PROPOSAL FOR FINANCING AND TECHNICAL-COOPERATION FUNDING FOR:

Instituto de Promoción Económica y Social del Uruguay (IPRU)

(TC-92-05-39-6-SP)

EXECUTIVE SUMMARY

AMOUNT AND SOURCE:	IDB:	Financing: Technical-cooperation funding: Total:	US$500,000 US$100,000 US$600,000

The resources are from the Japan Special Fund (JSF).

FINANCIAL TERMS AND CONDITIONS: The resources will be provided on a nonreimbursable basis and a disbursement period of 36 months is proposed, starting from the effective date of the agreement.

OBJECTIVES: The overall objective of the project is to strengthen IPRU as a financially and institutionally viable institution, committed to the process of economic and social development of low-income microentrepreneurs and small producers, so that they can have permanent access to efficient training and financing services tailored to their needs.

DESCRIPTION: The proceeds of the loan would be used to finance the working capital and investment needs of microentrepreneurs and small farmers engaged in trade, services and production in impoverished urban and rural areas of Uruguay. A technical-cooperation program would be executed in parallel to provide institutional strengthening and training for microentrepreneurs and small farmers, with particular emphasis on activities that incorporate women, and make it easier for them to access training programs.

ENVIRONMENTAL CLASSIFICATION: The Environment Committee, at its meeting of May 25, 1995, classified this as a Category II operation.

BENEFICIARIES: The proposed program would benefit approximately 300 microenterprises and small agricultural holdings (one half of which are headed by women) over a three-year period. Those microenterprises do not have access to conventional sources of credit and their members have per capita incomes below the threshold for low-income groups as defined by the Bank and the Government of Uruguay. Considering average family size, the number of indirect beneficiaries would be approximately 1,100. Moreover, the institutional strengthening of the intermediary would enable it to

play a more influential role in the future in formulating and carrying out similar programs that target low-income population strata.

RISKS: The principal risk lies in the fact that the institution has had no previous experience in managing such a large volume of microenterprise credit operations. However, the proposed technical-cooperation program would address the major shortcomings identified in the organization and introduce institutional strengthening. The likelihood of this risk occurring would thus be reduced.

THE BANK'S COUNTRY STRATEGY: The small project described in this document is consistent with the priority established by the Bank and the country of expanding support for microenterprise and small farmers, by strengthening the organizations devoted to providing them with credit, training and technical assistance.

SPECIAL CONTRACTUAL CONDITIONS: It is recommended that, in addition to the general contractual conditions, the financing and technical-cooperation agreement to be signed with IPRU should include the following special conditions:

1. Precedent to the first disbursement of the financing and technical-cooperation funding, IPRU must draw up Credit Regulations for the program acceptable to the Bank.

2. There will be a mid-term review of the progress of the program when the intermediary has justified to the Bank the use of the proceeds of the first disbursement of the financing (40% of total funds).

3. The Bank will make subsequent disbursements of the financing to IPRU conditional upon the results of the mid-term review, and upon the implementation of measures agreed on with the Bank to overcome any shortcomings in program execution.

4. It is recommended that the advance of the technical-cooperation funding should be 25%.

EXCEPTIONS TO BANK POLICIES: None. However, in view of the existing demand for credit, and in order to streamline the Bank's administration of this type of operation, it is recommended that the financing be disbursed as follows: (i) an initial advance of funds equivalent to 40% of the total amount of the financing; and (ii) two subsequent disbursements each equivalent to 30% of the total amount of the financing.

I. FRAME OF REFERENCE

A. Background

1.1 Although this is the first time that the Instituto de Promoción Económico y Social del Uruguay (IPRU) has requested IDB financing, it has provided technical support for several Bank programs in Uruguay, helping to channel funds to needy sectors of Uruguayan society. One of the programs was the first Bank project with the Asociación de Colonos del Uruguay, Manos del Uruguay and Fundasol. It has also served as technical agency for the global credit program, providing training and investment project preparation services to microentrepreneurs.

