

PROPOSAL FOR FINANCING AND TECHNICAL-COOPERATION FUNDING
FOR COOPERATIVA DE AHORRO Y CRÉDITO LIBERACIÓN LIMITADA (CREDICOOP)
CORPORACIÓN DE PROMOCIÓN PEQUEÑA EMPRESA (PROPESA)
CORPORACIÓN W.W.B. FINANZAS INTERNACIONALES Y NACIONALES
PARA LA MUJER (FINAM), FILIAL CHILENA WOMEN'S WORLD BANKING

(TC-94-08-36-2, TC-94-08-73-2 and TC-95-02-04-9)

EXECUTIVE SUMMARY

**INTERMEDIARY
ORGANIZATIONS**

The intermediary organizations (IOs) that will take part in the three programs proposed would be Cooperativa de Ahorro y Credito Liberación (CREDICOOP); Corporación de Promoción para la Pequeña Empresa (PROPESA); and Finanzas Internacionales y Nacionales para la Mujer (FINAM). All three are private non-profit entities that have participated in a previous operation with the Bank.

AMOUNT AND SOURCE:	IDB: Financing:	US\$1,500,000
	Technical-cooperation funding:	<u>US\$ 450,000</u>
	Total:	US\$1,950,000

<u>IDB</u>	<u>Financing</u>	<u>Technical-Cooperation Funding</u>
CREDICOOP	US\$ 500,000	US\$150,000
PROPESA	US\$ 500,000	US\$150,000
FINAM	<u>US\$ 500,000</u>	<u>US\$150,000</u>
TOTAL	US\$1,500,000	US\$450,000

Source: The three programs would be financed in their entirety from the net income of the Fund for Special Operations in local currency.

**FINANCIAL
TERMS AND
CONDITIONS:**

Amortization period:	25 years
Grace period:	8 years
Disbursement period:	3.5 years
Commission:	1%

OBJECTIVES:

The objectives of the three programs are: (i) to raise the family income of microentrepreneurs and self-employed persons; (ii) to generate and consolidate job opportunities in the marginal urban areas where the programs would be executed; and (iii) to strengthen the IOs' capability to expand to other regions or consolidate their operations to the point where those operations are financially self-supporting thanks to the provision of credit, training and advisory services, and technical assistance.

- DESCRIPTION:** These projects constitute the second stage of credit and technical-cooperation programs for IOs that are in the process of expanding their activities to other parts of the country (CREDICOOP to Regions V, VII, VIII, and IX and PROPESA to Regions V, VI, and VII) or of diversifying the financial instruments they use and consolidating their operations from the institutional standpoint (FINAM). The customer base of the three institutions consists exclusively of microentrepreneurs and self-employed workers who require significant support in terms of credit, advisory services, technical assistance, and training. As the microentrepreneurs gradually make technical and economic progress, they can gain access to the commercial banking sector. As a result, the only way the institutions can expand their activities is through loans - from such sources as the IDB - or through grants received from national or international donors.
- ENVIRONMENTAL CLASSIFICATION:** The Environmental Management Committee classified these operations as Category II on March 7, 1995.
- THE BENEFICIARIES:** The estimated number of beneficiaries under the three programs would be 2,500 microentrepreneurs and self-employed workers, no fewer than 70% of whom would be women. CREDICOOP would benefit roughly 500 microentrepreneurs and self-employed individuals, while FINAM and PROPESA would benefit about 1,000.
- RISKS:** The principal risks stem from the fact that CREDICOOP, PROPESA, and FINAM still require further institutional strengthening and a broader financial base to improve their administrative and operating systems for monitoring and recovery of credits, along with the advisory and training services to assist microentrepreneurs and self-employed persons. However, the proposed technical-cooperation components would remedy any weaknesses detected in the organizations and would help them to consolidate their institutional status, thus diminishing the possibility that any such risks would materialize.
- BENEFITS** The benefits generated by the three programs would consist of: (i) a contribution to the IOs' capitalization and consolidation in the extension, management and recovery of loans and in the provision of other services for microentrepreneurs and self-employed persons; and (ii) would permit institutional and financial strengthening of the IOs, thus enabling them in the future to expand their coverage to additional beneficiaries and other parts of the country; to help create important sources of employment; and

to improve living conditions for low-income marginal populations.

**THE BANK'S
STRATEGY IN
THE COUNTRY**

The proposed programs are consistent with the guidelines for the Eighth Replenishment and with the Bank's strategy for Chile, which calls for supporting national efforts to reduce extreme poverty and unemployment, thereby improving the quality of life for the most vulnerable low-income strata and providing job opportunities for unskilled labor.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

It is recommended that the financing and technical-cooperation agreements include, in addition to the general contractual requirements, the following special conditions:

- a. Prior to the first disbursement of the financing, the respective IO must demonstrate to the Bank's satisfaction that it has drawn up a schedule for the technical-cooperation activities to be implemented and that it has approved and put into effect the Credit Regulations agreed upon with the Bank; and
- b. Up to a ceiling of 20% of the financing and respective technical cooperation may be disbursed as an advance to each IO to allow it to meet the needs of each operation promptly.

I. FRAME OF REFERENCE

A. Background

1. Applications for assistance

- 1.1 The Cooperativa de Ahorro y Crédito Liberación Limitada (CREDICOOP) presented a request for a second small project and institutional strengthening operation on October 26, 1994. The Corporación de Promoción para la Pequeña Empresa (PROPESA) submitted its application on January 19, 1995, and a similar application was presented by the Corporación W.W.B. Finanzas Internacionales y Nacionales para la Mujer (FINAM), the Chilean branch of Women's World Banking, in January of 1995.

2. Declaration of nonobjection

- 1.2 The Government of Chile advised the Bank, in letters from the Ministry of Finance dated September 23, 1994 and January 23, 1995, of its nonobjection to the financing of the three programs summarized in this document.

B. The microenterprise sector in Chile

1. Frame of reference

- 1.3 Chile's microenterprises stem from various sources. Some of them are traditional family businesses; others arose as an emergency solution to the high level of unemployment in the 1980s; and still others sprang from the founders' desire to work for their own account. The informal sector is unquestionably an important factor in Chile's economy: its contribution to the GDP is estimated at around 8%. According to a study conducted by the University of Chile, based on figures of the National Statistics Institute for 1991, the country had a total of 366,881 microenterprises in that year and 41% of that number were concentrated in the Metropolitan Region. The microenterprise sector employed 887,863 persons in all - the equivalent of 23% of the country's urban labor force. The sector is characterized by the dynamism and efforts microentrepreneurs devote to their work, attesting to their marked bent for entrepreneurial activity - although in most cases they lack the tools, financial background and knowledge of management techniques. Microenterprises are highly labor-intensive, and such employment is the principal source of family income for the producing group. The activities performed by the microentrepreneurial sector are concentrated in three major areas: manufacturing, the services, and trade.
- 1.4 The studies conducted on the subject point out that the country's micro-enterprises have no access to conventional sources of credit, thus leading to a situation where the lack of capital hampers the

possibility of development. The informal or semiformal status, on the one hand, and the absence of solid guarantees - compounded by ignorance of the procedures to be followed; the difficulty of obtaining qualified and formal backing; the fear of falling into debt; and, finally, the high interest rates and fees - result in a scenario that is somewhat discouraging to the microentrepreneur who would like to request and receive funds through the conventional financial market. It may be seen from the foregoing description that the problem of credit, with all its implications as to the information required about real guarantees, the legal and accounting situation, among others, is a field where the action of CREDICOOP, PROPESA and FINAM as a source of credit and technical support, is extremely important to the microentrepreneurial sectors served by their operations.

