleasing enterprise (MLE). Consulting services will be hired in two phases – the first to strengthen the modality and the second to support the creation of the MLE. This component will support, *inter alia*: activities to prepare and launch legal and organizational elements of the new MLE; studies to fine-tune current products and other financial subproducts; the design and installation of better operating and management information systems; and technical assistance on environmental elements. There are also activities for ANED experts and specialists in other countries to share experience and for installing an information structure on the technological supply of goods that are available on the national and international market. Finally, resources from this component will finance a mid-term project evaluation to determine whether or not there were any deviations in fulfilling its objectives.

The executing agency. ANED, an institution formed in 1978, will be the operation's execution agency. At present, there are 20 institutions in its Assembly. One of its principal objectives is to contribute to the country's economic development by incorporating low-income social sectors through appropriate financial services. Since its establishment, it has provided financial services, primarily credit services, in different rural and suburban areas, through a network of 28 offices in eight departments in the country. It offers five credit modalities: (i) joint; (ii) joint and several; (iii) individual; (iv) village banks; and (v) microleasing. The institution has developed its own technology for the microleasing product over the course of four years and is currently the only institution that offers this service to low-income populations. Supported by the Inter-American Foundation (IAF), it began its activities in 1997 in rural La Paz and Oruro with US\$200,000. As of June 2001, it had a microleasing portfolio of US\$495,360. For the purpose of achieving greater specialization in microleasing financial services and attracting private investors, albeit under the same philosophy of the project currently under way, ANED has decided to form a microleasing enterprise; the technical assistance component will support the organization and setup of that enterprise.

Both Bolivian laws and ANED's statutes permit the Association to conduct microleasing activities for the proposed sector.

Social and environmental review:

The Committee on Environment and Social Impact (CESI) approved the operation's profile at its 19 January 2001 meeting and made recommendations that were incorporated when preparing this proposal. Those recommendations can be found in the operation's technical files.

Beneficiaries:

The financing resources are aimed at directly benefiting 800 clients in rural zones in the project's area of influence that have been cataloged as small businesses and microenterprises or rural service and grass roots organizations that can form grassroots groups, communities, and trade groups.

Rationale:

The project is justified because it will: (i) expand the low-income rural population's access to sources of credit to meet its needs in terms of procuring capital goods to increase productivity; and (ii) lay the foundation for the creation of an entity specializing in the microleasing product, supported by a business approach that includes the financial and legal feasibility of the product. ANED is currently one of the few institutions that offers this service in such demand among the population and that has proven experience in managing the service. It is also the only institution that operates with the product in rural areas and with low-income populations.

Specifically, the project will: (i) expand rural service coverage in the five departments in the country where ANED operates; (ii) benefit at least 800 families, which improves conditions for 2,000 inhabitants of Bolivia, particularly rural inhabitants; and (iii) enable ANED to generate sufficient operating income to cover 100% of the financial and operating costs of the microleasing project during the project period.

Risks:

There are two main risks in this project. One is the possibility of further deterioration in the economic conditions of the beneficiaries in the project's target group, which would reduce potential lessees' ability to pay. ANED would contend with this risk by prudently establishing installments to be paid periodically, according to clients' ability to pay and their cycles of economic activity, and by setting reasonable residual values for the leased goods, in keeping with their projected value on the secondary market. In addition, ANED will ensure that the value of the goods to be leased will depreciate according to projections by including protection insurance and clauses on improper use of the goods in the contracts to be signed.

A second risk is the possibility of the failure of the secondary markets for leased goods. ANED will mitigate this risk by carefully selecting which goods are eligible for leasing, continuously observing markets, and maintaining prudential margins between the projected value of the goods on the secondary market upon expiry of the contract and the residual value of the contract.

Bank strategy in the country:

The priority areas identified in the Bank's strategy for Bolivia (GN-2036, approved in June 1999) include creating job opportunities in the private sector and increasing job productivity. This line of action involves promoting services for rural and microenterprise development in the following areas: access to credit and nonfinancial support services, rural development, and protecting the environment. In keeping with the foregoing, the new Bolivian Poverty Reduction Strategy (EBRP), which was approved by the Bank in June 2001 and is currently serving as the basis for updating the Bank's country strategy, proposes in one of its four strategic components: expanding job opportunities and income, by encouraging growth in productive capacity, promoting rural development through greater investment in production and sales infrastructure, supporting micro- and small companies, and developing microfinancing. The proposed operation is consistent with the EBRP in that it focuses on developing microfinancing by proposing the expansion of one of the services in that industry. The proposed operation is also in line with the general goal of the Bank's Microenterprise Development Strategy (GN-1938-3), because it promotes access of low-income populations to financial services and supports the strengthening of institutions that provide those services.

Special contractual conditions:

In addition to the conditions established in the general standards, it is recommended that the financial and technical cooperation agreement include the following conditions precedent to the first disbursement:

Financing: ANED must submit to the Bank for its consideration and no objection: (i) proof that the microleasing Operating Regulations for the project have been put into effect; and (ii) a work plan for the activities in the first 12 months of the project that includes semi-annual goals for the performance indicators and assumptions for their fulfillment.

Technical cooperation: ANED must submit to the Bank for its consideration and no objection the terms of reference and selection procedures that will be applied for hiring the following consulting services: (i) reorganizing and planning of operations in the microleasing portfolio; (ii) expanding and deepening markets; (iii) development of technological supply and demand; and (iv) implementation and adoption of environmental policies tailored to the product.

Special conditions for execution: A special condition for project execution is that the Bank will not disburse the financing resources until it assesses the results of the consulting services on: (i) reorganization and planning of operations; (ii) expanding and deepening markets; and (iii) development of technological supply and demand. The consulting services on the environment must begin their work in the first three months of the project, and their activities will be implemented based on the management of the project's current microleasing portfolio.

As a condition for execution, the Bank will not disburse more than 50% of the financing resources until it has received the results of the mid-term evaluation and a plan of action for implementing the recommendations therein.

For proper project execution, ANED needs sufficient resources for swift, timely placement of microleasing operations and streamlining the planned technical assistance. It is therefore recommended that the Bank establish a revolving fund of 20% of the total sum of the two components.

Reports:

During project execution, ANED will submit to the Bank semi-annual progress reports that will include at a minimum: (i) statistical and financial data on the evolution of the portfolio, clients, and performance indicators; (ii) information on the technical assistance received and its outputs; (iii) information on who has been trained and on what topics; and (iv) information on the progress made in forming the MLE.

Mid-term evaluation

To ensure adequate project execution, the Bank will use nonreimbursable technical cooperation resources to conduct a mid-term evaluation of the project when 50% of the financing has been disbursed. To that end, it will directly hire consulting services to conduct the evaluation. The evaluation will gauge, *inter alia*: (i) the achievement of the operation's objectives; and (ii) fulfillment of the performance indicators on placement and the project's operating and financial sustainability. The evaluation must also include a review of the progress made in implementing the new enterprise and applying the recommendations from the consulting services engaged.

**Exceptions to
Bank policy:**

None.