1.2 The Bank financed a global credit program for MYPES (loan 614/OC-UR) for US$7 million and the technical-cooperation funding in support of MYPES (ATN/SF-3601-UR) for US$2.2 million. As part of the credit component, a total of 1,100 subloans were disbursed between March 1992 and December 1993, through seven intermediary financial institutions (IFIs), targeting borderline small enterprises (under 10 employees). A ceiling of US$25,000 was set on investment subloans, with a maximum repayment period of four years. The average subloan granted did not in fact exceed US$9,000. The technical-cooperation project is being carried out over a four-year period, that will end in November 1995. It has financed training and technical assistance activities, basically for the preparation of projects for MYPES that then applied for credit under the program. The impact of the credit component has been favorable, to the extent that the unmet demand existing since the Bank funds were used up has prompted the executing agency to negotiate a new credit operation for MYPES with the Bank.

1.3 Through its Small Projects Financing Program, the Bank proposes to support the development of productive activities that generate jobs and income for these groups, using specialized NGOs in the sector as intermediary agents, as proposed in the operations described in this document. To date, the Bank has approved a total of 16 small projects and parallel technical-cooperation projects in Uruguay, for a total equivalent to over US$10 million, with a significant impact on microenterprises engaged in production, trade and services, and on small-scale rural production.

1.4 Furthermore, the Government of Uruguay, through the Planning and Budget Office, has approved the Bank's participation in financing this project. In short, the small project described here is consistent with the priority established by the Bank and the country of expanding support for microenterprise and small farmers, by strengthening the organizations devoted to providing them with credit, training, and technical assistance.

B. The intermediary

1. General considerations

1.5 IPRU is a nonprofit association established for the purpose of promoting autonomous, participatory and community-based organizations that involve the impoverished sectors of the population. The institution is authorized to request and hire technical support and consultants, receive grants, obtain and grant credits, administer resources and perform any other necessary or appropriate acts to achieve its objectives.

1.6 IPRU has extensive experience spanning 30 years, during which time it has helped nearly 11,000 individuals. Throughout this period it has taken steps to coordinate with other institutions activities that serve the common good. In addition, it has established relations with other national and foreign nongovernmental organizations (NGOs) and with government agencies. In this regard, it is a member of the Mesa Coordinadora de Centros de Promoción Social del Uruguay (Coordinating Committee on Social Advancement Centers in Uruguay) in which it plays an important role. The committee's membership includes the Centro Latinoamericano de Economía Humana, the Confederación de Colonos del Uruguay, the Foro Juvenil).

1.7 IPRU has a permanent staff of 30 specialists who make up multidisciplinary teams, and most of them have had experience working directly with grass-roots groups. In terms of educational resources, the intermediary has many publications, audiovisual aids and other educational and informational tools at its disposal.

2. Activities conducted

1.8 Since 1990, IPRU has established a special department to deal with the problems associated with lending for microentrepreneurs. As part of the institution's strategy, credit for microenterprise goes hand in hand with a policy of monitoring and advisory services to the small entrepreneur in the areas of project preparation and microenterprise management.

1.9 During the period from July 1993 to June 1994, IRPU's microenterprise department handled 157 applications for credit and advisory support, of which 90 led to a technical study. The department issued favorable opinions on 86 applications, all of which were subsequently approved by the institution's loan committee. During the same period, technical advice was provided to 46 microenterprises. The loan portfolio as of June 30, 1994, was US$153,631, up 60% from the previous year, with approximately 10% in arrears.

3. Financial evaluation

1.10 The analysis of IPRU's financial situation was based on the financial statements for 1992, 1993, and 1994, which are presented in consolidated form in Annex V. The figures are expressed in United States dollars.

1.11 IPRU's total assets as of June 30, 1994 amounted to US$736,778, of which 56% (US$415,250) were current assets and 44% (US$321,527) fixed assets. The former were primarily made up of US$261,420 in cash and US$153,631 in loans to microentrepreneurs. Moreover, fixed assets comprised US$139,535 in buildings, furniture, fixtures, and equipment and US$181,993 in accounts receivable and grants to be used.

1.12 Liabilities amounted to US$250,937 in 1994, equivalent to 34% of total assets, showing that the institution's debt-equity ratio was low. Current liabilities (US$35,930), which accounted for 14% of the total and consisted of accounts payable, were at about the same level as the previous year. In 1994, the current ratio was 7. This is a high level of liquidity, since current assets are sufficient to cover current liabilities seven times over. Long-term liabilities amounted to US$214,468, consisting mainly of deposits from third parties held by the institution (US$109,017), accrued liabilities corresponding to outstanding loans (US$60,194), and long-term debt (US$46,848).

