

PROPOSAL FOR FINANCING AND TECHNICAL COOPERATION FOR:

VIVA CRED

EXECUTIVE SUMMARY

INTERMEDIARY: VIVA CRED, a nonprofit civil association

AMOUNT AND SOURCE: IDB: Financing: US\$ 500,000
Technical cooperation: US\$ 500,000
Total: US\$1,000,000

The financing and nonreimbursable technical-cooperation funding would be drawn from the net income of the FSO in local currency.

FINANCIAL Amortization period: 25 years
TERMS AND Grace period: 8 years
CONDITIONS: Disbursement period: 30 months
Fee: 1%

OBJECTIVES: The general objective of the program is to develop the production and business capacities of microenterprises located in the *favelas* (squatter settlements) of Rio de Janeiro. The specific objectives of the program are to: (i) help microentrepreneurs gain access to the financial services they need, on market terms; and (ii) establish and consolidate a self-sufficient and sustainable channel of credit to microentrepreneurs.

DESCRIPTION: The proposed program consists of two components: (i) a line of credit for extending loans to microentrepreneurs, under which nearly 1,000 loans would be granted the first year and 4,000 the second year; after two years of operation, VIVA CRED would have an estimated portfolio of R\$1.5 million distributed among 2,400 active clients; (ii) technical cooperation to strengthen VIVA CRED in terms of its organizational structure, the qualifications of its loan officers, computerized credit and accounting systems, a management information system, improved technology for lending operations and ensuring continued financial solvency, i.e. recovering lending operation costs on market terms.

ENVIRONMENTAL The Committee on Environment and Social Impact (CESI)
CLASSIFICATION: reviewed this operation at its meeting TRG15/97 of May 16, 1997. The Committee recommended that the project eligibility criteria and the procedures to be

established include environmental protection measures.

BENEFICIARIES: Microenterprises located in Rio de Janeiro, and specifically those located in the *favelas*.

RISKS: The main risks of this operation would be in adapting the proposed lending technology to Brazilian conditions and to a market with much broader demand. The products to be offered would have to be adapted to the potential customers and to the sustainability of the beneficiary institution. In that context, interest rate levels and the institution's efficiency would play a fundamental part. It is believed that the institutional support to be provided through the technical cooperation operation will help to reduce program risks substantially.

THE BANK'S COUNTRY STRATEGY: The proposed operation is consistent with the general objective of the Bank's strategy for the development of microenterprise, which consists of broadening economic opportunities in Latin America and the Caribbean through the sustainable and dynamic development of microenterprise. The objective is to promote the conditions necessary for growth and development of the sector in the region: a favorable political and regulatory climate; solid and sustainable institutions offering financial and other services to meet the needs of microenterprise; improved access to financial and commercial services for disadvantaged and low-income microentrepreneurs (including women and indigenous peoples); and broad, continuous flows of resources to invest in microenterprises.

The Bank's country strategy (document GN-1897-1) is to continue providing support for microenterprise through the small projects program.

SPECIAL CONTRACTUAL CONDITIONS: Prior to the first disbursement, evidence satisfactory to the Bank must be provided that the Credit Regulations previously agreed upon with the Bank have entered into force (see paragraph 4.2).

For the purposes of execution, considering the nature of the operation, two disbursements will be made, each accounting for 50% of the financing (see paragraph 4.11). The second disbursement will be subject to a favorable interim evaluation (see paragraph 4.12).

I. FRAME OF REFERENCE

A. Macroeconomic context

- 1.1 Brazil is engaged in a process of public sector reform, economic integration, and trade liberalization. Serious macroeconomic imbalances gave rise to the *Plano Real*, a new economic policy approach to eliminating the causes of chronic inflation and its negative impact on investment, capital markets, and income distribution. Emphasis has been placed on eliminating economic indexation; public sector reform and modernization; privatization of public enterprises; opening the economy to international competition and thus encouraging modernization of production sectors; increased employment; and reduction of poverty.
- 1.2 The program has made significant progress: (i) inflation fell from monthly rates of 50% to an accumulated rate from January to June 1997 of 4.12%; GDP growth has been positive for three years, from 1994 to 1996; the public sector (federal government, central bank, states, municipalities and state-owned enterprises) has shown a declining need for financing (accumulated over 12 months: 3.47% of GDP as of May 1997, compared with 5.53% as of May 1996), notwithstanding the difficulties in securing congressional approval of the tax, administrative, and social security reforms. The greatest obstacle encountered by the *Plano Real* is the considerable deterioration in the balance of trade (US\$21.6 billion accumulated over three years as of March 1997).

B. Macrofinancial context

- 1.3 Since the mid-1980s, as a result of rising inflation and the inability to attract long-term resources, private bank lending has been very limited and exclusively short-term. The classic function of bank intermediation fell out of practice during this period, given the much more attractive and lower risk options for placing available resources.
- 1.4 Moreover, major programs for investment and subsidized loans helped strengthen the public financial sector, which, by 1994, was accounting for nearly 50% of total assets, 60% of the loan portfolio, and 45% of deposits in the financial system. The result was a portfolio with a high percentage of nonperforming loans, depriving public banks of the resources needed to continue financing municipal and state projects.
- 1.5 With lower inflation and a remonetized economy following implementation of the *Plano Real*, banks were forced to adjust. Private banks shifted their focus from arbitraging public securities (by managing the daily float), to commercial lending and investment, with income derived mainly from the spread between deposits and loan portfolio placements. The banks also attempted

to improve their efficiency and lower operating costs by automating services and cutting personnel.

- 1.6 The financial system also sought out new products and market segments. Personal lending for the purchase of durable and consumer products increased considerably (rising by an average of 40% to 60% in the system as a whole and by as much as 150% in consumer credit banks). Some financial institutions are now showing interest in lending to microenterprise and small business and have initiated a number of programs to do so. Many microenterprises, however, operate in *favelas* 1/ where the formal financial sector has very few operations. Consequently, such programs do not reach the potential customers of the proposed operation.

C. Social problems and microenterprise

1. Income distribution

- 1.7 The *Plano Real* has made progress in reducing social problems. Improved income distribution has been concentrated in the poorest 20% of the population, and the number of persons living in extreme poverty fell from 43.3 million (30.4% of the population) in 1993 to 30.4 million (20.6% of the population) in 1995. This trend continued in 1996, as witnessed by an increase in the real minimum wage and stable current prices for the basket of basic consumer goods.
- 1.8 Despite these positive results, social conditions and income distribution continued to represent serious problems for the country. The magnitude of this phenomenon is confirmed with particular clarity by the continuous expansion of the *favelas* in the country's largest cities. Rio de Janeiro has nearly 525 *favelas*, accounting for one in four of the city's inhabitants. In many cases, these communities have intense local economic activity, in terms of commerce, production, and services.