- 1.5 The National Training and Employment Service (SENCE) at the Ministry of Labor has developed a program of study grants for unemployed and self-employed workers, along with the provision of training for independent workers, which is being financed by the Bank through loan 686/OC-CH for support to the labor training program. In turn, the Solidarity and Social Investment Fund, which helps the low-income population in social and productive spheres, includes a component to assist microenterprise in the areas of technical assistance, entrepreneurial training, organizational development and credit assistance. But the work performed by these institutions does not suffice to meet the needs of Chile's microentrepreneurial sector, and at present is being supplemented with support from such agencies as CREDICOOP, PROPESA and FINAM to help the country's low-income strata.

2. Situation of women microentrepreneurs

- 1.6 The situation of women microentrepreneurs in regard to the difficulties they face in gaining access to credit is very similar to the one described in paragraph 1.4 above. But it is even more difficult for women, given the limitations imposed by the discrimination to which they are subject at all levels of Chilean society. Because of that discrimination, the female microentrepreneur lacks the self-confidence she needs to cope with the formalities and activities outside of her home, her community and her general habitat - an attitude that impairs her ability to carry out those activities. It is here that FINAM, as an agency devoted specifically to women, provides a very important alternative which allows women to become effectively a part of the country's economic life.

C. The government's strategy

- 1.7 The Government of Chile recognizes the importance of the microenterprise sector in the national economy and is aware that the informal sector has not enjoyed the benefits of modernization and technological development as fully as other productive and

commercial sectors during the period of high and sustained economic growth (1984-1994). The authorities also realize that now more than ever before microenterprises and self-employed workers need the help of such institutions as CREDICOOP, PROPESA and FINAM if they are to become fully integrated into the country's growth and development. The awareness of that need is evident in the government's indication of nonobjection to the financing for these three small projects.

D. The Bank's strategy

- 1.8 The proposed programs conform to the guidelines for the Eighth Replenishment. They are also consistent with the Bank's strategy in Chile, which calls for supporting national efforts to reduce extreme poverty and unemployment, improving the quality of life for the most vulnerable low-income population and providing job opportunities for unskilled labor.
- 1.9 These three projects represent the second stage for each of the agencies cited, which are in the process of extending their activities to other geographical areas (in the case of CREDICOOP and PROPESA), which could facilitate their expansion to nationwide coverage; or (in the case of FINAM) diversifying the financial instruments they utilize and consolidating its institutional status. All three of these nonprofit agencies confine their services to microentrepreneurs who require a great deal of help in terms of technical assistance, instruction and training - relatively high-cost items, the expense of which is generally subsidized to a large extent by grants. In addition, as the microentrepreneurs make economic progress, the possibility of graduating from the informal level and approaching the commercial banking system for loans becomes more real. Accordingly, such institutions cannot expand their activities significantly except by means of long-term concessional loans - such as the resources provided by the IDB - or with grants from national and international private institutions.

II. THE INTERMEDIARY AGENCIES

A. CREDICOOP

1. Identity, origin and objectives

- 2.1 CREDICOOP, a private nonprofit institution created by Decree 57, which was issued by the Ministry of Economic Affairs, Development, and Reconstruction on January 7, 1986. Its objective is to promote and support credit and training programs, advisory services and technical assistance for Chilean microentrepreneurs. CREDICOOP also created and currently takes part in the ownership and

management of SERCOM, a specialized NGO, which helps the microenterprises in marketing their wares and is a founding member (along with other NGOs) of the Feria de Solidaridad (FESOL), which puts on an annual show of the microentrepreneurs' products. CREDICOOP has received grants from the Dutch and Spanish international cooperation agencies. Its statutes empower it to obtain resources from national or foreign individuals or corporate bodies.

2. Administrative factors

- 2.2 Under Chilean law governing cooperatives, the highest authority are the Members, who hold a General Meeting Assembly once a year. In Regions V and VIII there are also Regional Assemblies of Partners which operate in accordance with the cooperative's statutes. There are four categories of partners: (a) category A, microenterprises belonging to the informal sector of the economy; (b) category B, legally constituted microenterprises and labor cooperatives; (c) category C, federative entities of groups of microenterprises and labor cooperatives; and (d) category D, NGOs and other institutions that pursue the objectives of the cooperative. Partners in the C and D categories cannot receive loans from the cooperative.
- 2.3 The Members, at their annual meeting, appoint the members of the cooperative's Administrative Council, except for the two staff representatives who are appointed by the staff. The Council combines representation by category and by region. Each principal member of the council is seconded by an alternative representative. At present, there are 12 principal councilors, but this number may rise as new regional assemblies are formed. The Administrative Council appoints the Credit Committee, consisting of three persons selected from its members. The manager of the cooperative keeps his position for as long as he enjoys the trust and support of the Administrative Council.
- 2.4 The cooperative has a staff of 23 professionals, 10 technicians and 15 administrative workers. These figures include the personnel of all branches and the general management team. The cooperative has three offices in Santiago: a head office with a staff of 12; an office in the western part of Santiago (staff of 6); and one in the southern part of the city (staff of 4). There is also a branch in Valparaíso, in Region V (staff of 8), and one in Concepción, Region VIII (staff of 8).

3. Activities performed

- 2.5 CREDICOOP received financing from the IDB in 1991 (SP/SF-91-07-CH) in the amount of US\$500,000 under a credit program for micro-entrepreneurs in urban districts of Santiago, Concepción and Valparaíso, and nonreimbursable technical-cooperation funding (ATN/SF-3629-CH) in the amount of US\$135,000 for institutional strengthening of CREDICOOP plus training and technical assistance for the microenterprise. The financing granted by the Bank enabled

CREDICOOP to approve loans in the first round for 807 microentrepreneurs, most of them engaged in small industries.

- 2.6 The parallel nonreimbursable technical assistance made it possible to heighten CREDICOOP's administrative and lending capabilities. This is evident from its attainment of the following goals: (a) consolidation of a highly efficient computerized accounting system; (b) the defining of loan portfolio control procedures and systems, which permitted an improvement in the arrearage situation; (c) the establishment of a training system with new methodologies, which were used to give courses to 3,253 microentrepreneurs and will permit the continuation of this process in the coming years; and (d) equipping of the institution with computers, which made it possible to implement a high-technology efficient management system.
- 2.7 The factors cited above are grounds for stating that CREDICOOP is highly qualified to administer and manage its loan portfolio. Its competence in its field has been acknowledged by both public and private institutions.