1.13 The financial statements show that IPRU's net worth has consolidated over in the last three fiscal years, increasing 167% from US$182,095 in 1992 to US$486,381 in 1994. This increase is attributable to its operating surplus.

1.14 The income statement shows a 48% increase in revenue in the last fiscal year, to US$671,686. The largest revenue item was grants (US$564,774) for community development and technical assistance programs carried out by the institution. The next largest component was financial income, generated principally by lending operations. These amounted to US$69,405, representing an average return overall on portfolio of 55% (compared with 36% the previous year). The next item, income from technical assistance, was US$15,904.

1.15 Expenditures totalled US$375,187 in 1994, or 56% of total revenue, down in absolute terms from previous years. The principal decline was seen in operating costs, which amounted to US$317,401, an indication of the institution's greater operating efficiency.

1.16 IPRU has reported a net surplus in each of the last three fiscal years, mainly as a result of grants. However, not counting these, its level of internal funds generated has hovered around 28%, which would suggest that the institution must improve its capacity for self-financing. Accordingly, the proposed program would emphasize

expanding of its capacity to generate its own resources, by increasing its financing services to microenterprises and small farmers.

II. THE PROGRAM

A. Objectives

2.1 The overall objective of the project is to strengthen IPRU as a financially and institutionally viable entity, committed to the process of economic and social development of low-income microentrepreneurs and small producers, so that they can have permanent access to efficient training and financing services tailored to their needs.

2.2 Accordingly, the program would contribute significantly to: (a) raising the family income of microentrepreneurs and small-scale farmers; and (b) generating and/or reinforcing job opportunities in the impoverished urban and rural areas served by the projects.

B. Program description

1. Credit fund

2.3 As part of the project, IPRU would expand its lending to 300 microentrepreneurs and small producers in impoverished urban districts and rural areas. The proceeds of these loans would finance working capital and fixed assets requirements principally of merchants (kiosks, shops, clothing stores, etc.), microentrepreneurs engaged in manufacturing (food processing, handicrafts, dress-making, etc.), services (automobile repair shops, cleaners, etc). The small agricultural producers would use their credit to finance working capital (agricultural inputs, raw materials, purchase of goods for marketing, salaries, etc.), fixed assets (tools, equipment, machinery, etc.) and perennial crops.

2. Technical-cooperation projects

2.4 As a result of the assessment of the institutional situation, the parallel technical-cooperation program would place emphasis on: (i) the strengthening of the financial, managerial and technical capacity of the intermediary; (ii) the development and implementation of an appropriate lending procedure, seeking to optimize the operating efficiency and at the same time offer financial products geared to the beneficiaries; and (iii) the strengthening of the intermediary's infrastructure, to ensure proper supervision of the credit program. Annex I contains a detailed plan of operations of the technical-cooperation project.

2.5 In view of the above-mentioned priorities, the technical-cooperation project includes the hiring of experts in the following areas: (i) lending mechanisms; (ii) information systems; (iii) training; and (iv) administration and finance. In addition, the budget includes US$15,000 for the hiring of international experts or consulting firms by the Bank to conduct the mid-term evaluation of the program.

2.6 As part of the technical-cooperation project computer equipment will be purchased to strengthen the institution's operating infrastructure and to ensure proper execution of the program. The total amount of the parallel technical-cooperation funding is US$100,000 equivalent.

C. Cost and financing

2.7 The total project cost is US$600,000, of which US$500,000 corresponds to the funds for credit and US$100,000 to the technical assistance program. The resources from the Japan Special Fund (JSF) will be provided on a nonreimbursable basis.

D. Program execution

1. Responsibility for execution

2.8 IPRU would be responsible for administration and execution of the project. The activities would be carried out by the institution's present staff, with the support of the consultants included in the technical-cooperation plan of operations. The intermediary would sign the financing and technical-cooperation agreement with the Bank and would conduct the project according to the terms of this document and its annexes.

2. Credit Regulations

2.9 The model Credit Regulations that would govern program execution are contained in Annex IV to this document. These regulations are consistent with Bank rules and policies, and with current legal provisions and banking and financial practices in Uruguay. As a condition precedent to the first disbursement of the financing and the technical-cooperation funding, IPRU must have approved the regulations agreed upon with the Bank.

