DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BOLIVIA

PROGRAMMATIC FRAMEWORK TO SUPPORT THE NATIONAL DEVELOPMENT FINANCE SYSTEM AND THE FIRST PROGRAM

(BO-L1016)

LOAN PROPOSAL

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ANNEXES

Annex I Results matrix

Proposed resolution

ELECTRONIC LINKS		
Technical documents in electronic format	**Subject**	**Hyperlinks/Status**
MANDATORY		
Annual work plan	N/A	
Monitoring and evaluation provisions	Credit Regulations	Project Performance Monitoring Report
Environmental and social management report [1]	N/A	
OPTIONAL		
Link 1	Macrofinancial environment	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1163629
Link 2	Production sector	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1163627
Link 3	Financial sector	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1163628
Link 4	Demand study	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1163615
Link 5	Ex post survey	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1186768
Link 6	BO-M1025 project profile	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1186775
Link 7	BO-M1024 (draft) project profile	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1186779
Link 8	Credit guarantee mechanism for the second pillar of the programmatic framework	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1186783
Link 9	Lessons learned	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1163625
Link 10	BDP financial status	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1163657
Link 11	BDP eligibility policy for financial institutions	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1163618
Link 12	Credit Regulations (short version)	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1163620

[1] If required and as specified in the guidelines set out in the IDB's Environment and Safeguards Compliance Policy (documents OP-703 and OP-704).

Abbreviations

BDP	Banco de Desarrollo Productivo
FSO	Fund for Special Operations
IDB	Inter-American Development Bank
IFI	Intermediary financial institution
MIF	Multilateral Investment Fund
OC	Ordinary Capital
SBEF	Superintendencia de Bancos y Entidades Financieras [Superintendency of Banks and Financial Institutions]
SMEs	Small and medium-sized enterprises

PROJECT SUMMARY

BOLIVIA
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Financial Terms and Conditions[1]					
Borrower: Republic of Bolivia Executing agency: Banco de Desarrollo Productivo (BDP)				**OC**	**FSO**
Source	**Amount US$ millions**	**%**	Amortization period:	30 years	40 years
Ordinary Capital	8.61	70	Grace period:	72 months	40 years
Fund for Special Operations	3.69	30	Disbursement period:	48 months	48 months
Total financing	12.3	100	Interest rate: *	Adjustable	0.25%
Local	0	0	Inspection and supervision fee:**	0%	N/A
Other/Cofinancing	0	0	Credit fee:***	0.10% of disbursed balance	N/A
Total	12.3	100	Currency:	U.S. dollars	U.S. dollars

Project at a glance

Project objective:

The *general objective* of the programmatic framework will be to support efforts to ensure that Bolivia's production sector has the financing it needs in order to grow. Its *purpose* will be to support BDP lending for production activities in the country (see paragraph 1.12).

The *purpose* of the multisector global credit program being submitted for approval along with this document will be to provide funds to the BDP which it can then onlend through eligible, regulated financial intermediaries to small and medium-sized enterprises (SMEs) wishing to undertake medium- and long-term production projects (see paragraph 1.16a).

Special contractual conditions:

As conditions precedent to the first disbursement: (i) the Ministry of Finance and the BDP will have signed an appropriate contract governing arrangements between the borrower and the executing agency; and (ii) the BDP will submit, to the IDB's satisfaction, evidence that the program's Credit Regulations have been approved and are in force (see paragraph 3.4).

Exceptions to Bank policies:
None.

Project consistent with country strategy: Yes [X]

Project qualifies as: SEQ [ ] Sector [ ] Geographic [ ] Headcount [ ]

Procurement: N/A

Environmental and social risk (ESR) verification date: Not required.

* The interest rate, credit fee, and inspection and supervision fee for OC financing mentioned herein are set pursuant to document FN-568-3-Rev.

** Under no circumstances may the credit fee exceed 0.75% or the inspection and supervision fee exceed 1% of the loan amount.

*** In any given six-month period, the inspection and supervision fee to be charged will in no case exceed the amount that would result from the application of a charge of 1% of the loan amount, divided by the number of six-month periods included in the original disbursement period.