4. Financial situation

- 2.8 The analysis of the CREDICOOP financial situation is based on the financial statements of December 31 for 1992, 1993, and 1994, audited by the firm of Fuentealba and Associates (Annex II-1). As of December 31, 1994, the CREDICOOP reported a net worth of CH\$689.6 million (approximately US\$1,815,000). The partners had contributed CH\$211.7 million (approx. US\$557,000). The capitalized differential of the Bank's small project amounted to CH\$106.7 million (approx. US\$281,000). The balance of the loan portfolio was CH\$1,147.1 million (approx. US\$3,019,000). In 1994, 4,455 loans totaling CH\$2,815 million (approx. US\$7,408,000) were granted to microentrepreneurs. Arrears amounted to slightly less than 5% of the portfolio. During the year, CH\$28.7 million (approx. US\$75,400), equivalent to 2.5% of loans and discounts, had been written off as a charge to the reserve for bad debts.
- 2.9 The earnings in recent years also point to clear improvement in the operating levels from 1992 - the year when the small project financed by the Bank started - to 1994. The figures indicate that earnings have risen from a loss of CH\$7,218,000 in 1992 to a surplus of CH\$2,142,560 in 1994. The agency's net worth increased from CH\$377 million in 1992 to CH\$680 million in 1994. The projected earnings of the cooperative indicate a surplus in 1998, without considering non-operating income. The small project under review here constitutes an important step toward the attainment of that goal.
- 2.10 One of the most important objectives CREDICOOP has set for itself is to become self-sustaining. The agency has adopted a number of measures to do so: they include raising lending rates, upgrading

the collection systems, a sliding scale for the payment of dues, and differentiation of its financial products. These measures have resulted in a substantial rise in the coverage of expenditures and a decline in the uncovered deficit owing to the process of geographic expansion.

5. Institutional evaluation

- 2.11 The evaluations conducted on CREDICOOP confirm that it has complied with the objectives set for the first small project. CREDICOOP has pioneered support for microenterprise in Chile through financing and training in marginal urban areas of Santiago, Valparaiso and Concepción. It has earned the trust of the international cooperation agencies that have provided it with human and financial resources to assist the microenterprise sector. The program proposed here would allow CREDICOOP to extend its operations beyond the metropolitan area of Santiago to serve microentrepreneurs who would otherwise have no access to credit; it would also permit the cooperative to consolidate its administrative, operational and financial base in the future.

B. PROPESA

1. Identity, origin and objectives

- 2.12 PROPESA is a private nonprofit institution, created by Decree 303, issued by the Ministry of Justice on March 14, 1988. It was founded by a group of Chilean private entrepreneurs who wanted to help develop programs for small business. PROPESA's goal is to provide microentrepreneurs in Chile with credit, training, advisory services and technical assistance. It is a member of Action International, an American private entity with vast experience and an impressive record in the field of programs to support microenterprise in Latin America. Pursuant to its by-laws, PROPESA is authorized to contract debts with financial institutions, be they private, state-owned or international.

2. Administrative features

- 2.13 PROPESA is administered by a board of directors appointed by a general assembly of the founding members. Its by-laws state that any surplus which may result from its operations will not be distributed among the members, but reinvested in services of benefit to the Corporation's and beneficiaries. The general assembly is PROPESA's highest authority; it is composed of the founding members, who are outstanding entrepreneurs and representatives of important Chilean companies. The members meet at a regular general assembly and the special general assembly. The regular one is held once a year to approve the budget for the following year. At that time, board of directors reports on its activities. Elections for the board are held every two years. The special general assembly meets when needed, under specific

conditions, to deal with such matters as the amendment of its by-laws and any other contingencies announced in the respective announcement of such gatherings.

- 2.14 The board of directors consists of a chairman, vice chairman, treasurer, secretary and five directors. The chairman of the board also chairs PROPESA and acts as its representative in legal and other matters. The PROPESA organizational structure comprises a general secretariat and two management divisions: operations and administration, and finance. The human resources, internal control, projects and communications departments report to the general secretariat, while the operations division is in charge of the accounting, finance and systems departments in addition to general services. As of December 31, 1994, the PROPESA staff consisted of 74 employees. That figure includes the staff of the main office, along with Melipilla and the new branches: La Cisterna and Estación Central.
- 2.15 The technical-cooperation funding received, combined with unflagging efforts on the part of PROPESA, made it possible to overcome the problem of high staff turnover which plagued the agency until late 1992. The number of employees leaving PROPESA dropped from close to 50 per cent to practically zero over the past two years. This resulted mainly from a series of measures in the areas of social benefits, wages, in-house training and grants for technical and university courses. To maintain and enhance this accomplishment, a human resources department was established in September 1994. Its duties are to create an optimum work climate and carry out a program of ongoing training.

3. Activities performed

- 2.16 PROPESA received financing in the amount of US\$500,000 (SP/SF-91-06-CH) from the IDB in 1991 to cover a credit program for microentrepreneurs working in the metropolitan area of Santiago; and US\$130,000 in nonreimbursable technical-cooperation funding (ATN/SF-3628-CH) for institutional strengthening of the agency itself plus technical assistance for microenterprise. The financing granted by the Bank enabled PROPESA to establish a more solid financial basis to ensure the successful conduct of its management. This made it possible for the first round to include 875 loans averaging US\$571 each to microentrepreneurs engaged mainly in trade, services and small industry plus credit on reinvestments to a total of 5,933 microentrepreneurs and technical assistance to 1,097 over the period from 1991 to October 31, 1994. In addition, and as a result of the consulting services and other benefits stemming from the technical-cooperation project, significant and fundamental progress was made in the areas of information technology, training, administration and courses for its staff.

- 2.17 PROPESA maintains a current and active agreement with Action International that is designed to build the institutional capability needed for it to operate on a larger scale in the future. Staff training is one of the central items of that agreement. In addition to providing a continuous transfer of methodology and taking part in the staff training activities, Action International underwrites some of the institutional strengthening, which means financial support for the exchange travel and studies of PROPESA employees in the programs in other countries.

4. Financial situation

- 2.18 The analysis of PROPESA's financial position is based on the financial statements as of December 31 1989, 1990, 1991, 1992 and 1993 - all of which were audited by Price Waterhouse - plus proforma statements for 1994 which have yet to be audited. Annex II-2 contains the financial statements for 1993 and 1992. By the end of 1993, 27,494 loans had been granted to microentrepreneurs and a nominal CH\$2,251,671,365 (equivalent to US\$4,857,346) had been disbursed. Arrears of more than 30 days (the nonperforming portfolio) amounted to 1.84%. Provision for bad debts also amounted to 1.84%. The statement of financial condition indicated a net worth of CH\$282,700,553.
- 2.19 Total assets for 1993 reached CH\$828,796,898, an increase of 54% over 1992. This was mainly due to the additional number of loans granted by the agency. Net lending, which represents 75% of total assets, were up 62% over 1992. Cash in hand and in bank accounts for 2% of the assets, the liquidity level in that category having declined over the 1992 and 1993 periods. Indebtedness to financial institutions - private, public or international - accounted for 3% of assets. This figure was almost 2.3 times the amount posted in 1992, owing to the increase in operations. Finally, fixed assets in 1993 accounted for 14% of total assets, including land and buildings.
- 2.20 PROPESA had surplus income of CH\$25,690,824 in 1993, mainly because its operating revenue rose by 65% while administrative expenses increased by 24% and operating expenses fell from around 66% to 60% between 1992 and 1993, respectively. Under Chilean law, financial expenses are reckoned at the market rate, not the amount actually charged by the IDB; accordingly, financial outlays were overstated by CH\$31,665,554. This surplus will be used to boost the provision for an interest revaluation fund in conformity to the financing agreement signed with the Bank.
- 2.21 In addition, the financing supplied by the Bank pursuant to Agreement SP/SF-91-06-CH allowed the agency to reduce its funding costs considerably, which meant a reduction in the break-even point. PROPESA has managed to diversify its sources of financing through annual campaigns to collect donations from major local

companies (US\$10,000 in 1994) and project financing through international cooperation (US\$105,000 in 1994); and participation in public bidding on funds for programs to support microenterprise, conducted by state entities (US\$49,000 in 1994, provided by the Solidarity and Social Investment Fund for microentrepreneurial training activities). PROPESA also signed an agreement with the Banco Hipotecario Internacional Financiero (BHIF), a private Chilean financial agency, for the sale of notes from the portfolio not subject to IDB financing (US\$2.12 million in 1994), an operation that was the first of its kind in Chile.