3. Mid-term review

2.10 It is proposed that these operations be executed in two stages, with a mid-term evaluation upon conclusion of the first stage. The purpose of this evaluation would be to review the achievements and determine the effectiveness of the procedures used in executing the credit and technical assistance components. The evaluation would also include an analysis of the performance of the plan for institutional strengthening, portfolio arrears, lending mechanisms,

interest rates and level of internal financing by the institution. The indicators described in Annex III must be borne in mind for the evaluation.

2.11 The mid-term evaluation will be conducted when the intermediary has justified the first disbursement of the financing (40% of the total amount), or earlier if the Bank considers it necessary. The Bank would review the results and recommendations of this mid-term evaluation, which would be conducted by international consultants hired directly by the Bank out of the parallel technical-cooperation funding. If the results of that review are satisfactory to the Bank, it will authorize the intermediary to continue committing the resources of the financing. If not, the intermediary will no longer be authorized to continue committing resources until it has taken satisfactory steps to correct the shortcomings identified.

4. Period for disbursement of funds

2.12 The resources of the financing and technical-cooperation funding will be disbursed within a period of 36 months starting from the effective date of the loan contract.

5. Advance of funds

2.13 Owing to the nature of the program, funding will need to be available in sufficient amounts to ensure rapid and timely provision of credits and to initiate the consulting services for institutional strengthening of the intermediary. In view of the existing demand for credit and in order to streamline the Bank's administration of this type of operation, it is recommended that the financing be disbursed as follows: (i) an initial advance of funds equivalent to 40% of the total amount of the financing; and (ii) two subsequent disbursements each equivalent to 30% of the total amount of the financing. It is therefore recommended that the amount of the advance on the technical-cooperation funding should be 25%.

6. Use of recoveries

2.14 During the life of the financing agreement, recoveries from amortization of loans granted under the program may only be used by the intermediaries for new loans that conform substantially to the rules set forth in that agreement and in the Credit Regulations of this program, unless the Bank authorizes another use for them in writing.

7. Quality of the portfolio

2.15 The quality of the IPRU's portfolio will be evaluated by the portfolio at risk indicator (i.e. loans more than 30 days past due plus loans in recovery as a percentage of total lending) as defined in the Bank's technical guidelines. The intermediary must take

appropriate steps to ensure that this indicator remains below 5% of the total portfolio. If this requirement is not met, the Bank reserves the right to suspend disbursements.

8. Environmental considerations

2.16 Although the scale of the productive activities to be financed is too small to adversely affect the environment, the following measures have been included to reduce this risk: (i) eligibility criteria for the projects that preclude the financing of polluting activities and/or those that have a harmful effect on the environment; (ii) inclusion of an environmental module in the training and education activities for the final beneficiary; and (iii) obligation of the intermediary and its advisors to ensure compliance with the preventive measures included in the Credit Regulations. At its meeting of May 25, 1995, the Environment Committee classified this operation as category II.

III. THE BENEFICIARIES

A. The microenterprise sector in Uruguay

3.1 In 1992, there were 163,700 urban microenterprises and small businesses (MYPES), of which 144,000 (88%) employed less than 5 persons. In addition, 90,000 enterprises in this sector (55%) employ only one person. These MYPES make up 98% of all urban private enterprises in Uruguay, and account for 51% of urban private sector employment. Uruguayan MYPES tend to be organized around a single owner. Their financing needs are not adequately addressed by small loans from the banking system since only the state-owned bank, Banco de la República Oriental del Uruguay (BROU), and two financial cooperatives controlled by the Superintendency of Banks are suited to meeting this demand. This insufficient supply of credit has afforded the opportunity for the establishment of NGOs that channel international funds to microenterprises.

B. Situation of women microentrepreneurs

3.2 In most countries in the region, with high birth rates, the working population increases annually owing to overall population pressure. In Uruguay, however, the job market has been expanding basically as a result of the increased incorporation of areas of the so-called "secondary" work force, consisting of youth and women. According to the latest census data and demographic studies, young women who join the labor market as wage earners gradually enhance their source of income by starting to work for themselves as microentrepreneurs.