I. DESCRIPTION AND MONITORING OF RESULTS

A. Proposition, frame of reference, problems, and rationale

1.1 The Paris Declaration is a landmark achievement in the global effort to use resources for development more effectively. It was signed in April 2005 by 60 countries, including Bolivia, and by various multilateral institutions, including the Inter-American Development Bank (IDB). The Declaration underscores the importance of coordinated strategies and programmatic approaches,[1] which may be sector-wide approaches, aimed at coordinating efforts to backstop a national development strategy or sector strategies under a comprehensive program. The proposed program is built around the Paris Declaration guidelines and is designed to support the development plan for Bolivia's production sector.

1. Frame of reference

1.2 *Macrofinancial framework:* Bolivia is in a good macroeconomic position. This situation is reflected in various indicators, including, for 2006: (i) a growth rate of 4.6%; (ii) inflation below 5%; (iii) a surplus on the balance-of-payments current account equivalent to 12% of gross domestic product; and (iv) an overall surplus of 4.6%. This is the outcome of a combination of external and internal factors, including: (a) a conducive international environment as reflected in high commodity prices, fairly low international interest rates, increased remittances, and the region's economic growth; (b) further debt forgiveness by the international development community; and (c) the government's macroeconomic policy and, in particular, its impact in terms of changes in and increased revenues from the national tax system (Link 1).

1.3 *The production sector:* There are a number of structural constraints that limit the development of the production sector's productivity and competitiveness. As a result, in the case of many business projects, there is a disconnect between their potential rates of return and the interest rates prevailing in the financial market for borrowers with their levels of risk (Link 2).

1.4 *The credit market:* At the close of the first half of 2007, the financial system was experiencing an upswing as a result of increases in its loan portfolio, financial investments, and deposits. The banking and nonbanking systems witnessed a robust expansion in their loan portfolios, which rose to US$2,548,600,000 and US$771,300,000, respectively. Despite the growth of the system's loan portfolio, it was exhibiting: (i) a high level of liquidity (US$1.641 billion in the banking system and US$194.5 million in the nonbanking system); (ii) delinquency rates of 7.9% in the banking system and 1.5% in the nonbanking sector; (iii) interest rates for foreign-currency lending operations of between 10.2% and 12.0% in the banking sector and averaging 19.3% in the nonbanking sector and rates for foreign-currency

[1] The 2006 Survey on Monitoring the Paris Declaration indicates that in Bolivia a programmatic approach was used in the case of only 32% of government aid. The target set by the Organisation for Economic Co-operation and Development for member countries is 66% by 2010.

deposits of between 2.2% and 3.0% in the banking sector and an average of 3.7% in the nonbanking sector; (iv) interest rates of around 12.0% for local-currency lending operations and of about 4.0% for local-currency deposits in the banking sector; (v) a return on assets and a return on equity of 1.4% and 16.3%, respectively, in the banking sector and of 1.5% and 16.6% in the nonbanking sector; (vi) equity holdings of US$401.8 million and rising in the banking sector and US$86.4 million and rising in the nonbanking sector; and (vii) capital adequacy ratios of 13.3% in the banking system and 11.34% in the nonbanking system, above the 10.8% legal requirement (Link 3).

1.5 *The capital market:* Bolivia's stock market basically trades public debt instruments and operates as a shallow, poorly diversified money market. The geographic scope of this open-pit exchange is limited to the city of La Paz, which gives rise to price-formation and market-access problems for other regions of the country. Given these circumstances and the degree of informality of small-scale production activities in the country, this market, in its present state, is not a useful tool for providing direct financing for production activities. (Link 3).

2. Problems

1.6 For the most part, the assets available to the financial system are not being allocated in a way that provides sufficient financing for production projects. Specific problems exist in the following areas:

a. In intermediary institutions subject to government regulation: (i) a lack of long-term funds; (ii) a lack of capacity for the appraisal of productive investment projects; and (iii) excessively high costs for the extension and recovery of credit to small production units.

b. In intermediary institutions not subject to government regulation: (i) a lack of funds; and (ii) until October 2006, no legal authorization to offer comprehensive financial services on behalf of government-regulated intermediaries.

c. In micro, small, and medium-sized enterprises: (i) a lack of reliable information; (ii) firms that need to overhaul their operations or that have profitable ventures but have a poor equity position or credit record or that lack a credit history; (iii) rural production projects that cannot afford the prevailing lending rates; and (iv) production projects that cannot be carried out on the basis of the loan repayment periods available to them.

d. Microenterprises that cannot afford the prevailing lending rates for their production projects. Rural microenterprises whose remote location prevents them from utilizing the services of regulated or unregulated intermediaries.