2. Characteristics of the microenterprises

- 1.9 The Brazilian Geographical and Statistical Institute (IBGE) produced a study entitled *Informal Microenterprise in the Municipality of Rio de Janeiro*, in which it defined as microenterprises businesses with up to five employees, whether remunerated or not, irrespective of annual billings. According to this study, conducted in October 1994, there are 444,420 informal microenterprises in Rio de Janeiro, employing 500,000 persons, or nearly 16% of the work force. According to data from the Ministry of Economy, as of August 1996, there were 127,000 microenterprises registered in the municipality. It can thus be deduced that

1/ Shantytowns.

potential demand for financial services exists in nearly 600,000 formal and informal enterprises accounting for almost 30% of employment in Rio de Janeiro.

- 1.10 To illustrate the importance of supporting microenterprise in Rio de Janeiro, it should be noted that Southeast Brazil, composed of the states of Minas Gerais, Espírito Santo, Rio de Janeiro and São Paulo, represents 19% of national territory and accounts for 40% of the country's 160 million inhabitants. The city of Rio de Janeiro has a population of approximately 6 million and a work force of roughly 3.5 million.
- 1.11 IBGE research has shown that 21% of informal microentrepreneurs began their activities because they were unemployed and seeking means to supplement their income. The percentage is higher among women. Only 4% of those interviewed indicated they had any other sources of income, which means that 96% of informal microentrepreneurs derived all of their income from their businesses.
- 1.12 More recently, the microenterprise sector has grown because of: (i) the restructuring of state-owned enterprises and the civil service, including privatizations, voluntary separation programs, and the end of stable public employment; and (ii) downsizing in the private sector, cutting personnel to compete in an open economy. Some of the newly unemployed from both sectors have used separation benefits to set up their own microenterprises.

3. The financial needs of microenterprises

- 1.13 In the first phase of a project financed by the IDB and entitled *Initial support for the creation of an NGO* (ATN/SF-5178-BR), research was conducted in a number of *favelas* in Rio de Janeiro to determine the financial needs of the sector, estimate potential demand, and assess the supply of financial services currently available to this market segment.
- 1.14 The study found that 86% of the informal sector businesses had monthly sales of less than R\$2,000. The financing required by microenterprises and small businesses is generally for working capital (purchase of merchandise and/or raw materials). It was also noted that most of the enterprises resort to loans from friends, relatives, or third parties (moneylenders) to meet their financing needs.
- 1.15 Among the microenterprises analyzed, nearly 50% rely exclusively on their cash balances to finance daily operations (working capital). This represents a serious obstacle to capitalization and development of their businesses. With regard to loans for fixed capital, it was noted that this type of entrepreneur resorts basically to commercial companies for financing, generally in the

form of postdated checks. Entrepreneurs that do not have their own bank account turn to relatives and friends.

- 1.16 The specific financial needs of the target group identified include the following: (i) the average loan amount requested to finance working capital is approximately R\$1,000; (ii) the average loan amount requested to finance the purchase of fixed assets is approximately R\$4,000; (iii) payments tend to be on a monthly basis, in accordance with the practice of commercial companies, using postdated checks with monthly maturities; and (iv) the average period of financing requested is six months, although the period may vary depending on the financial activity and the use of the loan.

4. Supply of banking services for microentrepreneurs

- 1.17 Microentrepreneurs face two different kinds of problems in obtaining financial services: access to banking services and access to credit. In the first instance, to open a current account, banks require certification of regular income, which represents a significant obstacle for many microentrepreneurs, particularly in the informal sector. Some microentrepreneurs can meet this requirement through their previous job, either because they have had bank accounts since the time when they were employed or because they already have access to other bank services, such as credit cards, from a particular commercial company, with credit limits calculated on the basis of the income they had when they were salaried.
- 1.18 Access to credit. Maintaining a current account does not facilitate access to financial services, such as commercial bank loans, because the requirements are difficult to meet for most microentrepreneurs. Such requirements include submission of business and federal tax records and financial statements; possession of a bank account; certification of income; certification of residence; and cosignatures.
- 1.19 In recent years, the government and a number of private banks have shown increasing interest in microentrepreneurs and have created special lines of credit. Most of these programs are small in scale or in early stages of implementation. They are designed to finance machinery, equipment, and working capital for microenterprises.

5. Other sources of financing for microentrepreneurs

- 1.20 In view of the difficulties posed by the formal financial system, microentrepreneurs turn to other financing alternatives. The main ones are:
- a. **Supplier credit:** Many suppliers offer lines of credit to their customers for the purchase of goods and raw materials.

Interest rates and terms vary considerably depending on the sector being financed. As the currency has stabilized, interest rates have fallen and payment terms increased, but there is substantial fluctuation over the medium term: rates vary between 5% and 15% per month, and terms range from seven to 90 days. The maximum amount financed in these operations averages R\$1,000. As a guarantee, the suppliers require postdated checks, notes, credit instruments, and, on occasion, property as collateral. This credit constitutes one of the most important sources of financing for microenterprises, and in particular those with billings in excess of R\$5,000 monthly. The service offered is fast and unbureaucratic, although not all enterprises have access to it. Suppliers base these transactions on their knowledge of the customer, confidence, and the guarantee offered, thus limiting access to new businesses. Moreover, the terms offered are not always suited to the needs of the microentrepreneurs.

- b. **Moneylenders:** Moneylenders offer easy access to money, at high interest rates, generally requiring concrete collateral such as telephone lines or vehicles. Moneylenders tend to prefer lending to stable employees, mainly in the public sector. Interest rates vary from 10% to 20% per month, and payment terms extend up to six months. They also tend to require payments through postdated checks. Microenterprises resort to this type of loan in emergency situations, to cover liquidity shortfalls or other debts.

6. Credit for microenterprise: summary

- 1.21 It can be surmised from the foregoing that potential demand for financial services is great, but supply is limited and usually costly. In the formal financial system, transaction costs and bank requirements limit microentrepreneur access to financing. Lending terms, interest rates, and conditions in the informal financial sector do not represent a good financing alternative for the target group either.

D. Government strategy

- 1.22 The Brazilian government has reiterated the importance of developing microenterprise as an efficient generator of income and employment and has taken measures to create a more favorable economic climate for them. It has, in particular, proposed that the National Congress deregulate the sector and provide it with credit and fiscal facilities.
- 1.23 One of the more effective measures launched by the federal government was the development of the "SIMPLES" simplified tax regime for microenterprises and small businesses, consisting of an integrated system for the payment of taxes and fees. Businesses

opting for the system can use a single document to pay various taxes and contributions - federal, state, and municipal. The amount of the tax obligation is calculated as a percentage of the company's income. Thus far, more than 1.5 million enterprises have opted to use the system.