C. Socioeconomic characteristics of the beneficiaries

3.3 The principal socioeconomic characteristics of the beneficiaries are as follows:

a. Family structure: the size of the average family in the Salto-Artigas region is 4, and 3.5 in the metropolitan area of Montevideo.

b. Housing: most of the program beneficiaries live in houses that lack some basic services (light, water supply, etc.). This situation is worse in the case of the microenterprise subgroup in rural areas.

c. Education: the average level of education of the beneficiaries is fairly low, and a large number have not completed secondary education. In particular, they have a marked lack of training in business administration of their microenterprises. In many cases, the technical expertise they have of the production process in use is acceptable.

D. Geographical location

3.4 From a national perspective, the intermediary would work, in principle, to address the problems of poverty in: (i) metropolitan Montevideo and the southern departments of Canelones, San José, and Florida, principally rural and impoverished urban areas, Region 1; and (ii) Salto-Artigas region (principally poor urban and rural areas), Region 2. Notwithstanding these priorities, the services for rural microenterprises may be extended as well to other parts of the country.

E. Activities of the beneficiaries

3.5 Activities in the rural area are predominantly associated with the agricultural sector. Here support will basically be provided to small producers, small farm-holders, rural workers, sharecroppers and workers in sector-related services: metal working, carpentry, mechanics, etc. In the urban area, activities associated with the manufacture of goods, trade, and other services predominate. Here support will be provided basically to small producers associated with those areas (craftsmen, workshops, etc.).

F. Estimated number of beneficiaries

3.6 The proposed program would benefit approximately 300 micro-enterprises and small agricultural holdings (50% headed by women) over a three-year period. Considering the average family size, approximately 1,100 persons would benefit indirectly.

IV. FEASIBILITY, RISKS AND JUSTIFICATION

A. Socioeconomic feasibility

4.1 The proposed program would strengthen the operations of small productive units, and reinforce and raise the level of employment in rural and low-income urban areas. Furthermore, the training and technical assistance to be provided would enhance the beneficiaries' level of work skills, leading thereby to greater productivity and higher income. In addition, other economic benefits would accrue that are not easily quantified, such as those stemming from environmental upgrading and the reduction in rural migration.

B. Institutional feasibility

4.2 The intermediary has an adequate legal framework and a flexible organizational structure that is consistent with the diverse working needs of project execution, as well as the prospects of growth in the volume of operations. The staff is continuously being strengthened and has had many years' experience in the managing of projects for the target group.

4.3 As stated in the institutional evaluation, during analysis of the operation some shortcomings were identified that would be corrected to ensure the intermediary's successful participation in program execution. To that end, IPRU would be institutionally strengthened through nonreimbursable technical-cooperation funding, whereby consulting services would be hired to strengthen IPRU's services of providing credit, training and technical assistance to the beneficiaries, as well as its accounting and management information systems.

C. Financial feasibility

4.4 The program resources would be used to finance productive activities of which the financial feasibility has been previously determined in accordance with the methodology used by the intermediary and based on eligibility criteria and subloan conditions established in the Credit Regulations.

4.5 Since the subloans would be granted at interest rates that are positive and real and would cover the cost of intermediation and the risk, the projects would generate sufficient resources to attain the goals set, together with the capitalization of the intermediary, maintenance of value of the revolving credit fund, and strengthening of the institution's equity base.

D. Risks

4.6 The principal risk lies in the fact that the institution has no previous experience in managing such a large volume of micro-entrepreneurial credit operations as anticipated. However, the proposed technical-cooperation program would address the major shortcomings identified in the organization and introduce institutional strengthening. The possibility of this risk occurring would thus be reduced.

E. Justification and recommendation

4.7 The proposed project is consistent with the eligibility criteria of the Small Projects Financing Program, set forth in documents GP-75-7 and GN-1238-2. Accordingly, the project would directly benefit poor groups, by generating job opportunities and promoting the use of appropriate technologies.

4.8 The preceding analysis indicates that the proposed project is feasible. Accordingly, the Management of the Bank hereby submits the corresponding proposed resolution for financing and technical-cooperation funding to the Board of Executive Directors for its consideration and recommends that the operation be approved.

PLAN OF OPERATIONS FOR TECHNICAL-COOPERATION FUNDING

Instituto de Promoción Económico y Social del Uruguay (IPRU)

URUGUAY

(TC-92-05-39-6)

I. BACKGROUND

1.1 In addition to financing under the Small Projects Financing Program, the IPRU has requested nonreimbursable technical-cooperation funding in support of the proposed program.