1.7 This situation has resulted in a shortage of funding for the production sector owing to: (i) a chronic lack of funding for microenterprises, especially in rural areas; (ii) a lack of credit under appropriate terms and conditions that would enable small and

medium-sized enterprises (SMEs) to undertake productive investments. These problems are holding back the country's growth and development.

3. Rationale for IDB support

1.8 *The government's strategy:* Under its National Development Plan, the government has provided for implementation of a national development finance system. Under this system, Banco de Desarrollo Productivo, S.A.M. (BDP), is to act as the public-private mechanism for financing urban and rural productive sector development. The BDP's role in financing production activity is to improve the lending terms and conditions that the financial sector offers to production units. It will use various instruments to meet existing needs in the system and plans to:

a. Employ a first-tier trust fund to serve potential borrowers that the regulated financial system views as being too risky;

b. Encourage financial intermediaries to alter their lending schemes to allow for long-term loans, interest rates aligned with business projects' rates of return, and nationwide coverage through the use of:

   (i) Lines of credit with syndicated rates and a trust fund supported by an IDB innovation loan called the Microenterprise and Small Business Support Fund for public-private projects in which: (i) private intermediaries are interested in providing financing, but (ii) differing levels of public support are needed. In this kind of arrangement, either the lending conditions will be such that the public sector holds part of the final borrowers' risk or the public sector will provide final borrowers with technical assistance.

   (ii) Multisector lines for firms requiring longer-term loans denominated in either dollars or bolivianos.

c. Refrain from any involvement in cases where the private sector is providing suitable financial services.

1.9 *IDB support:* Under the IDB's 2008-2010 country strategy with Bolivia, support is to be concentrated in four strategic areas: (i) economic growth, employment, and governance: productivity, competitiveness, and production infrastructure to promote balanced, sustained economic growth; (ii) improvement in living conditions: development of the water and sanitation sector and productive social development; (iii) social inclusion: creation of opportunities for the majority and "development with an identity"; and (iv) transparency and efficiency in State action: strengthening the State apparatus through decentralized and national institutional development. The proposed program focuses on factors covered in the first three strategic areas for actions defined in the IDB's strategy with the country and is therefore consistent with that strategy.

1.10 *The programmatic approach*: The government's new strategy for public financial activity calls for a number of measures to deal with this complex situation: (i) on a coordinated basis; (ii) in ways that take specific factors into account in each case;

and (iii) by using best practices and the lessons learned in these areas. Given this situation, the assumption is that the IDB will choose a programmatic approach in which the various measures will be grouped around the corresponding pillars.

1.11 The government has therefore requested the IDB to undertake a programmatic framework: (i) as outlined below; and (ii) that should be evaluated on the basis of the approach and indicators detailed herein.

B. Objective, components, and characteristics

1. Objective

1.12 The *general objective* of the programmatic framework will be to support efforts to ensure that Bolivia's production sector has the financing it needs in order to grow. Its *purpose* will be to support BDP lending for production activities in the country.

2. Components

1.13 The programmatic framework will rest upon three pillars. Operations will be grouped around these pillars based on their conceptual foundations and stage of progress. The development of these pillars need not be sequential. The first pillar will be composed of:

a. A multisector global credit program to fund the BDP's second-tier credit lines;

b. A nonreimbursable technical-cooperation operation financed under the Fund for Special Operations (FSO) for the institutional strengthening of the BDP and the consulting services needed for the programmatic framework's design and implementation;

c. A Multilateral Investment Fund (MIF) operation to support the development by private-sector banks and financial institutions of a new legal definition of the financial intermediation mandates approved by the Superintendency of Banks and Financial Institutions (SBEF).

d. A MIF operation to build the capital market's capacity to channel resources to SMEs.

1.14 The second pillar will amplify the programmatic framework's impact through: (i) a credit guarantee mechanism to enable the BDP to continue its work by drawing upon local savings; and (ii) various operations that will permit the BDP to act as a catalyst for private-intermediary lending to the production sector.

1.15 The third pillar, which has yet to be defined within the programmatic framework, will channel IDB support for various legislative amendments and relevant investment operations.