5. Institutional evaluation

- 2.22 The evaluations conducted after December 31, 1993 (i.e., the close of the last audited fiscal year) show that the goals for the first small project were successfully attained. PROPESA was one of the first agencies in Chile to assist microentrepreneurs in marginal urban districts of Santiago by means of financing and training. It has managed to earn the trust of Chilean businessmen and international organizations that have provided it with human and financial resources to bolster the microentrepreneurial sector in Santiago's impoverished areas. The program would allow PROPESA to extend its operations beyond Santiago to serve microentrepreneurs who would otherwise not have access to credit, while consolidating its administrative, operational and financial base for future operations.

C. FINAM

1. Identity, origin and objectives

- 2.23 FINAM, the Chilean affiliate of Women's World Banking, is a private nonprofit institution authorized by Ministry of Justice Decree No. 122 of January 31, 1989. Its purpose is to promote the entry and participation of Chilean women into the economic activity, particularly, in pockets of poverty. FINAM also encourages a change of mentality in women, building self-confidence in entrepreneurial endeavors and helping to alert society to their problems so that women can gain access to the benefits of a modern economy. It thus serves as a means of establishing ties between women from all social and economic strata and the community. FINAM is authorized by its by-laws to contract debt with national and international institutions alike.

2. Administrative features

- 2.24 FINAM is managed by a board of directors appointed by the general assembly of founding members, who are women of note in business and professional circles, 42 in all. They constituted the FINAM assembly, which delegates its representation to an operative board of directors composed of the chairwoman, secretary and treasurer. The board meets every two months and reports on those meetings to

the assembly, which is invited to participate. The regular general assembly meeting is held at annual intervals. The board's chairwoman also chairs FINAM and acts as its legal representative.

- 2.25 The FINAM organizational structure consists of 20 persons, including a general manager and the heads of the following units: administration and finance with a two-person staff; informatics and projects; entrepreneurial development; and credit. Nine credit analysts - eight in the field and one in residence - report to the credit chief. The field representatives are divided into two geographic groups and each group reports to a coordinating analyst. Two secretaries and an assistant comprise the support staff for the entire institution. Payments are collected by an outside company.
- 2.26 The general manager, who is responsible for all FINAM operations, reports on her activities to the office of the executive president and conducts all organizational and control tasks necessary for routine functioning of the agency. The administrative and financial officer is responsible for financial coordination, designing and controlling budgets and cash flows and checking the accuracy of data. The informatics chief maintains the computer networks and sets up the systems needed for optimal productivity of the staff. The head of entrepreneurial development is in charge of relations with small and medium-size companies and the FINAM extension services, which endows the agency with an important presence as an organization that supports microenterprise. The head of credit is responsible for organizing and supervising the team of analysts; she also takes part in the committee meetings at which applications for credit are approved or rejected.

3. Activities performed

- 2.27 FINAM was the recipient of US\$500,000 in financing from the IDB in 1991 (SP/SF-91-13-CH) for a project to provide credit to micro-entrepreneurs in the metropolitan area of Santiago. Included was nonreimbursable technical-cooperation funding in the amount of US\$115,000 (ATN-SF-3694-CH), earmarked for institutional strengthening of FINAM and technical assistance to women microentrepreneurs. The IDB financing enabled FINAM to grant 1,470 loans to women owners of microenterprises engaged in services and small-scale industry in the first round of this activity. By December 31, 1994, it had processed 4,833 loans totaling CH\$919,161,000 (i.e. approximately US\$2.5 million). Individual credits accounted for 2,407 (49.8%) of the loans, which amounted to CH\$519,107,000 (i.e. 56.5% of the financing). The other 2,426 (50.2%) - a total of CH\$400,054,000 (43.5%) - went to solidarity groups. The average loan amount was US\$216,000 (US\$540) for individual recipients and CH\$165,000 (US\$412) for members of the groups.
- 2.28 The technical cooperation designed for institutional strengthening allowed FINAM to heighten its operating efficiency significantly. The contracting of experts to design and implement computerized

systems; procure hardware and software; and train its staff in the use of computers resulted in the development of more effective management, consistent with the needs for timely and necessary information. This was especially true in regard to management of the loan portfolio and the financial and accounting duties.

- 2.29 The technical assistance for women entrepreneurs was granted through the inculcation of basic management techniques during field visits to their places of business at the start of the diagnostic study; and thereafter in visits to monitor the operations and evaluate eligibility for additional credit. These services are provided for the client by credit analysts, each of whom administers a loan portfolio covering an assigned geographic sector. The beneficiaries thus receive personalized and practical attention, since the analyst who is permanently in contact with them is aware of their strengths and weaknesses. In addition to this ongoing technical assistance, more than 200 persons were given courses in basic business management techniques during the program.

4. Financial situation

- 2.30 The analysis of the FINAM financial situation is based on the financial statements as of December 31, 1992 and 1993, which were audited by Price Waterhouse, and the results for 1994. Annex II-3 contains the financial statements for all three years. Total assets in 1993 amounted to CH\$318,711,000, an increase of CH\$202,317,000 (57.5%) from 1992. The increase was mainly due to the greater volume of credits granted in 1993, which resulted in a net increase in the current portfolio from CH\$122,390,000 in 1992 to CH\$176,816,000 in 1993, an upturn equivalent to 44.5%. In 1994, the net current portfolio reached CH\$225,975,000 - an increase of 27.8% over 1993. Write-offs from the start of the program up to December 31, 1994 total CH\$23,747,000, or 2.6% of the cumulative total of loans granted to date (CH\$919,161,000).
- 2.31 Operating revenue doubled from CH\$32,056,000 in 1992 to CH\$64,741,000 in 1993. The 1994 figure of CH\$84,483,000 represented an increase of 30.5% over the 1993 level. The operating outlays rose from CH\$95,011,000 in 1992 to CH\$123,792,000 in 1993, an increase of 30.3%. In 1994, operating expenses amounted to CH\$186,478,000, an increase of 50.6%. It should be noted, however, that the operating expenses include all of the FINAM expenditures, many of which are for activities other than lending that were covered in their entirety by revenue from other activities - such as the sale of advertising in the FINAM magazine, sponsorship for events, and the like, which do not constitute operating revenue but do represent expenses defrayed by those activities, although if they are considered under the heading of operations, the interpretation of the results is distorted. The bottom line for fiscal year 1994 is a surplus of CH\$10,990,000, as compared with earnings of CH\$2,879,000 in 1993 and a shortfall of CH\$21,478,000 in 1992.

5. Institutional evaluation

- 2.32 The various evaluations of FINAM - some of which were conducted with the help of external consultants financed by the Bank - show a progressive improvement in the activities developed under the first small project. FINAM has pioneered support for women microentrepreneurs in Chile and in Latin America through the financing and training facilities it offers in the marginal urban districts of Santiago. It has thereby merited the trust of a number of distinguished Chilean professional women and that of Women's World Banking, which have provided the agency with human and financial resources to assist the feminine microentrepreneurial sector. The proposed program would permit the consolidation of FINAM in regard to finances and the activities it conducts. It would therefore facilitate the expansion of FINAM's operations outside the metropolitan area of Santiago, where the agency would provide women entrepreneurs with access to banking services or conventional credit which they lack at present.