- 1.24 Another important measure was the recent establishment, in the National Bank for Economic and Social Development (BNDES), of a R\$60 million fund to offer credit to formal and informal microenterprises with resources drawn from the Worker Protection Fund (FAT). This fund maintains two lines of financing, the BNDES-Solidarity, operated through the NGOs and other nonprofit institutions, and the BNDES-Worker, operated through the National Employment System by state and municipal governments.
- 1.25 The legal and regulatory framework applicable to NGO lending institutions has been a subject of discussion within the Community Solidarity Program (a government-run program), whose board is composed of representatives from civil society and the private and public sectors.

E. Strategy of the Bank and experience in the country

- 1.26 Support for microenterprise activities is part of the Bank's strategy to promote economic growth, improve income distribution, and reduce poverty. Document AB-1704 on the Eighth Replenishment calls for higher priority to be given to supporting microenterprise development among the Bank's programs.
- 1.27 To that end, the instruments available to the Bank include the Small Project Financing Program (SPFP), established in 1978 to facilitate access to credit for formal and informal microenterprises, which normally are excluded by the formal financial sector. Thus far, 19 small projects and 13 parallel technical-cooperation projects have been approved for Brazil, for a total of US\$11.3 million. This is in addition to US\$6.5 million in technical-cooperation funding provided through the Brazilian Microenterprise and Small Business Administration (SEBRAE) (formerly CEBRAE), to extend credit and technical assistance to agribusiness activities.
- 1.28 In general, these projects have accomplished the objective of supporting the economic activities of low-income groups, but have not been as successful in terms of the sustainability of the projects and executing agencies. There are various reasons, including the unstable macroeconomic situation of the country over the past two decades, a legal and regulatory framework unfavorable to microenterprise, and distortions resulting from competing government-subsidized lines of credit.
- 1.29 Over the past 19 years, the Bank has changed its approach to microenterprise development, moving primary emphasis away from

individual transfers of financial and technical resources to particular beneficiaries. Increasingly, the Bank now seeks to strengthen intermediary institutions that can provide services to the target group on a sustainable, long-term basis. The Bank has also shifted from an almost exclusive focus on credit access, to an integrated strategy addressing the great variety of obstacles confronting microenterprises. The proposed operation draws on the lessons learned from past experience.

- 1.30 A more stable economy and an improving climate for microenterprise now make it easier to develop sustainable forms of financial support for this segment of the economy.

F. The request

- 1.31 In 1995, a number of NGOs from Rio de Janeiro gave presentations to the Bank to promote a credit program designed to generate income and jobs for low-income communities. After a few working meetings between the NGOs and IDB specialists, it was decided to establish a new specialized NGO structured as a provider of financial services to formal and informal microenterprises. Viva Rio, which has operated extensively in the *favelas* and low-income communities, would take the lead in establishing the new credit institution.
- 1.32 On March 22, 1996, the Bank approved a CT/INTRA operation, ATN/SF-5178-BR in the amount of US\$5,000, to support visits by experts identified by Viva Rio, to successful projects with microfinance in Bolivia and Paraguay. On July 25, 1996, the Bank approved technical-cooperation operation ATN/SF-5289-BR, in the amount of US\$150,000, to support the establishment of a credit institution offering financial services to formal and informal microenterprises in Rio de Janeiro. These funds were used to hire an international consulting firm specializing in microfinance to advise Viva Rio on the institutional configuration of the new institution, called VIVA CRED. The consulting firm developed a methodology and technology appropriate for the conditions in Brazil and trained technical staff for the new institution. With Viva Rio, it also conducted a study of the market and legal framework for VIVA CRED's activities.
- 1.33 The present proposal for a small technical-cooperation project is based on the work conducted under the above two technical-cooperation operations.

G. Declaration of nonobjection

- 1.34 The Brazilian government, through the Brazilian cooperation agency (ABC), which is attached to the Ministry of Foreign Relations, declared its nonobjection to the Bank's participation in the financing of this project by means of decree 1208/ABC/CTRM of July 25, 1997.

II. THE PROGRAM

A. Objectives

- 2.1 The general objective of the program is to help enhance the productive and business capacity of microenterprises located in the *favelas* of Rio de Janeiro. Its specific objectives are to:
(i) help microentrepreneurs gain access to the financial services they need, on market terms, through a nonprofit institution with the potential to become a formal financial vehicle; and
(ii) establish and consolidate a self-sufficient and sustainable channel of credit for microentrepreneurs.
- 2.2 Financial services will be offered under the program adapted to the needs and possibilities of the microenterprises of Rio de Janeiro, helping to create healthy competition with financial service providers and to improve efficiency for the sector as a whole. In addition, this will result in a transfer of resources from the formal financial system to this segment of the economy, boosting income and improving living conditions for microentrepreneurs and their families.

B. Description

- 2.3 The proposed program will have two components: (i) a line of credit for microentrepreneurs; and (ii) technical cooperation. The credit component will channel nearly 1,000 loans to microentrepreneurs the first year and 4,000 the second year. After two years of operation, VIVA CRED will have an estimated portfolio of R\$1.5 million distributed among 2,400 active customers.
- 2.4 The technical-cooperation component will help to strengthen VIVA CRED in the following fundamental areas: (i) organization for credit program management, including training for loan officers and other personnel, with the aim of improving loan management and maximizing recovery; (ii) strengthening the institution's operating capacity, by implementing computerized credit and accounting systems and a management information system, with particular emphasis on establishing a structure for supervising operations and management; (iii) improving the technology used in lending operations in order to contend with a broader target group and optimize efficiency, consistent with the regulations of the National Monetary Council (CMN) and the Central Bank of Brazil (BACEN); and (iv) maintain the financial solvency of the institution, covering lending costs under market conditions.
- 2.5 The financial technology should be adapted to the needs of microentrepreneurs and an expanded portfolio, and should result in lower intermediary costs. It should permit continuous consolidation of the knowledge gained from performance and

development of a management information system ensuring viability and sustainability of the program over time.

- 2.6 Another aim of the technical-cooperation component is to prepare for transformation of the NGO (VIVA CRED) into a formal financial institution, either as a separate entity or by merging into an existing financial institution while retaining its microenterprise specialization. Various possibilities would be studied for transforming or merging the institution in accordance with CMN regulations, and BACEN requirements and supervisory regulations.
- 2.7 The plan of operations for the technical-cooperation component is presented in Annex III.

C. Scale

- 2.8 As mentioned earlier, a study conducted by the IBGE estimated the number of formal and informal microenterprises in Rio de Janeiro as 600,000. During its first two years of operation, VIVA CRED will focus exclusively on the *favela* of Rocinha, the largest in Rio de Janeiro with a population of nearly 45,000, a high level of informal, small-scale economic activity, and no access to credit.
- 2.9 The informal enterprises concerned have monthly sales of R\$2,000 or less. It is estimated that VIVA CRED could provide nearly 5,000 loans to 2,400 customers during the execution of this program.