3. Basic features of the multisector global credit program

1.16 The basic features of the multisector global credit program , which is the only investment operation being submitted for approval in this document (as the first operation under the programmatic framework), are as follows:

a. Its purpose will be to provide funds to the BDP, which will then onlend through authorized, regulated financial intermediaries to SMEs for medium- and long-term production projects;

b. The financing to be provided by the IDB: (i) will take the form of parallel Ordinary Capital (OC) and FSO loans; (ii) will not require local counterpart funds; (iii) will be denominated in U.S. dollars under the Single Currency Facility; and (iv) will carry an adjustable interest rate for the OC loan component;

c. Based on BDP estimates of existing demand, the total loan amount has been set at US$12.3 million (Link 4);

d. The economic and financial rationale for this loan is similar to that of any other multisector global credit program , inasmuch as it is a market-driven operation in which the funds will be employed solely for economically and financially viable ventures.

C. Outcome indicators

1.17 Indicators of the programmatic framework's success will be those factors that make it possible to gauge whether each of the component operations has achieved its purposes, since each specific project will contribute to the success of the overall effort. By its very nature, the programmatic framework has an open-ended design. The various project teams set up to work on component operations should therefore take steps to ensure that the indicators for subsequent pillars contribute value-added to its general objective and purpose.

1.18 As in any loan of this type, under this multisector global credit program the participating intermediary financial institutions (IFIs) will select the most viable enterprises and projects. Consequently, these projects' impacts will, all structural economic variables being equal, be determined by market conditions. The IFIs will choose the best firms, and so long as these firms repay their loans on schedule to keep delinquency rates sufficiently low, market mechanisms will: (i) ensure that the best projects are selected; and (ii) determine the levels reflected in the appropriate indicators. Using a logical framework methodology and based on this approach, any indicator of progress toward a "goal" or "purpose" has to be regarded as nothing more than an *a priori* estimate of how the market will perform and therefore cannot be used to determine whether the operation is a success or failure.

1.19 Understood as such, the main indicators for the multisector global credit program as set forth in the table of indicators are: (i) for outputs, the opening of second-tier lines of credit by the BDP (the only factor falling with the project's scope); and (ii) depending on whether or not the underlying assumptions for this type of

program (a willingness on the part of SMEs to borrow and on the part of IFIs to lend) are borne out, which hinges on exogenous factors: (a) as intermediate outcomes: changes in the length of the terms for which the loan resources and IFI cofinancing are made available; and (b) as final outcomes: the program's level of disbursements and portfolio quality (see Annex I).

1.20 In order to provide more information for use in quantifying the operation's impact and to supplement the table of indicators, an ex post survey of the outcomes of the multisector global credit program will be conducted (see Link 5).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Lending instruments

2.1 The approach traditionally taken by the IDB through its multisector global credit programs would appear to have the same general objective as this programmatic framework. Because of the way in which the programmatic framework is structured, however, it has a number of differentiating basic features. Multisector global credit programs:

a. Have a hard time bringing about any increase in the capillarity of private intermediary networks. The programmatic framework is designed to work through: (i) the MIF/financial intermediation mandates, to ensure that private intermediaries offer their financial services to sectors and geographic areas in which they have not previously been active; and (ii) the MIF/Bolivian stock exchange, to spur the capital market to adopt a more active stance in the SME sector;

b. Act as a public source of hard currency (usually U.S. dollars) resources for second-tier banks. The idea behind the programmatic framework is to use a credit guarantee mechanism to ensure that surplus domestic local-currency savings, properly channeled and secured, are used to finance the development of the country's production sector;

c. Find it difficult to act as an effective catalyst for private funding. The programmatic framework is designed to do so through the use of a series of operations that are conceptually equivalent to the Microenterprise and Small Business Support Fund.

2.2 *First pillar of the programmatic framework*: Under this scenario, the framework's first pillar, which is to focus on the above-mentioned technical-cooperation and investment operations, will be defined.