III. THE PROGRAMS

A. Objectives

- 3.1 The goals of the programs for support to CREDICOOP, PROPESA and FINAM are: (a) to expand and intensify the credit facilities, training, advisory services and technical assistance which these institutions offer to formal and informal microentrepreneurs and self-employed workers - either individually or in association with other persons in those categories (who for the most part have no access to the conventional sources of credit that would help to improve their socioeconomic situation and that of their families); and also to generate job opportunities for unskilled labor in marginal urban areas; and (b) to strengthen the capacity of those institutions for the channeling and handling of credit, training and advisory services in management, administration, marketing and accounting, thus enabling them to play a more active and effective part in the services they perform and to serve a greater number of microentrepreneurs and self-employed persons.

B. Description of the programs

1. CREDICOOP

a. Urban credit component (US\$500,000)

- 3.2 This money would be used to strengthen the existing revolving credit fund to meet microentrepreneurs' needs for working capital and the purchase of fixed assets such as tools and equipment. The regions to be served are those with clusters of persons in Chile's

lowest income brackets. In Region V (the Valparaiso area), 43.6% of the population are below the poverty line and 16.5% have no means of subsistence. In Region VII (the Maule area), those figures rise to 48.9% and 18.4%, respectively. In Region VIII (Bio-Bio), the same two groups account for 46.3% and 18.6%. Finally, in Region IX (the Araucania area), 47.5% of the population are living in poverty - with the Mapuche ethnic groups predominating - and 21.1% can barely subsist. This component could provide 500 loans in the first round of funding, since the average amount is estimated at US\$1,000. That first stage is expected to take two years.

b. Nonreimbursable technical-cooperation funding (US\$150,000)

- 3.3 This amount would be used for institutional strengthening of CREDICOOP in the form of advisory services, training and equipment in the areas of computing, transportation and communications. For additional details, see Annexes I-1 and I-2.

2. PROPESA

a. Urban credit component (US\$500,000)

- 3.4 The component would be used to increase the existing revolving credit fund enabling microentrepreneurs to finance the purchase of raw materials or goods; the acquisition or refurbishing of smaller items of equipment; and the acquisition of machinery or the outfitting of workshops and premises to meet their needs for working capital, the outfitting of workshops and premises and the purchase of fixed assets such as equipment and machinery. The resources would be utilized in the credit program to fulfill the needs of microentrepreneurs in regions V, VI and VII. The beneficiaries would also receive training and technical advisory services pursuant to the program and methodology PROPESA has for that purpose. The component would suffice for 1,000 loans on a regular basis, since the average amount of each is US\$500. The first stage for the use of these funds is expected to be completed in two years.

b. Nonreimbursable technical-cooperation funding (US\$150,000)

- 3.5 This would be used for institutional strengthening of PROPESA through advisory services, training and equipment in the areas of computing - both hardware and software and communications. Additional details may be found in Annexes I-1 and I-2.

3. FINAM

a. Urban credit component (US\$500,000)

- 3.6 The component would be used to set up a revolving credit fund, most of which would be used to help women microentrepreneurs meet their

needs for working capital and acquire fixed assets such as tools and equipment. This amount would suffice for 1,000 loans in the first round of resources, since the average loan amount is \$500. That first stage is scheduled to be completed in two years.

b. Nonreimbursable technical-cooperation funding (US\$150,000)

- 3.7 These funds would be used for institutional strengthening of FINAM by means of advisory services, training and equipment in the software and hardware categories. For additional details, see Annexes I-1 and I-2.

C. Program cost and financing

- 3.8 The total cost of the three proposed programs, including the parallel technical cooperation components, would be US\$1,950,000, distributed as follows:

(in US\$)

COMPONENTS	CREDICOOP	PROPESA	FINAM	TOTAL
CREDIT	500,000	500,000	500,000	1,500,000
TECHNICAL COOPERATION	150,000	150,000	150,000	450,000
TOTAL	650,000	650,000	650,000	1,950,000

- 3.9 Financing for the three programs - CREDICOOP, PROPESA and FINAM - would be chargeable to net income of the Fund for Special Operations in local currency. The three financing packages would be granted on a nonreimbursable basis with an amortization period of 25 years; a grace period of eight years; and a 1% annual commission on balances outstanding. The parallel technical cooperation would also be covered by nonreimbursable financing.

D. Execution of the programs

1. Responsibility for execution

- 3.10 Responsibility for administering and executing the proposed projects would lie with the intermediary organizations. Each of the participating IOs would sign a financing and technical cooperation agreement with the Bank and would carry out the respective program in accordance with the terms of this document and the annexes thereto. The activities would be conducted by the present staff of each agency, bolstered by support from the consultants envisaged in the technical cooperation packages described in Annex I-1 to this document.

2. Credit Regulations

- 3.11 The main conditions of the Credit Regulations agreed upon with the IOs are contained in Annex III. The terms of the regulations are consonant with the Bank's norms and policies and with current legal measures and banking and financial practices in Chile. The regulations shall enter into effect as a condition precedent to the first disbursement of the respective financing to the IOs.

3. Training and technical assistance for the beneficiaries

- 3.12 The training and technical assistance that will be given to the microentrepreneurs and self-employed persons would be provided by the IOs.
- 3.13 Pursuant to the dictates of the credit committees and boards of directors of the respective IOs, advisory services and technical assistance would be provided for the microentrepreneurs and self-employed workers. The training would focus on basic techniques in the fields of management, business administration, accounting, costs, marketing and the use of suitable production technologies, the handling of machinery and equipment and environmental conservation practices. Attendance at training sessions would not constitute an absolute condition for receiving the loan, but could be required, depending on how much the applicant knows about the activity to be performed and his or her previous experience as a microentrepreneur.

4. Nonreimbursable technical-cooperation funding

- 3.14 The institutional diagnosis conducted during the study of the three programs was used as the basis for designing the technical cooperation activities listed in Annex I-1 to the document. They include action in the following areas: (i) strengthening of the managerial, financial, administrative and technical capabilities of the IOs; and (ii) the provision of additional equipment that will enable the IOs to supervise the three programs competently.
- 3.15 Responsibility for selecting and engaging the consulting services scheduled in these programs will rest with the respective IOs. The Bank's policies and norms in this area will be applied for that purpose. The IOs will also follow the IDB procedures and policies for the procurement of goods scheduled in the technical cooperation programs described in Annex I-1 to this document.

5. Deadline for disbursement of the resources

- 3.16 The financing and technical cooperation resources would be disbursed within a period of 42 months from the date the respective agreement enters into effect.

6. Advance of funds

- 3.17 Each program requires the availability of sufficient financial liquidity to permit quick and timely provision of credit and to expedite the institutional strengthening of the IOs. In every case, it is recommended that an advance of funds be granted, up to a maximum 20% of the amount to be financed and of the parallel technical cooperation.