II. OBJECTIVES

2.1 The objectives of the proposed technical-cooperation funding would include the following:

a. To strengthen the financial, managerial, administrative, and technical capacity of the intermediary, by upgrading its administration, accounting and credit management systems, and to establish strategic plans for institutional development.

b. To develop and implement an effective lending mechanism for the intermediary and its customers, seeking to optimize operating efficiency and at the same time offer financial products that are tailored to the particular needs of the beneficiaries.

c. To develop training and technical assistance programs for the final beneficiaries in the use of environmentally appropriate technologies, as well as basic concepts of administration, finance, and marketing.

d. To strengthen the intermediary's infrastructure for management of the credit program, in order to ensure proper use, management and recovery of the resources requested.

e. To promote the organization's ability to play a major role in the future in serving the business development needs of low-income sectors.

III. PROGRAM DESCRIPTION

3.1 To achieve the proposed objectives, the technical-cooperation program calls for contracting the following consulting services (the detailed terms of reference are presented in Annex II):

a. Administration and finance, by contracting one specialist for 10 months. That specialist would help IPRU to develop a strategy for institutional growth and financial self-sufficiency, and to upgrade its administrative and financial systems and staff training.

b. Lending mechanisms, by contracting an international consulting firm for two consultant-months, in two separate periods. That firm will be responsible for implementing efficient and effective mechanisms for granting loans to the target group. Accordingly, the lending procedure currently used by the intermediary must be tailored to the expected growth in the portfolio, while maximizing operating costs, training loan officers, executives and members of the loan committee, and maintaining a high quality loan portfolio (monitoring of arrears).

c. Information systems, by contracting an information processing specialist for two months. That specialist would be responsible for designing and/or adapting the computer systems to handle accounting and control the loan portfolio, record general program data and generate reports needed for decision-making in the institution.

d. Microentrepreneurial training, by contracting one specialist in this field for a period of 10 months. That specialist would be responsible for identifying the most critical needs in terms of training, and for developing a training program suited to the target beneficiary, that places emphasis on the full participation by women. This specialist would also work with other experts to develop the training modules and materials, which would include environmental education and the use of appropriate technologies.

e. Institutional and credit program evaluation, by contracting international specialists or consulting firms for a total of three weeks. These specialists would be responsible for assessing program progress after the intermediary has justified the use of 40% of the financing, based on the objectives and indicators specified in the project. In addition to that evaluation, they would advise the intermediary on overcoming any problems encountered in implementation of the credit and institutional strengthening program, and make recommendations that contribute to fulfillment of the program objectives and the conditions set forth in commitments with the Bank.

3.2 In addition, the technical-cooperation project includes the purchase of computer equipment, in order to strengthen the institution's operating structure and ensure proper program execution.

IV. COST AND FINANCING

4.1 The total cost of this nonreimbursable technical-cooperation funding has been estimated at US$100,000 equivalent, that would be financed by the Bank according to the following budget:

CATEGORIES	TOTAL (in US$)
2.1 Remuneration 1/, consulting services	70,000
6.3 Computer equipment	5,000
5.1 Travel and per diems	5,000
8.2 Remuneration, external evaluation, and institutional support 2/	15,000
9.8 Contingencies	5,000
TOTAL	100,000

1/ Expert in administration and finance (US$2,000/month x 10 months = **US$20,000**); international firm for lending mechanisms (US$10,000/month x 2 months = **US$20,000** plus US$6,000 per diems and US$4,000 international travel, total **US$30,000**); expert in information systems (US$2,500/month x 2 months = **US$5,000**); and training expert (US$1,500 x 10 months = **US$15,000**).

2/ Includes an evaluation of approximately three weeks and advisory services to the intermediaries by an international expert or consulting firm (lump sum). This was budgeted as follows: US$10,000 in fees; international travel US$2,200; per diems US$2,800.

4.2 The Bank's contribution of up to US$100,000 equivalent would be granted on a nonreimbursable basis from the Japan Special Fund (JSF).

V. PROGRAM EXECUTION

5.1 The consultants would be hired by the intermediary, except for the international consultants or consulting firms conducting the program evaluations, who would be hired directly by the Bank.