D. Cost and financing

- 2.10 The total cost of the program has been estimated at US\$1 million. Of this total amount, US\$500,000 would be used to finance loan operations and US\$500,000 would be used for nonreimbursable technical-cooperation funding. In accordance with the small project policy, the resources for the operation will come from the net income of the Fund for Special Operations in local currency.

III. THE INTERMEDIARY

- 3.1 The executing agency, responsible for administration of the program, would be the nongovernmental organization VIVA CRED. A nonprofit association founded in October 1996, VIVA CRED is domiciled in Rio de Janeiro. According to its by-laws, its main objective is "to promote economic activity in disadvantaged communities, by providing low-income population segments with access to credit for the development of small businesses".
- 3.2 The organizational structure of VIVA CRED consists of: (i) the General Assembly, composed of the founding members and members admitted subsequently, which is the institution's highest authority, with decision-making power on all matters related to its mission; (ii) the Board of Directors, composed of three directors, each with a term of two years, elected by the General Assembly, which performs executive functions, such as ensuring effective pursuance of the institution's objectives, and acts as legal representative of VIVA CRED; it may delegate its executive and administrative authority to the institution's management and appoint managers; and (iii) the operations department, currently staffed by a manager/coordinator, three loan officers, a teller, and an accountant.
- 3.3 In organizing VIVA CRED, priority was given to ensuring close ties between the community and the business sector. Accordingly, the Board includes representatives of the Ipiranga Business Group, the Association of Construction Company Owners, the Metal Workers Union, the Construction Workers Union, and a former president of the BNDES.
- 3.4 The lending technology initially being used by VIVA CRED is characterized by low transaction costs and swift service, enabling it to serve a large number of microentrepreneurs and meet their financing needs. Between April and July 1997, its first quarter in operation, and with limited resources (R\$150,000), VIVA CRED served 120 customers.
- 3.5 VIVA CRED would function through three branches, one currently operating and two preparing to open - one by month 10 of program execution, and the other by month 16 (following the necessary hiring and training of loan officers). The branches will be opened in localities where the studies planned under the technical-cooperation operation indicate high potential demand.
- 3.6 It should be noted that FININVEST, one of the country's largest financial institutions, has made two loans to finance VIVA CRED'S startup capital, the first in the amount of R\$100,000 and the second in the amount of R\$50,000, attesting to its confidence in the new institution. FININVEST, a formal financial institution, is

interested in participating in the development of new financing technology adapted to microenterprise.

- 3.7 Annex I provides growth projections for VIVA CRED and its operations.

IV. EXECUTION

4.1 The basic aspects of program execution are as follows.

A. Credit Regulations

4.2 The draft Credit Regulations that would govern program operations are presented in Annex II. These regulations are consistent with Bank rules and policies, as well as current legal provisions and banking and financial practice in Brazil. VIVA CRED must have given effect to the regulations prior to the first disbursement.

1. The beneficiaries

4.3 The beneficiaries will be urban microentrepreneurs engaged in manufacturing, crafts, trade, and services, subject to the following requirements: (i) have at least one year's experience in the activity to be financed with the loan; (ii) exercise their activity in a fixed location or, in the case of itinerant or autonomous microentrepreneurs, present a residence certificate; and (iii) present financial reports indicating no history of default.

2. Interest rates, charges, and fees

4.4 Interest rates will be set freely according to the nature of each loan, including charges agreed upon by VIVA CRED and FININVEST, depending on the type of operation. Applicants must be informed in advance of the effective cost of the loan.

3. Use of the loans

4.5 Loans granted under the program will be used to increase working capital and to expand the facilities and equipment of the business. Program resources may not be used to purchase real estate, pay other debts or capital returns, or purchase securities.

4. Limits, terms, and currency

4.6 The debt limit for each beneficiary or group of beneficiaries, including all operations under the responsibility of the beneficiary or group may not exceed 70% of total assets, or 7% of the value of VIVA CRED's liquid assets. ^{2/} The term of each

^{2/} The limits established at the current time are in accordance with the practice generally followed by financial NGOs. With regard to the debt limit of 7% of VIVA CRED's liquid assets, in practice, under internal rules, debt does not exceed between 3% and 5%, and there is a lending limit per beneficiary of US\$5,000 equivalent, plus interest.

operation will be determined according to the capacity of the beneficiary to repay the loan, with a maximum limit of 12 months for working capital and 24 months for the financing of fixed assets.

- 4.7 Loans will be denominated in reales.

5. Environmental protection

- 4.8 VIVA CRED will take special care that the projects financed with program resources do not pose a threat to the environment. The procedures established must ensure due regard for potential environmental impact.

6. Gender component

- 4.9 VIVA CRED will promote the participation of women entrepreneurs, helping to eliminate legal and other obstacles thereto. VIVA CRED will also provide information to women microentrepreneurs on credit programs and facilitate their access to them.

B. Disbursements

- 4.10 Financing resources will be disbursed within a period of 30 months from the effective date of the loan agreement.
- 4.11 By its nature, the program will require a certain degree of liquidity to be maintained at all times, with ready access to financial resources in sufficient amounts to meet the credit needs of the target group. Two disbursements will be made, each accounting for 50% of total financing. The second will be subject to the findings of an interim evaluation of the institution's performance and credit program.

C. Interim evaluation

- 4.12 The program calls for an interim evaluation to be conducted by an outside consulting firm once 50% of the program resources have been committed, for the purpose of measuring the operational and administrative efficiency of VIVA CRED, the solvency of the institution, the quality of its portfolio, and results of the development program in terms of services to the target group. The reports to be submitted by VIVA CRED will provide input for this evaluation.
- 4.13 Among other matters, the evaluation will cover the following:

1. VIVA CRED

- 4.14 Matters to be evaluated will be: (i) the general operation of the institution; (ii) adherence to the business plan; (iii) the

solvency and liquidity of the institution; (iv) delinquency; and (v) financial sustainability of activities.

2. Execution and effectiveness of the technical-cooperation operation

- 4.15 The aspects covered will be as follows: (i) effectiveness of the technical-cooperation operation in strengthening the financial and institutional sustainability of VIVA CRED; (ii) effectiveness of the lending technology, training and quality of the credit analysts, and the management consulting services; (iii) the results of computerization; and (iv) gains in the financial and operational efficiency of the program.

3. Target group

- 4.16 The aspects to be considered will consist of: (i) the type of microenterprises being served and their line of business; (ii) the quality of services provided; and (iii) user satisfaction with respect to these services.
- 4.17 An evaluation satisfactory to the Bank will be required before VIVA CRED is authorized to commit further program resources. If the evaluation is not satisfactory, VIVA CRED must make the necessary adjustments before the Bank will authorize further commitments and disbursements.