7. Mid-term evaluation

- 3.18 During the execution of these operations, the performance of each will be evaluated as to compliance with the program objectives and the terms for implementation of the corresponding components: credit (Subprogram A) and technical cooperation (Subprogram B). The evaluation would take place when 50% of the resources of the respective financing package have been disbursed. It will include a review of the progress achieved in execution of each IO's program, and an appraisal of the soundness of the procedures used to carry out the credit, training and technical assistance components provided for the microentrepreneurs and self-employed persons. The evaluation will also examine: (a) the interest rates charged by the IOs in the credit components; (b) the amount of arrearage in the program loan portfolio and the level of the IOs other resources; (c) the rate of return on the services rendered; and (d) the steps taken to protect the environment.
- 3.19 These reviews will be conducted by an external consultant contracted by the Bank chargeable to the resources of Subprogram B.
- 3.20 The Bank will review the results and recommendations arising from these midterm evaluations. If they are found satisfactory, it will authorize the respective IO to continue committing resources chargeable to the financing or to take any pertinent action deemed appropriate. In the event that significant shortcomings are identified as a result of the evaluation, the Bank would not authorize continued commitment of resources by that particular IO until the proper measures are taken to remedy such failings.

8. Portfolio in arrears

- 3.21 During the execution of the three proposed programs, the IOs will take such action as may be appropriate to ensure that the arrearage level in the respective portfolios containing IDB resources is kept below 5%, or - in the case of portfolios financed by other sources - below 10%. If any of the IOs fails to abide by this provision, the Bank reserves the right to suspend disbursements immediately, although due consideration would always be given to any circumstances that might justify a temporary increase in the arrearage index. To that end, the IOs will provide the Bank, throughout the execution period, with semiannual reports containing data on the arrears in the corresponding portfolios.

9. Use of spread and recoveries

- 3.22 As the IDB financing for the credit activities is repaid, any surplus that accrues from the sums recovered owing to the spread between the market rate and the rate charged by the Bank will be used by each IO to capitalize its revolving credit fund. So long as the financing agreements remain in effect, recoveries of funds from the loans granted with resources of the three proposed programs can be used by the IOs only to grant new loans substantially in line with the norms established in the respective financing agreements and in their respective credit regulations, unless the Bank authorizes the IOs, in writing, to make alternative use of such funds.

10. Environmental considerations

- 3.23 CREDICOOP, PROPESA and FINAM will take special care to see that the beneficiaries of their respective programs comply with Chile's laws concerning the environment, and that the activities they perform - regardless of the nature or impact thereof - inflict no damage on the environment. It should be noted that the scale of the activities that will be financed by the three programs is so small that there is little risk of such adverse effects. To reduce that risk even further, however, the credit regulations will include the following: (i) project eligibility criteria which prevent or limit the financing of activities that entail pollution or harmful impact on the environment; (ii) training and instruction of the end beneficiaries that include ecological content; and (iii) the obligation of the IOs to ensure compliance with the preventive measures introduced in the regulations. On that basis, the March 7, 1995 meeting of the Environmental Management Committee (CMA) classified the three programs in Category II.

IV. THE BENEFICIARIES

A. Characteristics

- 4.1 The typical microentrepreneurial enterprises served by CREDICOOP, PROPESA and FINAM share the following features:
- They have an average five employees, including the owner of the business. As a rule, the employees include one or two members of the family group.
 - Most of them are not yet on a totally formal footing - in other words, they have not complied with all the legal requirements for operating.

- The workshops and places of business are located in the poorest or marginal areas of the cities.
- The microenterprise constitutes the main source of support for the family group.
- The economic units have very low levels of accrued capital, with little or no division between capital and labor. The production methods are simple or rudimentary. The microentrepreneurs' machinery and equipment are outdated, consisting in general of items they have managed to put together using bits and pieces of other such units. The owner's home usually serves as the workshop, factory or place of business as well.
- Their needs for financing vary, depending on the degree of development attained and the facilities offered by the three IO credit programs.

B. Estimated number of beneficiaries

- 4.2 The number of beneficiaries under the three programs is estimated at some 2,500 microentrepreneurs and self-employed persons, about 70% of whom would be women. Slightly more than half of the PROPESA and CREDICOOP clients - and most of FINAM's - are women. CREDICOOP would benefit roughly 500 microentrepreneurs, while PROPESA and FINAM would each serve around 1,000. Considering the average microentrepreneurial family group to consist of five persons, the number of indirect beneficiaries would be approximately 12,500 low-income persons.

V. PROGRAM VIABILITY, JUSTIFICATION AND RISKS

A. Socioeconomic viability

- 5.1 Execution of the three programs proposed here would make it possible to put the operations of small production units on a solid footing, thereby heightening and improving the level of employment in marginal urban districts. At the same time, the training activities and technical assistance offered to the beneficiaries would raise their qualifications for work, thus boosting their productivity and income. The three programs would help to improve living conditions for some 2,500 low-income families who now lack access to conventional credit from the financial system to support their respective activities.

B. Institutional viability

- 5.2 CREDICOOP, PROPESA AND FINAM have displayed the necessary skills to direct their financial resources, technical assistance, advisory services and training courses to microentrepreneurs and self-employed persons in Chile, providing them with loans consisting of an average US\$500 or US\$1,000, depending on the institution. Paragraphs 2.5, 2.6, 2.16 and 2.27 through 2.29 summarize the way the resources will be used in the early stages of these operations. CREDICOOP, PROPESA and FINAM have won national and international recognition as institutions providing credit and assistance services for microenterprise and self-employed workers, thus helping to satisfy the demand for small loans that is not being met at present. The proposed projects would thus benefit the most vulnerable population segments.
- 5.3 The three IOs have the necessary legal base and a flexible organizational structure that can be adjusted to perform the various tasks required to carry out the proposed programs as well as to handle the anticipated increase in the volume of operations. Their personnel are being given ongoing training, and are experienced in the administration of this type of activity. The institutional strengthening measures adopted by CREDICOOP, PROPESA and FINAM over the 1991-1994 period with technical assistance financed by the Bank have helped to upgrade the financial status and operating expertise of these institutions.
- 5.4 Additional institutional strengthening and a broader financial base are still needed, however, to improve the administrative and operational systems for monitoring and recovery of the loans, along with advisory and training services to help the three agencies extend and expand their financial activities. The institutional weaknesses identified in each IO during the analysis of the operations would be addressed and corrected by means of the technical cooperation packages designed to equip the agencies to play a successful part in carrying out the proposed operations. At the same time, this would improve the agencies' chances of consolidating their financial and operational self-sufficiency in the future. The technical cooperation tailored to each IO's needs would contribute to the institutional strengthening of these NGOs and allow them to upgrade the services they now provide for the microentrepreneurial sector and self-employed workers in Chile.

C. Financial viability

- 5.5 The resources of the three programs would be used to finance productive activities whose financial feasibility has been previously determined pursuant to the methodology employed by the intermediaries, based on the subloan eligibility criteria and conditions set forth in the corresponding credit regulations.

- 5.6 Since the subloans would be granted at interest rates that are favorable in real terms and cover the cost of intermediation plus the risk, the projects would generate sufficient income to attain the target goals, along with capitalization of the IOs, maintenance of value in the revolving credit funds and strengthening of the institutions' net worth.
- 5.7 In addition, the parallel nonreimbursable technical cooperation would allow the IOs to achieve higher levels of administrative and operational organization, placing them in a position to provide continuity for programs aimed at the microentrepreneurs they serve in their respective spheres of action.

D. Justification

- 5.8 The proposed programs are consistent with the CPP, the strategy espoused by the Government of Chile and the objectives of the Eighth Replenishment of the Bank's resources. They also meet the eligibility criteria set forth in documents GP-75-7 and GN-1238-2 for the Small Projects Financing Program, as well as the operating policy on women and development contained in document GP-114-3. The three programs would thus provide direct benefits for marginal groups, with special emphasis on women, generating job opportunities and fostering the use of appropriate technology.