2.3 In its first operation, the multisector global credit program will backstop the BDP's second-tier lines so as to ensure that the IFIs have increasingly better and greater access to the production sector. More specifically, the multisector global credit funds will enable the BDP to furnish a steady stream of long-term financing to banks that will then be able to onlend long-term credits to SMEs. IDB resources will be passed on from the borrower to the BDP through the Ministry of Finance

under the same terms and conditions as they are received, i.e., in U.S. dollars at the variable rate resulting from the combination of OC and FSO financing. The BDP will join with the borrower in assuming repayment obligations and will provide loan funds to the IFIs on the following terms and conditions (summary of the Credit Regulations):

a. Financing: (i) a variable rate equivalent to the program's lending rate plus the interest-rate spread will be charged; (ii) the BDP will assume the IFIs' risk; (iii) lending operations will be subject to oversight by the SBEF; and (iv) the IFIs will assume the final borrowers' risk.

b. In order to be eligible for the program, SMEs must have: (i) productive assets valued no more than US$500,000; (ii) annual sales of no more than US$1 million; and (iii) no more than 49 employees or associates, counting the owner.

c. IFI cofinancing: Program resources will provide enough financing for up to 80% of each subloan. IFIs will be expected to: (i) document their mandatory contribution of the remaining 20% in fresh capital under the same terms and conditions as those offered by the BDP; and (ii) do so at the same time or following the BDP disbursement.

d. Size of subloans: Subloans funded by the program, including the portion provided by the corresponding IFI, may not be greater than US$500,000 or less than US$10,000. The level of borrowings in the system, including program credits, may not exceed that limit.

2.4 The second operation will be designed to: (i) support the institutional strengthening of the BDP; and (ii) cover the consulting services required to implement the operations included in the programmatic framework.[2]

2.5 The third MIF operation will support the financial intermediation mandates under which contracts may be entered into by IFIs and any legal entity to provide all the financial services that IFIs are authorized to deliver, with the attendant risk being borne by the entity so empowered. Its objective is to increase the financial sector's capillarity and diversity in areas in which these attributes are currently lacking as a means of reinforcing the production system in disadvantaged areas. This model provides a means of reconciling: (i) the regulatory duties of the SBEF; (ii) strategies for taking IFI services to underserved markets; and (iii) the government's efforts to support activities having positive public externalities identified in the National Development Plan (Link 6).

2.6 The fourth operation, to be conducted by the MIF and the Bolivian stock exchange, will enhance the capital market's role in SME financing (Link 7).

2.7 *Second pillar of the programmatic framework*: The second pillar will be the central underpinning for the framework and will be designed to amplify its impact.

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[2] This operation is now in the preparation stage and should be approved in the first quarter of 2008.

a. The credit guarantee mechanism will permit the BDP to finance a number of eligible initiatives included in the strategy for the national development finance system: (i) by using resources that are currently difficult to invest; (ii) while offering top-quality financial paper; (iii) denominated in the local currency; (iv) with a long enough repayment period to accommodate investment operations; and (v) at a potentially very attractive cost owing to the quality of the assets to be issued. The provision of security interests may prove to be a key factor in furnishing the amount of funding needed to finance a genuine "productive Bolivia" plan. However, under no circumstances would this initiative encourage IFIs to assume risks they do not wish to take on (Link 8).

b. This second pillar will therefore include a series of operations aimed at encouraging IFIs to take on long-term clients with unserved production projects by offering them, with the help of the public sector, various options, such as: (i) technical assistance for the development of production projects; (ii) lower levels of risk; and/or (iii) interest rates that are aligned with their projects' rates of return (Link 9).

2.8 *Third pillar of the programmatic framework*: This pillar will include operations to be defined as execution proceeds. So far, the following options are planned:

a. Pilot investment projects in the various areas covered by the BDP strategy that will contribute international best practices, lending themselves to replication in locally funded operations. Actions to be noted in this regard include: (i) an operation to support a partial credit guarantee system; and (ii) a technical-cooperation operation to assist in enhancing the rights associated with security interests.

b. Support for the amendment of laws and regulations specified by the government, including: (i) the Trust Fund Law; (ii) the Mutual Guarantee Companies and Funds Law; (iii) the Venture Capital Associations and Funds Law; (iv) the Financial Leasing and Factoring Law; (v) the Real Movable Security Interests Law; (vi) the Mortgage Bond Law; and (vii) a partial amendment of the Banking Law.

2.9 *Specific features of the programmatic framework*: The framework's approval: (i) will not entail any financial commitment on the part of the Republic of Bolivia apart from any such commitment assumed in connection with individual loans granted under the framework; (ii) will not open the way for any such loans if they are not eligible; (iii) will be reflected in a memorandum of intention to be signed prior to the contracts governing component operations; (iv) will be developed in the contract covering each operation; and (v) will entail, for each operation, the requirement that the IDB will have found the preceding operations to be satisfactory, provided they have progressed far enough to make such an evaluation possible.