D. Environmental concerns

- 4.18 The Committee on Environment and Social Impact reviewed this operation at its meeting TRG15/97 of May 16, 1997. The committee recommended that the project eligibility criteria for the beneficiaries include environmental protection considerations.
- 4.19 The trade and service sectors are believed to represent roughly 90% of VIVA CRED's potential customers in the *favelas*. Because of their small size, the businesses receiving financing should pose little risk to the environment. Even so, the Credit Regulations to be approved for this operation will include project eligibility conditions to prevent the financing of polluting activities and/or activities with harmful environmental effects.

E. Gender

- 4.20 Most microenterprises, especially informal ones situated in low-income communities like the *favelas*, are managed by women. This is the result of several factors, including: (i) the high number of women heads of household with full responsibility for supporting their families; and (ii) the need to supplement family income while caring for children, preferably in the community or home.

- 4.21 Data compiled by the network of the National Small Business Federation (FENAPE) - which has the most extensive experience with credit programs for low-income microenterprises, serving more than 15,000 active customers and participating in six small projects financed by the IDB - indicate that in the 13 cities where the federation operates women account for roughly 60% to 80% of all microentrepreneurs and are clearly a major component of this segment of the economy.
- 4.22 Participation by women in the proposed program is expected to mirror these percentages. Specifically, through VIVA CRED, the program would finance low-income microentrepreneurs (men and women) living in *favelas* or poor communities in Rio de Janeiro, most of whom would consist of women heads of household.
- 4.23 The proposed program is consistent with the Bank's policy concerning the participation of women in development (document GP-114-3). It recognizes, and would help to develop, the potential of women as productive members of the economy, facilitating their access to financial and technical resources and improving the efficiency of institutions responsible for promoting the social and economic participation of women in the development process.

V. FEASIBILITY, JUSTIFICATION, AND RISKS

A. Socioeconomic feasibility

- 5.1 The program will mainly benefit microentrepreneurs from the metropolitan area of Rio de Janeiro, especially from the *favelas*. The first VIVA CRED branch is already up and running in the Rocinha *favela*, with limited funds lent by FININVEST. As indicated earlier, there is a large number of microenterprises in that community representing considerable potential demand.
- 5.2 The credit fund is intended to finance working capital, investment in fixed assets, and improvements in business infrastructure. These investments may help the microentrepreneurs raise productivity and/or increase sales and income, leading to better living conditions for low-income groups in Rio de Janeiro.
- 5.3 Cost recovery is one of the basic principles of the institution, which seeks to ensure sustainability over time and assure the target group of continuous access to credit on more attractive terms and at lower cost than currently available.

B. Institutional feasibility

- 5.4 VIVA CRED fulfills the legal and institutional requisites for managing an operation like the one proposed. The participation of Viva Rio on its Board will ensure knowledge of and proximity to the target group. In addition, the participation of FININVEST, representing the formal financial sector, will help to ensure economic efficiency and long-term sustainability. The confidence of FININVEST in VIVA CRED is clearly shown by its decision to grant two successive special loans to help initiate VIVA CRED's operations. In addition, BNDES recently approved a loan to VIVA CRED to be disbursed in two tranches, the first upon signature of the loan agreement, and the second upon approval of this IDB operation.
- 5.5 VIVA CRED operates in accordance with private market practices and meets the Bank's solvency criteria. Its technology is appropriate for the target group. The institution is also able to draw on the experience of Viva Rio, which knows and operates close to the target group.
- 5.6 Throughout the entire program execution period, VIVA CRED will receive technical advisory assistance from an international consulting firm with broad experience in microfinance. This firm, to be hired with the technical-cooperation resources, will support various aspects of the institution's work, including feasibility studies on eventual conversion to a formal financial institution and incorporation into a company operating in the sector.

- 5.7 It should be noted lastly that this is a ground-breaking experiment for the country; since its inception, VIVA CRED has taken a private-sector approach to sustainability.

C. Financial feasibility

- 5.8 Program resources will be used to provide financing to the target group based on eligibility criteria and financing conditions established in the Credit Regulations, consistent with the lending technology used by the institution.
- 5.9 Target group activities will be financed so as to ensure medium-term cost recovery by VIVA CRED. This means subloans will have to be made at positive, real market interest rates, i.e. sufficient to maintain the value of the resources and gradually constitute a revolving fund.
- 5.10 Based on experience in Latin America, it is estimated that a financial institution lending to this type of target group would be able to cover its costs by maintaining an active loan portfolio of approximately US\$2 million. This level of operations should be reached by the third year of program execution.
- 5.11 The technical-cooperation funding would partially cover operating costs and infrastructure during the first two years of the institution's life. Under the growth strategy envisaged, VIVA CRED will be able to assume all its costs beginning in the second half of year two of operations.

D. Risks

- 5.12 The main risks of this operation relate to proper adaptation of the proposed lending technology to Brazilian conditions and to much broader market demand. The products to be offered would also have to be appropriate for the potential customers and the sustainability of the beneficiary institution. In that context, interest rate levels and the institution's efficiency are of fundamental importance. The institutional support provided under the technical-cooperation component will help considerably in lowering program risks.

E. Justification and recommendation

- 5.13 The proposed project is consistent with the policy of the Small Projects Financing Program, and specifically with the criteria established in documents GP-75-7 and GN-1238-2. The intermediary institution is a nonprofit nongovernmental organization whose aim is to promote the socioeconomic development of low-income population segments. It has full legal capacity and the authority to enter into external credit transactions and promote credit programs for such purposes as those targeted under the program.

- 5.14 Based on the foregoing analysis, it can be concluded that the proposed program is viable. Consequently, Management recommends that the Board of Executive Directors approve the respective financing. The proposed resolution for financing is therefore being submitted to the Board for consideration.

I. PROJECTIONS FOR THE FIRST TWO YEARS OF OPERATIONS

A. Assumptions

1. General assumptions

- 1.1 It is assumed that the average amount of loans processed will be R\$1,000 throughout the entire projection period. The average term of the loan will be six months, with equal monthly payments.
- 1.2 In terms of analyst productivity, the optimum processing rate is assumed to be 50 loans per analyst, per month, and that a portfolio of up to 270 loans could be managed. In the early stages, the rate would be 15 loans per month.

2. Human resource planning

- 1.3 The institution will begin operations with the following staff:
 - a coordinating manager
 - three credit analysts
 - a teller
 - an accountant
- 1.4 Over the course of the two-year projection, two branches would be opened: one, in month 10 of operations and the other in month 16. At the end of the second year, the staff would total 15: seven credit analysts, two branch administrators, one accountant, one systems officer, and three tellers/keyboard operators. It should be noted that the operations staff consists of the credit analysts as well as the branch administrators, who maintain a loan portfolio (see table on staff levels).
- 1.5 Each new branch represents an investment for VIVA CRED, in terms of staffing as well as the office equipment required to meet customer needs.
- 1.6 Staff salaries, which are indicated in reales below, are used as the basis for projecting personnel costs. It must be stressed that benefits represent 100% of base salary and that bonuses for productivity and portfolio quality are included in the calculation of base salary in this analysis.