E. Risks entailed by the operations

- 5.9 The principal risks stem from the fact that execution of these programs would require additional effort on the part of the three agencies. If the increase in the portfolio does not take place as gradually as expected, the quality thereof might suffer. But these institutions have shown in the past, in connection with the IDB financing granted to them for support to microentrepreneurs, that they are capable of responding and reacting in the face of rapid growth without endangering their programs. Furthermore, the three technical cooperation packages will contain very important tools to consolidate the expansion process; to correct any major weaknesses found in each of the organizations; and to establish solid institutional foundations.

VI. CONCLUSIONS

- 6.1 The foregoing analysis leads to the conclusion that execution of the three programs is feasible. Accordingly, the Bank Management recommends that the Board of Executive Directors approve the corresponding financing and, to that end, submits for the Board's consideration the proposed resolutions calling for financing and nonreimbursable technical cooperation to be granted to CREDICOOP, PROPESA and FINAM.

COOPERATIVA DE AHORRO Y CRÉDITO LIBERACIÓN LIMITADA
(CREDICOOP)
CORPORACIÓN DE PROMOCIÓN PEQUEÑA EMPRESA (PROPESA)
CORPORACIÓN W.W.B. FINANZAS INTERNACIONALES Y NACIONALES
PARA LA MUJER (FINAM), FILIAL CHILENA WOMEN'S WORLD BANKING

PLAN OF OPERATIONS (TC-94-08-36-2, TC-94-08-73-2, and TC-95-02-04-9)

I. BACKGROUND

- 1.1 In addition to the applications for financing presented by CREDICOOP, PROPESA and FINAM under the Small Projects Financing Program, nonreimbursable technical cooperation packages have been requested to help execute the programs proposed in the financing document.

II. OBJECTIVES

- 2.1 The objectives of the proposed technical cooperation are:
- a. To strengthen the operational, managerial, administrative, financial and technical capabilities of the intermediary organizations (IOs) through support for upgrading of their information, administration, accounting and credit management systems.
 - b. To improve and implant appropriate credit methodology in the IOs, seeking to optimize their operating efficiency and at the same time offering suitable financial services to the respective end beneficiaries.
 - c. To develop programs of training and technical assistance for the end beneficiaries, utilizing appropriate technologies and inculcating the basic elements of administration, financing and marketing.
 - d. To strengthen the IOs' infrastructure for managing credit programs in order to ensure satisfactory application, management and recovery of the resources requested.
 - e. To help ensure that the IOs play a preponderant role in future attention to the financial needs of low-income groups throughout the country.

III. PROGRAM DESCRIPTION

3.1 The objectives described above would be accomplished by each IO by means of the activities described in the following paragraphs.

1. The hiring of consultants

3.2 Each IO would engage the services of the following experts for execution of the technical cooperation pursuant to the terms of reference included in Annex I-2:

- a. CREDICOOP: (i) an accounting and financial expert to design and implement a system for centralized account records, financial control, loan portfolio management and the supervision and collection of loan payments, for 24 months; (ii) an expert on strategic planning, for four months; (iii) an expert on computer development to systematize existing procedures and systems as a basis for expanding CREDICOOP, for 12 months; and (iv) an expert on management control to design and set up a system for such purposes in the branch offices, for 24 months.
- b. PROPESA: (i) a systems expert to diagnose the situation and operation of PROPESA's computer systems, for 12 months; and (ii) an expert on systems development and programming for control of the agency's new operations in new regions, for 24 months.
- c. FINAM: (i) a financial expert to study and implement the use of leasing and factoring as new financing tools, for 18 months; (ii) a financial expert to design and set up a credit system based on points, for 12 months; (iii) a financial expert to design and carry out a strategy to maximize financial yield on the resources, for 12 months; (iv) a systems expert to develop, test and install software for the evaluation of credits based on points, for 12 months; and (v) an expert on procedures and systems to "manualize" the use of factoring and leasing in FINAM offices, for four months.

2. Procurement of equipment

3.3 The program proposed for each IO calls for acquisition of the following equipment to assist in the respective financing activities:

- a. CREDICOOP: procurement of communications equipment; equipment and furnishings for training; computing equipment (hardware and printers) and the means of transportation (motorcycles) for project analysis and monitoring purposes.

- b. PROPESA: procurement of computing equipment (hardware, software and a printer) and communications equipment.
- c. FINAM: procurement of accounting software and office equipment.

3. Visits and sharing experiences

- 3.4 The possibility of national or international travel for PROPESA and its respective beneficiaries is envisaged for the purpose of attending technical seminars, exchanging accounts of their experience with the various activities and later transmitting the knowledge thus acquired to other beneficiaries of the program.

IV. COST AND FINANCING

- 4.1 The total cost of these technical cooperation packages is estimated at US\$450,000, to be financed by the Bank on a nonreimbursable basis and chargeable to net income of the Fund for Special Operations in accordance with the following detailed budget:

(in US\$)

CATEGORIES	CREDICOOP	PROPESA	FINAM	TOTAL
2.1 Fees ^{1/}	69,000	40,000	103,500	212,500
6.3 Equipment ^{2/}	39,000	58,100	8,200	105,300
8.1 External evaluations ^{3/}	3,000	3,000	3,000	9,000
97. Special programs				
97.1 Specialized training seminars for staff members and beneficiaries ^{4/}	35,000	32,050	31,300	98,350
97.2 Sharing experiences ^{5/}		12,850		12,850
98. Contingencies	4,000	4,000	4,000	12,000
TOTAL	150,000	150,000	150,000	450,000

1/ CREDICOOP: The expert on accounting and finance (1,166 per month x 4 months); the strategic planning expert (1,250 per month x 4 months); the systems expert (1,000 per month x 12 months); and the expert on management control (1,000 per month x 24 months). PROPESA: The systems expert (1,250 per month x 12 months) and the expert on systems development and programming for 1,500 hours (US\$16.67 x 1,500 hours). FINAM: The financial expert on leasing and factoring (1,500 per month x 18 months); the financial expert for the design and implementation of a finance maximization strategy (1,500 per month x 12 months); a systems expert (US\$36,500, lump sum); and the expert on procedures and systems (1,000 per month x 4 months).

2/ CREDICOOP: Includes communications equipment (fax, modems, etc. US\$2,000); training (TV/video, tables and chairs, etc. US\$4,000); computer services (6 computers and their printers, US\$10,000); means of transportation (7 motorcycles US\$18,000); and retrofitting of the offices for training purposes (US\$5,000). PROPESA: includes seven 486sx 33 computers with 4 MB of RAM, 210 MB on a hard disk, and monochrome monitors (US\$10,850); 7 Cubix QL 3222CX cards (US\$21,000); installation kits for each card (US\$2,800); 11 modems for remote node users (\$11,000); seven 3 Com NE2000 cards (US\$1,050); SQL-Base software; a c/s drive for 50 users (US\$8,400); and five private telephone lines (US\$3,000). FINAM: includes office equipment (US\$6,000) and the purchase of accounting software (US\$2,200).

3/ Based on the advantages of economies of scale, the Bank would engage an expert or consulting firm, chargeable to the contribution and pursuant to a single contract, to perform the external evaluations of the progress achieved when 50% of the requirements of each project have been met.