B. Main risks and mitigating factors

2.10 *Macroeconomic risks*: The operation's progress will depend upon the maintenance of a macroeconomic environment of fiscal sustainability, reduced financial vulnerability, and the continuation of an investment climate conducive to private investment. Changes in these variables could influence: (i) the outcome indicators of the multisector global credit program; and (ii) final borrowers' ability to honor their dollar-denominated obligations.

2.11 *Fiduciary risks:* The BDP was founded as a joint venture corporation under Supreme Decree 28,999 of 1 January 2007. The Republic of Bolivia owns 80% of the corporation and the Andean Development Corporation owns the other 20%. The BDP: (i) is supervised by the SBEF; (ii) is carrying on the work of Nacional Financiera Boliviana, S.A.M., which has executed three Bank multisector global credit programs very successfully, as noted in the corresponding project completion reports; and (iii) has an AAA credit rating with Fitch Ratings as of 30 March 2007. In view of these factors, the operation is not regarded as entailing any significant fiduciary risk.

2.12 *Financial risks:* The operation does not face any financial risks other than those associated with any multisector global credit program. Its financial viability and risks will be determined by: (i) the BDP's rate of return on the credit it extends to IFIs, which will depend on the returns they expect to obtain on the market; and (ii) the security interests that the BDP obtains from the IFIs and its program-financed portfolio. The IDB's work with Nacional Financiera Boliviana on these types of programs indicates that these risks will be low.

2.13 *Environmental and social risks:* As in previous programs, final borrowers will be required to provide evidence in their financing plan that they have begun (or completed) the process of obtaining an environmental permit, to include a letter of commitment in which they state that: (i) they will conduct their production and commercial activities in accordance with environmental regulations (Law 1333 of April 1992); and (ii) they will resolve any environmental issues in their business plan. Any violation of the law will render the party in question ineligible for program financing. In addition, project eligibility will be contingent upon verification that the project is not on the list of excluded operations in the Credit Regulations. In view of these provisions, the fact that this is a second-tier operation, and the size of the subloans, the environmental risks associated with the program are not considered to be significant (category "C" operation).

2.14 *Risk of parallel public-sector actions:* As explained in paragraph 1.8, the government feels that in cases where a project offers sufficient positive externalities but the private sector is unwilling to assume the associated risk, the only acceptable course of action is for the public sector to provide credit through a first-tier institution. In this regard:

a. If BDP funding channels were to prove to be unsuccessful, the government might be obliged to maximize its first-tier interventions, which would entail the risks inherent in that form of financial intermediation;

b. In addition, if such first-tier operations were not properly targeted on borrowers that are not being served by the private sector, there could be a risk of contaminating the system and, hence, the BDP's operations.

c. Both of these risks could be significant, but they would stem from political decisions outside the BDP's and project team's sphere of action. Consequently, they cannot be mitigated.

III. IMPLEMENTATION AND ADMINISTRATION PLAN

A. Summary of implementation arrangements

1. Borrower and executing agency

3.1 The borrower will be the Republic of Bolivia. The executing agency will be the BDP, which will receive the funds and administer the program under the terms of the corresponding agreement with the Ministry of Finance. The BDP has the same degree of financial soundness as Nacional Financiera Boliviana. As noted in its 2006 annual report: (i) its policy is to make specific provisions based on financial institutions' risk ratings; (ii) its capital accounts have increased considerably and now stand at approximately US$4 million; (iii) its expenditure levels are low, with administrative expenses amounting to 0.8% of its total assets; (iv) its operating profits of US$4 million were significantly higher than in previous years; and (v) its solvency indicators are sound, with a capital adequacy ratio of 63.8% and a leverage ratio of 4.2 (Link 10).

2. Implementation and administration

3.2 Generally speaking, implementation of the multisector global credit program is part and parcel of the overall implementation of the programmatic framework.

a. The programmatic framework will provide the structure for each and every one of the IDB-approved investment and technical-cooperation operations requested by the government (or, in the case of private sector operations, that have received its no objection). The executing agency for the multisector global credit program will be responsible for: (i) coordination between the executing agencies for the operations included in the programmatic framework; and (ii) monitoring and evaluation.

b. The arrangement for providing nonreimbursable technical-cooperation funding to the BDP will ensure that the BDP has the resources to engage the consulting services required under the programmatic framework.