Table 1

POSITION	BASE SALARY	TOTAL COST INCLUDING BENEFITS
Manager	1,725	3,450
Accountant	1,000	2,000
Administrator	850	1,700
Analysts	750	1,500
Computer specialist	750	1,500
Teller	350	700
Keyboard operator	350	700

3. Growth and portfolio quality

1.7 Portfolio growth is calculated as follows:

- a. In the first year, the institution expects to carry a portfolio of R\$461,413, distributed among 675 customers.
- b. Portfolio growth for the second year is significant, reaching a total of R\$1,556,860, distributed among 2,430 customers.

1.8 It is estimated that 2% of the portfolio will be irrecoverable. In the case of arrears exceeding 30 days, the institution will establish a reserve equal to 100% of the principal and interest past due.

4. Financial investments

1.9 In calculating financial investments, an interest rate of 3.9% monthly and a guarantee rate of 5% are applied to the amount financed.

5. Finance charges

1.10 These consist of the institution's refinancing costs and the administrative costs of FININVEST, which together represent a monthly financing cost of 2%.

6. Administrative costs

1.11 Administrative costs are separated into direct costs and indirect costs.

- 1.12 Direct costs consist of:
- a. personnel costs calculated using the data presented in table 1.
 - b. the cost of leasing premises for the branches' operations.

- 1.13 Indirect costs - paper, depreciation, insurance, and the administration of operations - were calculated as a third of personnel costs.

B. Results

- 1.14 As shown in the semiannual projection, the institution would be in a position to cover all its costs beginning in the fourth semiannual period, at which time the average portfolio would be approximately US\$1.3 million. Subsidization from the IDB/BNDES program would cover 84% of personnel costs in the first semiannual period, 43% in the second, 38% in the third, and 4% in the fourth semiannual period.
- 1.15 The annual data show that the profits generated in the second year of operations more than offset the losses incurred in the first year, with a cumulative net profit of US\$14,925. It must stressed, however, that this result is achieved with the IDB subsidy (US\$134,100).

	Year 1	Year 2	Cumulative
TOTAL INVESTMENT	218,871	703,153	922,023
FINANCIAL INVESTMENT	136,971	650,953	787,923
- Flat	49,500	200,250	249,750
- Interest	87,471	450,703	538,173
IDB/BNDES SUBSIDY	81,900	52,200	134,100
FINANCE CHARGES	49,471	246,574	295,045
ADMINISTRATIVE COSTS	205,041	406,013	611,054
DIRECT COSTS	150,600	289,800	440,400
PERSONNEL COSTS	138,000	259,200	397,200
- Analysts	63,000	117,000	180,000
- Manager	41,400	41,400	82,800
- Branch administrator	5,100	35,700	40,800
- Accountant	18,000	24,000	42,000
- Computer specialist	0	18,000	18,000
- Teller/keyboard operator	10,500	23,100	33,600
OFFICE LEASING COSTS	12,600	30,600	43,200
INDIRECT COSTS	46,000	86,400	132,400
IRRECOVERABLE LOANS	8,441	29,813	38,254
CUMULATIVE RESULTS (WITH SUBSIDY)	-35,641	50,566	14,925

ASSUMPTIONS

FORM OF REPAYMENT: Equal monthly installments

INTEREST RATES: 3.9% monthly

FEE (FLAT): 5% (of the loan amount)

IRRECOVERABLE LOANS: 2% of current portfolio

AVERAGE LOAN: 1,000 reales

AVERAGE TERM: 6 months

FINANCE CHARGES: 2% monthly

SOURCE OF FINANCING: FININVEST (US\$350,000), BNDES (US\$600,000), IDB (US\$500,000), AND REPAYMENTS.

	1st Semiannual Period	2nd Semiannual Period	3rd Semiannual Period	4th Semiannual Period
- Average number of analysts	3.0	4.5	7.5	9.0
- Average number of loans processed per analyst	18	25	35	45
- Cumulative number of processed loans	315	990	2,565	4,995
- Number of loans processed per semiannual period	315	675	1,575	2,430
- (Number of loans retired per semiannual period)	0	315	675	1,575

Number of loans outstanding	315	675	1,575	2,430
New loans	315,000	990,000	2,565,000	4,995,000
(Amortization)	114,373	528,587	1,511,753	3,438,140
Current portfolio	200,627	461,413	1,053,027	1,556,860
Data at close of period				
- Nº of analysts	3	6	9	9
- Current portfolio per analyst	66,876	76,902	117,027	172,984
- Number of outstanding loans per analyst	105	113	175	270

VIVA CRED: INCOME AND EXPENSE PROJECTION

	1st Semiannual period	2nd Semiannual period	3rd Semiannual period	4th Semiannual period
TOTAL INVESTMENT	85,979	132,892	285,943	417,210
FINANCIAL INVESTMENT	38,279	98,692	239,743	411,210
- Flat	15,750	33,750	78,750	121,500
- Interest	22,529	64,942	160,993	289,710
IDB SUBSIDY	47,700	34,200	46,200	6,000
FINANCE CHARGES	13,560	35,911	89,601	156,973
ADMINISTRATIVE COSTS	84,314	120,727	186,633	219,379
DIRECT COSTS	62,700	87,900	135,300	154,500
PERSONNEL COSTS	57,900	80,100	121,500	137,700
- Analysts	27,000	36,000	54,000	63,000
- Manager	20,700	20,700	20,700	20,700
- Branch administrator	0	5,100	15,300	20,400
- Accountant	6,000	12,000	12,000	12,000
- Computer specialist	0	0	9,000	9,000
- Teller/keyboard operator	4,200	6,300	10,500	12,600
OFFICE LEASING COSTS	4,800	7,800	13,800	16,800
INDIRECT COSTS	19,300	26,700	40,500	45,900
IRRECOVERABLE LOANS	2,314	6,127	10,833	18,979

VIVA CRED — STAFF LEVELS
(First year)

PROFIT/ LOSS WITH SUBSIDY	-11,894	-23,747	9,708	40,858		
	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Credit analyst	3	3	3	3	3	3
Branch Administrator						
Manager	1	1	1	1	1	1
Accountant	1	1	1	1	1	1
Computer specialist						
Teller	1	1	1	1	1	1
TOTAL STAFF	6	6	6	6	6	6

	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Credit analyst	3	3	3	5	5	5
Branch Administrator				1	1	1
Manager	1	1	1	1	1	1
Accountant	1	1	1	1	1	1
Computer specialist						
Teller	1	1	1	2	2	2
TOTAL STAFF	6	6	6	10	10	10