4/ CREDICOOP: includes the expenses for training approximately 40 officers in project evaluation, financial management, accounting and computer science at universities and specialized institutions (US\$15,000), plus the preparation and holding of some 85 courses for 1020 microentrepreneurs on accounting records, management of production workshops, sales, costs and legal procedures (US\$20,000). PROPESA: includes the expenses for training and upgrading of its staff at three seminars on management and communications, levels I, II and III for a total of: 100 participants in 1995; 130 in 1996; and 150 in 1997 (US\$27,730) and seminars on leadership and technical topics for 72 officers in 1995 and 1997 (US\$4,320). FINAM: includes the cost of training FINAM staff in human relations and personnel administration, risk evaluation and credit administration, strategic planning and quality management (US\$5,450), plus the preparation and holding of six courses for microentrepreneurs on accounting and basic records; an additional six on costs and pricing, marketing and entrepreneurial management; and two courses on analysis and strategic planning (US\$25,850).

5/ Seven trips in all are contemplated, making a total of US\$12,850 for representatives of PROPESA to attend specialized international events, such as seminars to share experiences. This figure includes fares, per diem, registration and enrollment fees.

V. PROGRAM EXECUTION

- 5.1 Consultants would be engaged by each IO. As a special condition precedent to the first disbursement, the IOs must present the detailed terms of reference for each consultant to the Bank's satisfaction, using the indicative terms of reference included in Annex I-2 as a basis. They must also select the consultants in accordance with procedures agreed upon in advance with the Bank, and sign the contracts for their services with the corresponding experts.
- 5.2 The IOs will provide all of the logistic support needed by the consultants for smooth execution of the program in the areas of secretarial services, office space, telecommunications service, electricity and the like.
- 5.3 Each IO will be responsible for procurement of the equipment and materials required in each of the respective programs, pursuant in every case to the Bank's procedures, norms and policies in this regard.

VI. JUSTIFICATION

- 6.1 The proposed technical cooperation would constitute a direct contribution to smooth execution of the IOs' microentrepreneurial credit program and attainment of its objectives. Specifically, the credit programs would represent an extension of the activities currently performed by the IOs, and the technical cooperation is deemed necessary to strengthen each agency's operational, administrative, technical and financial base. The proposed assistance would make it possible for such expansion to maintain and improve the quality of service administration and monitoring of the beneficiaries.
- 6.2 In addition, the technical assistance contemplated for each program would provide the IOs with the procedures and tools to improve the service and coverage they offer to microentrepreneurs and self-employed individuals. At the same time, the need to monitor the expanded loan portfolios entails greater complexity in the supervision and processing of operations, which will require the installation of data processing and management control systems tailored to the new circumstances.
- 6.3 The programs' success will depend largely on the proposed components of the corresponding technical cooperation packages, which are considered essential for efficient use of the proposed financing.

VII. DISBURSEMENTS

- 7.1 The funding for these operations will be disbursed over a period of 42 months, starting on the date the respective agreement is signed.
- 7.2 As a special condition, and at the request of each IO, provision may be made for advancing up to 20% of the amount of the technical cooperation to ensure the requisite liquidity for effective conduct of the programs. The constitution and replenishment of the funds thus advanced would be deemed tantamount to disbursements; and the IOs would present detailed accounts of the use made of those funds to secure such replenishment.

VIII. REPORTS

- 8.1 The agreements that would be signed with each IO shall establish their obligation to provide the Bank with a copy of the following consultants' reports, pursuant to their respective contracts: (i) the periodic progress reports from the date when the consultants were contracted, describing the advances made in the performance of their activities; and (ii) a final report, to be submitted within the 60 days following the date on which they completed their assigned tasks.
- 8.2 The agreements should also establish the obligation of each IO to present the following reports for the Bank's consideration: (i) semiannual progress reports, within the 60 days following the end of each calendar semester, describing the accomplishments in execution of the technical cooperation; (ii) an evaluation of the reports presented by the experts, within the 60 days following the expiry date of each contract. When the last of these reports has been submitted, each IO will present a detailed report on the results of the technical cooperation (Subprogram B); and (iii) a financial report certified by independent auditors acceptable to the Bank, within the 120 days following the close of each calendar year in which the final disbursement of the program takes place, describing the use made of the Bank's contribution.

IX. SUPERVISION

- 9.1 The consulting services will be supervised by each IO. The Bank would also supervise the proposed three programs through its field office in Chile.

PROPOSED RESOLUTION

CHILE. FINANCING AND TECHNICAL COOPERATION TO THE COOPERATIVA DE AHORRO
Y CREDITO LIBERACION LIMITADA WITHIN THE PROGRAM
FOR FINANCING SMALL PROJECTS

The Board of Executive Directors

RESOLVES:

1. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such agreement or agreements as may be necessary with the Cooperativa de Ahorro y Crédito Liberación Limitada, of the República de Chile, to grant it, within the Program for Financing Small Projects, approved by Resolutions DE-85/78 and DE-147/79: (a) reimbursable financing for the execution of the program referred to in Document PR- ; and (b) nonreimbursable technical cooperation for the execution of the program, in accordance with Annex I of said document.

2. That up to the equivalent of US\$500,000 in pesos chilenos, is authorized for the purposes indicated in paragraph 1(a), and up to the equivalent of US\$150,000 in pesos chilenos, for the purposes indicated in paragraph 1(b), both chargeable to the net income of the Fund for Special Operations.

PROPOSED RESOLUTION

CHILE. FINANCING AND TECHNICAL COOPERATION TO THE CORPORACION
DE PROMOCION PARA LA PEQUEÑA EMPRESA WITHIN THE PROGRAM
FOR FINANCING SMALL PROJECTS

The Board of Executive Directors

RESOLVES:

1. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such agreement or agreements as may be necessary with the Corporación de Promoción para la Pequeña Empresa, of the República de Chile, to grant it, within the Program for Financing Small Projects, approved by Resolutions DE-85/78 and DE-147/79: (a) reimbursable financing for the execution of the program referred to in Document PR- ; and (b) nonreimbursable technical cooperation for the execution of the program, in accordance with Annex I of said document.

2. That up to the equivalent of US\$500,000 in pesos chilenos, is authorized for the purposes indicated in paragraph 1(a), and up to the equivalent of US\$150,000 in pesos chilenos, for the purposes indicated in paragraph 1(b), both chargeable to the net income of the Fund for Special Operations.

PROPOSED RESOLUTION

CHILE. FINANCING AND TECHNICAL COOPERATION TO THE CORPORACION W.W.B. -
FINAM, FILIAL CHILENA WOMEN'S WORLD BANKING WITHIN THE
PROGRAM FOR FINANCING SMALL PROJECTS

The Board of Executive Directors

RESOLVES:

1. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such agreement or agreements as may be necessary with the Corporación W.W.B. - FINAM, Filial Chilena Women's World Banking, of the República de Chile, to grant it, within the Program for Financing Small Projects, approved by Resolutions DE-85/78 and DE-147/79: (a) reimbursable financing for the execution of the program referred to in Document PR- ; and (b) nonreimbursable technical cooperation for the execution of the program, in accordance with Annex I of said document.

2. That up to the equivalent of US\$500,000 in pesos chilenos, is authorized for the purposes indicated in paragraph 1(a), and up to the equivalent of US\$150,000 in pesos chilenos, for the purposes indicated in paragraph 1(b), both chargeable to the net income of the Fund for Special Operations.