3.3 As noted in paragraph 1.19, the multisector global credit program has a single output (the BDP's open second-tier lines of credit) and a number of outcomes that are exogenous to the operation (since the IFI supply of credit and the SME demand

for credit are beyond the control of the program). As a result, and since the BDP has opened these lines, the program will not require a formal plan of operations as such or a procurement plan (since no procurements will be made with loan proceeds).

3.4 The only elements required for implementation and administration of the multisector global credit program will therefore be: (i) signature of an appropriate agreement between the Ministry of Finance and the BDP that defines their responsibilities in terms of the receipt of program resources, their management and control, and accountability; (ii) operation of the BDP's procedures for determining IFI eligibility; and (iii) approval of the program's Credit Regulations and their entry into force.

a. The agreement between the Ministry of Finance and the BDP, as in previous programs, will govern: (i) the terms and conditions under which the Ministry of Finance will pass on program funds for BDP intermediation; and (ii) the BDP's obligation to abide by the procedures and requirements set forth in the loan contract. The signature of this agreement will be a condition precedent to the first disbursement.

b. IFI eligibility criteria: IFIs regulated by the SBEF that meet the BDP's eligibility and risk assessment requirements may take part in the program (Link 11). Such IFIs will: (i) assess the risk associated with borrowers of subloans and make lending decisions in accordance with the Credit Regulations and the BDP's guidelines for operations involving SMEs; and (ii) assume responsibility for the servicing and repayment of subloans to the BDP regardless of whether or not borrowers of subloans service their debts.

c. The Credit Regulations: (i) will be consistent with BDP and IDB guidelines and policies and with the financial laws and practices in effect in the country; (ii) will take the program's main features into account; (iii) will stipulate that failure to comply with its provisions will block access to financing; (iv) will include a model of the loan contracts to be signed by the executing agency and the IFI; and (v) will specify that approval of the Credit Regulations and their implementation by the BDP to the IDB's satisfaction will be a condition precedent to the first disbursement. (Link 12) provides access to Nacional Financiera Boliviana's regulations, which are currently being adapted.

3. Execution period, schedule, and disbursement conditions

3.5 The programmatic framework will have a 60-month execution period. The multisector global credit program will have a 48-month execution and disbursement period. The disbursement schedule will be determined by market demand for the program. IDB resources will be disbursed under the same terms and conditions as they were received by the borrower, i.e., in U.S. dollars at the variable rate resulting from the combination of OC and FSO financing.

B. Summary of arrangements for monitoring results

3.6 A distinction must be drawn between monitoring of the programmatic framework and monitoring of the multisector global credit program. General IDB procedures for the monitoring and evaluation of all operations included in the programmatic framework will apply, which means that: (i) a Project Performance Monitoring Report will be prepared for each individual operation; (ii) midterm and final evaluations will be performed on schedule; and (iii) separate reviews of the programmatic framework will be conducted. Specifically:

a. The *programmatic framework*: The BDP will periodically submit progress reports on operations in execution to the IDB, at its request, until the framework's completion. A report will also be required on the incorporation of any operation into the framework. Upon completion of the programmatic framework, the BDP will deliver a comprehensive final evaluation to the IDB. This evaluation will cover the actions taken within the framework and any future measures deemed necessary.

b. The *multisector global credit program*: The monitoring system will provide for interaction and feedback between the project team, the Country Office in Bolivia, the borrower, and the BDP when the time comes to determine how successful the operation has been.

3.7 In addition, given the programmatic framework's complexity, the project team will conduct an administration mission each year. It will then use the mission's findings and the reports it has received to gauge the specific content and relevance of processing loan, guarantee, or technical-cooperation operations in accordance with IDB policy.

3.8 External audits of the BDP will be conducted by an independent auditing firm acceptable to the IDB in accordance with the applicable policy. The audits will be financed by the BDP.