VIVA CRED – STAFF LEVELS
(Second year)

	Month 13	Month 14	Month 15	Month 16	Month 17	Month 18
Credit analyst	5	5	5	7	7	7
Branch Administrator	1	1	1	2	2	2
Manager	1	1	1	1	1	1
Accountant	1	1	1	1	1	1
Computer specialist	1	1	1	1	1	1
Teller	2	2	2	3	3	3
TOTAL STAFF	11	11	11	15	15	15

	Month 19	Month 20	Month 21	Month 22	Month 23	Month 24
Credit analyst	7	7	7	7	7	7
Branch Administrator	2	2	2	2	2	2
Manager	1	1	1	1	1	1
Accountant	1	1	1	1	1	1
Computer specialist	1	1	1	1	1	1
Teller	3	3	3	3	3	3
TOTAL STAFF	15	15	15	15	15	15

I. CREDIT REGULATIONS

Article 1. Purpose

- 1.1 These regulations set out the terms and conditions that will apply to execution of the VIVA CRED financing program, to be financed in accordance with contract N^o __, between VIVA CRED and the Inter-American Development Bank (IDB).

Article 2. Executing Agency

- 1.2 The program will be executed by VIVA CRED and the financial institution _____, authorized to operate by the Central Bank of Brazil.

Article 3. Beneficiaries

- 1.3 The beneficiaries of the program will be urban microentrepreneurs engaged in manufacturing or handicrafts, trade, or services.

Article 4. Eligibility requirements

- 1.4 The microentrepreneurs must meet the following requirements:
- a. have experience (at least one year) in the activity for which loan resources will be used;
 - b. operate in a fixed location, or in the case of itinerant or autonomous microentrepreneurs, furnish a residence certificate; and
 - c. provide financial reports showing no history of default (to be prepared by VIVA CRED).

Article 5. Ineligibility

- 1.5 Shareholders, former shareholders, members of the Board of Directors, Superintendents, and employees of VIVA CRED, as well as physical or legal persons with any ties to VIVA CRED, will be ineligible to borrow under the program or cosign for beneficiaries. Former VIVA CRED employees may request inclusion in the program 12 months after their separation from the institution.

Article 6. Restrictions on the use of program resources

- 1.6 Program resources will be used exclusively to supply working capital and/or expand business facilities and equipment. Program resources may not be used to finance the purchase of real estate;

repay debts or returns on capital; or purchase stocks or other securities.

Article 7. Loan Committee

- 1.7 The Loan Committee will be solely responsible for deciding on loan applications presented by the credit analysts. The committee will be composed of at least three persons. The membership of the Loan Committee will depend on the level of approval required, as defined by the Board of Directors in Annex III.

Article 8. Terms and conditions of the subloans

- a. Loan amount: the amount of loans to microentrepreneurs will be in direct relation to their capacity to pay, cash flow, and the risks associated with the beneficiary business. The minimum transaction value will be set by the Board of Directors based on a proposal from the Superintendency.
- b. Debt limit: the individual debt limit for any beneficiary or group of beneficiaries will take into account all lending transactions under the responsibility of the beneficiary or the group, which may not exceed 70% of their total assets or 7% of the liquid assets of VIVA CRED.
- c. Terms: The terms for each operation will be established according to the repayment capacity of the beneficiary. The maximum term will be 12 months for working capital loans and 24 for purchases of fixed assets.
- d. Form of payment: Loans will be amortized by means of payments covering principal and interest. The amount of each installment will remain constant throughout the loan period and may be paid weekly, biweekly, or monthly, depending on the beneficiary's type of business, use of the loan, payment capacity, and cash flow. In special cases, installments may be scheduled differently if required by the beneficiary's cash flow situation. Loans may be granted subject to payment in full by means of a single installment covering principal and interest.
- e. Payment schedule: The payment schedule will be an integral part of the loan contract and must be approved by the Loan Committee.
- f. Interest, charges and transaction fees: VIVA CRED will be free to set the interest rates it considers appropriate for each subloan, including incidental charges agreed upon by VIVA CRED and FININVEST, according to the type of transaction, and loan applicants must be informed of them in advance. The effective cost of the loan consists of interest and security. The

beneficiary will be charged, one time only upon receipt of the loan proceeds, a percentage of the total value of the operation, as defined by the Board of Directors, to cover the cost of such guarantee bonds as VIVA CRED may have had to provide the financial institution.

g. Late payment by the beneficiary: In the case of late payment, the charges and fees set out in the contract signed with the financial institution, will be charged at rates to be approved by the Board of Directors. The charges will be as follows:

- Late payment fee, calculated on the basis of the outstanding balance of the loan and its corresponding increments;
- Interest on arrears, *pro rata dies*, calculated on the basis of the outstanding balance of the loan;
- Finance charges, including the standard fee charged by the financial institution;
- Collection costs, understood to mean costs effectively disbursed for judicial or extrajudicial collection of the loan and attorney's fees in the case of extrajudicial collection.

h. Guarantees and counterguarantees for the operations:

- 1.8 Operations will require a personal guarantee, consisting of third-party cosignature of the credit instrument for the operation issued by the beneficiary to the financial institution. Exceptionally, cosignature may be waived in the case of obligations below the limit specifically approved by the Board of Directors.
- 1.9 In addition to the guarantee, which will be transferred to the financial institution, VIVA CRED may require beneficiaries to provide a counterguarantee in a form determined by the Loan Committee. The amount of the counterguarantee will be determined according to the payment capacity of the beneficiary, as well as other risk factors inherent in each operation. The amount of the counterguarantees shall be no less than 100% of the operation requiring guarantee, including principle and increments.
- 1.10 Property used as counterguarantee must be carefully appraised based on its market value. The credit analyst will be responsible for appraising the value of the property used. On an exceptional basis, the Superintendency may resort to an external appraiser for this purpose. Mortgage property must always be assessed by an external, officially authorized appraiser.
- 1.11 The rules and limits approved by the Board of Directors are set forth in Annex I.

Article 9. Exceptional cases

- a. Moratorium: A moratorium is a period of time allowed for beneficiaries during which interest on arrears and late payment fees will not be applied. It must be approved by the Loan Committee in response to a duly reasoned proposal from the credit agent on the grounds of unforeseen circumstances that temporarily affect the beneficiary's capacity to pay.
- b. Waiver of charges: Interest on arrears and late payment fees may be fully or partially waived. Charges may be waived only upon payment by the beneficiary of the installments due. Waivers must be cleared in advance by the credit analyst, with due justification, and will require authorization by the Loan Committee.
- c. Early debt retirement: A beneficiary may at any time effect advance payment in full of the outstanding loan balance.
- d. Acceleration: Acceleration of loan maturity will be subject to the conditions established in the agreement with the financial institution and the consequences set forth therein.
- e. Refinancing: Refinancing means rescheduling of the original payment plan and may apply only to the principal. Refinancing may be allowed by the Loan Committee, upon request by the beneficiary, following review and clearance by the credit analyst, with due justification specifying whether the economic situation of the beneficiary has changed, whether the request is grounded, and whether there were other alternatives for solving the problem.

Article 10. Environmental protection

- 1.12 VIVA CRED will take special care that projects financed with program resources do not pose a threat to the environment. The procedures to be established must ensure due regard for potential environmental impact.

Article 11. Gender component

- 1.13 VIVA CRED will promote the participation of women microentrepreneurs by helping to eliminate legal and other obstacles thereto and providing information on, and facilitating access to, credit programs for women microentrepreneurs.

PLAN OF OPERATIONS

I. TERMS OF REFERENCE FOR THE TECHNICAL-COOPERATION OPERATION

- 1.1 The detailed objectives of the technical-cooperation operation will be as follows:
 - a. Review lending technology and implement improvements adapted to the institution and its clientele, seeking to optimize operational efficiency and offer financial products suited to the characteristics of target group demand.
 - b. Strengthen the financial, managerial, administrative, and technical capacity of the institution by developing computerized lending, accounting, and management information systems.
 - c. Lay the groundwork necessary for this institution to play a leading role in the future in serving the target group, meeting its business development needs, by becoming a formal financial institution or merging with an existing entity.
 - d. Strengthen the institution's infrastructure for lending program management, to ensure effective use, management, and recovery of the resources requested.
- 1.2 To accomplish these objectives, the following consulting services would be engaged.
- 1.3 An international consulting firm with experience in similar programs in other countries of the region will be hired for the main activities of the technical-cooperation operation. At the request of VIVA CRED, and with its approval, this firm will be hired by the IDB and will assume responsibility for adapting, implementing, and monitoring the program (see activities A, B, and C below).
 - A. Institutional strengthening and sustainability
- 1.4 A specialist will be hired for nonconsecutive periods totaling three months, to perform the following tasks:
 - a. Support efforts to inform Brazilian financial institutions about the product and technology developed in order to facilitate eventual incorporation of the NGO.
 - b. Make contact with various national and international institutions to identify alternative financing sources.

- c. Support efforts to transform the institution into a formal entity, with the participation of national or international institutions – or alternatively through incorporation into an established entity – developing a supervisory and management structure in conformity with conditions established by the Bank of Brazil.
- d. Advising on the identification of potential owners, including equity participation by the financing entity to be funded.

B. Lending technology and management consulting

- 1.5 Advisory assistance at the level of the product as well as at the managerial level is an essential component of the technical-cooperation operation. Since transfer and understanding of the lending technology are important, a consultant should be hired to advise on both points.
- 1.6 The consultant would be assigned to:
 - a. Adapt lending technology to the target group.
 - b. Train loan officers, managers, and the Loan Committee with a view to ensuring a sound loan portfolio.
 - c. Conduct market studies for the opening of new branches and develop a new strategy for opening up the market, with the aim of consolidating the institution's activities and reaching a greater number of beneficiaries.
 - d. Develop and adapt the institution's by-laws and guidelines on an ongoing basis.
 - e. Implement a management information system for efficiency analysis.
 - f. Develop a system for monitoring costs and returns.
 - g. Coordinate administrative processes with FININVEST and other institutions signing agreements with VIVA CRED.
 - h. Develop an organizational and institutional structure adapted to the lending technology required for the target group and appropriate for the institution's rate of growth.

C. Advice on information systems

- 1.7 An international specialist will be hired for a nonconsecutive period of two months, to perform the following tasks:

- a. Introduce, adapt, and implement the microcredit software to support the entire lending process.
 - b. Adapt the accounting system to produce the reports necessary for the decision-making process.
 - c. Train a Brazilian counterpart and individual users within the institution to use and maintain the system.
 - d. Introduce the lending system in the various branches.
- 1.8 In addition to the international technical assistance, the technical-cooperation program includes a budget for local consultants to advise on institutional and legal matters.
1. Local consultant to advise on institutional matters
- 1.9 This consultant will:
- a. Make contacts with national and international institutions in order to obtain new financing for the institution.
 - b. Promote new products and develop rules and regulations for the institution.
2. Local consultant to advise on legal matters
- c. Continuously adapt the agreement with FININVEST and agreements signed with other institutions.
 - d. Make the legal and legislative arrangements for transformation or incorporation of the institution.
- 1.10 A budget is also included for strengthening of the institution's infrastructure, study grants to train the institution's operational and administrative staff, and the hiring of a coordinating agent.
- 1.11 After two years, the technical-cooperation operation is expected to produce the following results:
- a. Training provided for no fewer than: 9 loan officers, 2 branch coordinators, 1 loan and administrative manager, and 1 systems specialist.
 - b. Two branches opened in other *favelas* or communities of metropolitan Rio de Janeiro following the necessary market studies.
 - c. Operations, lending, and accounting manuals prepared for the institution.

- d. An organizational structure and appropriate supervisory authorities in place.
- e. Systems for rewarding the institution's operational and managerial staff in place.
- f. A management information system for efficient administration of the institution's resources, costs, and returns.
- g. A portfolio of approximately US\$1.5 million distributed among 2,400 customers.
- h. Groundwork laid for transforming the institution into a formal entity with the participation of national and or international institutions or for incorporation into an existing institution; possibilities and best options consistent with VIVA CRED's philosophy identified.

II. TECHNICAL COOPERATION COSTS

A. International consulting firm*		Months	Cost/Month in US\$	Total in US\$
EMC	Institutional strengthening	3	15,000	45,000
	Information systems	2	15,000	30,000
EML	Credit and institution building	24	9,000	216,000
Subtotal				291,000
*overhead, travel and per diem included				
B. National consulting firm		Months	Cost/Month in US\$	Total in US\$
	Institutional strengthening	10	4,000	40,000
	Legal advisor			5,000
Subtotal				45,000
C. Training courses		Months	Cost/Month in US\$	Total in US\$
	Training of analysts	40	1,500	60,000
	Training of information specialists	5	1,500	7,500
Subtotal				67,500
D. Managing coordinator		Months	Cost/Month in US\$	Total in US\$
	Managing coordinator	14	3,450	48,300
Subtotal				48,300
E. Fixed assets				Total in US\$
PC including peripherals (7 at US\$3,000 each)				21,000
Vehicles and/or motorcycles				15,000
Office furniture				10,000
Subtotal				48,200
GRAND TOTAL				500,000

PROPOSED RESOLUTION

BRASIL. FINANCING AND TECHNICAL COOPERATION TO VIVA CRED
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 VIVA CRED of the República Federativa do Brasil, 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 III of said document.

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