PROGRAMMATIC FRAMEWORK TO SUPPORT THE NATIONAL DEVELOPMENT FINANCE SYSTEM AND THE FIRST PROGRAM
BO-L1016

RESULTS MATRIX

Objective of the programmatic operation	To support efforts to ensure that Bolivia's production sector has access to the financing it needs in order to grow.
Purpose of the programmatic operation	To support the BDP's provision of financing for production activities.
Purpose of the multisector global credit program	To fund the BDP so that it can onlend the funds through eligible, regulated financial intermediaries to SMEs for use in medium- and long-term production projects.

MULTISECTOR GLOBAL CREDIT PROGRAM INDICATORS							**Description**
	Base	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Target**	
SINGLE COMPONENT: The BDP will keep medium- and long-term lines of credit open for intermediary financial institutions (IFIs).							
Output							
IFIs in the SME market have access to lines of credit for medium- and long-term loans with IDB resources	0	100%	100%	100%	100%	100%	The percentages denote the BDP's theoretical capacity to place program funds (assuming the market is interested in utilizing these resources). These percentages show whether the total borrowing limit of the IFIs authorized by the BDP, in accordance with its policies, is less than, equal to, or greater than the amount of IDB financing available through the program.
PURPOSE: To provide medium- and long-term funds to SMEs in the production sector.							
Intermediate outcome							
A change in the length of the maturities of multisector credit placements relative to the average length of maturities in the financial system.	Longer than system average	Longer than system average	Longer than system average	Longer than system average	Longer than system average	Longer than system average	This indicator shows the relationship between the length of maturities in the program and the length of maturities in the financial system and indicates a need for the program. The Superintendency of Banks and Financial Institutions (SBEF) reports the percentage of short-term loans (0 to 1 year), medium-term loans (1 to 5 years), and long-term loans (5 years or more) issued by banks. For the corresponding year, the average maturity and percentage of medium- and long-term loans issued under the program and the percentage of short-, medium-, and long-term loans in the financial system will be recorded in the table.
	Base	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Target**	

MULTISECTOR GLOBAL CREDIT PROGRAM INDICATORS							Description
Cofinancing provided by intermediaries for program subloans having the same maturities (IFI contribution).	20%	20%	20%	25%	25%	25%	The program-triggered supply of funds in the form of long-term loans extended by intermediaries using their own resources will be a second yardstick for measuring the need for equivalent additional lines. The greater the arithmetic mean of the percentages of cofinancing provided with repayment periods of the same length as those of program funds, the less need there will be for future programs of a similar nature. This percentage represents the IFI contribution to the total amount of each loan.
Final outcome							
IFIs that have access to lines of credit for medium- and long-term loans with IDB resources obtain program resources	0%	20%	50%	100%	-	100%	Level of program placements that is absorbed by existing demand. These percentages denote the cumulative rate of placements per year in relation to the total amount of IDB financing made available through the program.
Quality of the program's IFI subloan portfolio versus the system's rating structure.	Same as the system	Same as the system	Same as the system	Better than the system	Better than the system	Better than the system	Since the IFIs will select the most viable enterprises and projects, the impact of these projects will be determined by market conditions. The IFIs will choose the best firms and, so long as these firms repay their loans at delinquency rates similar to those of the system, the market itself will ensure that the best projects are chosen. How the quality of the market's portfolio measures up against the program's will therefore be a key consideration in determining its degree of success. This indicator shows the ability of borrowers of program subloans to remain in good stead with the IFIs. The SBEF rates portfolio quality in seven categories. The rating given to the subloan portfolio of banks and private financial funds and the rating of the portfolio of program subloans will be recorded in the table.

In order to provide more information for use in quantifying the operation's impact and to supplement the table of indicators, a survey will be conducted of the following indicators:[1]

GOAL: To strengthen Bolivia's production sector						
INDICATORS	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Description**
Annual gross amount of program subloans						This indicator shows changes in the annual gross amount of program subloans.
Number of employees of borrowers of program subloans						This indicator shows changes in the number of employees of borrowers of program subloans.
Assets of borrowers of program subloans						This indicator shows changes in the assets of borrowers of program subloans.
Program disbursement level by zone						This indicator shows the percentage of disbursements in the various regions. The categories will be: La Paz Santa Cruz Cochabamba Tarija Sucre Potosí Oruro Beni
Program disbursement level by sector						This indicator shows the percentage of disbursements by sector. The categories will be: Agriculture Mining Industry Services Commerce

[1] To be financed with resources from technical-cooperation project BO-T1059.