VI. JUSTIFICATION

6.1 The technical-cooperation project would contribute directly to proper execution of the program and achievement of its objectives. In particular, since the credit program would represent an expansion of the activities currently performed by the intermediary, it is felt that this project is needed to strengthen the operating, administrative and technical structure of the organization. Similarly, as a result of the project, the expansion is expected to maintain and enhance the quality of administration of the services and monitoring of the beneficiaries.

6.2 The technical assistance provided for under the program would provide the intermediary with the procedures and tools to improve services to women and the coverage of lending in low-income rural areas, through training programs suited to their needs (schedules, child-care during training, useful topics, etc.). It would also contribute to strengthening the intermediary so it can perform a more important role to benefit the poorest strata in rural areas and low-income city districts in Uruguay.

6.3 Furthermore, the need to monitor an expanded loan portfolio and the additional complexity of the assistance and supervision of a larger network of beneficiaries necessitates computerized information systems. These systems would allow proper monitoring of operations by the management of the intermediary, while also reducing the financing risks associated with the subloans.

6.4 To conclude, the success of the program would depend largely on the components described in the technical-cooperation project, which are considered essential for effective project execution.

VII. DISBURSEMENTS

7.1 The disbursements would be made within a period of 36 months from the date of signature of the agreement. At the request of the intermediary, the Bank may set up an advance of funds in an amount not exceeding 25% of the technical-cooperation funding. The constitution and replenishment of the advances would be considered to be disbursements. The replenishment of the advances would be subject to the intermediary submitting detailed accounts on the use of the funds disbursed and spent.

VIII. REPORTS

8.1 The consultants must present a final report to the intermediary (with a copy to the Bank) indicating the results and recommendations

for future action, within 30 days of the date on which the respective contract is signed.

8.2 The intermediary will present to the Bank an evaluation of the reports submitted and of the work conducted by each consultant, within 60 days of the receipt thereof.

8.3 In addition, the intermediary will present to the Bank a detailed financial report explaining the costs charged to the technical-cooperation project, audited by independent auditors acceptable to the Bank, within 120 days of the close of the calendar year in which the final program disbursement is made.

IX. SUPERVISION

9.1 The Bank would supervise the programs through its Country Office in Uruguay, which would have technical responsibility for the operation. At Bank headquarters, Division 1 of Regional Operations Department I would have basic responsibility for this operation.

TERMS OF REFERENCE FOR THE CONSULTING SERVICES

A. Specialist in administration and finance

Qualifications: A post-graduate university degree in administration or finance with at least four years' experience in microenterprise credit programs, management, institutional analysis and accounting. Will work full-time and be based at the institution's headquarters, although will be required to travel within the country to execute the project.

Duration: 10 months.

Activities:

(i) To advise the board of directors and the management of the institution on program progress, compliance with rules and requirements of the Bank program, amounts and objectives proposed, preparation of reports, implementation of Credit Regulations, among other things.

(ii) To conduct a participatory assessment which identifies the principal problems, shortcomings and potential of the intermediary in administrative, accounting and financial areas (i.e. analysis of strengths and opportunities, weaknesses and risks). Must also recommend solutions to the board of directors and the management of the intermediary to overcome those problems.

(iii) Working together with the intermediary, to design a strategy for equity capital development, cost and provision of services, including short-, medium- and long-term goals (strategic planning). The plan will include strategies for identifying and promoting sources of funds, as well as maximizing revenues from services rendered (credits), to ensure financial self-sufficiency of the intermediary (i.e. analysis of break-even point, compliance with project indicators as described in Annex III).

(iv) To upgrade the operating, administrative, accounting and financial systems of the intermediary.

(v) To upgrade and design (in conjunction with the systems consultant) the accounting and financial records of the institution and the project. Those records must be organized so that they provide the necessary documentation to verify transactions and contribute to the timely preparation of financial statements and reports.

(vi) To develop manuals and procedures to ensure the continuity of the administrative and accounting systems and mechanisms designed.

(vii) To provide instruction and refresher training for the intermediary's staff in areas in which their technical capacity is critical to the operation of the program.

(viii) To present to the intermediary (with a copy to the Bank) the final report outlining the results and recommendations on future action, within 30 days of the date of completion of the contract.

B. Consulting services in lending technology

Qualifications: International firm with recognized experience in Latin America in working with financial institutions that target microenterprise and small agricultural operations. Must have experience with credit promotion, portfolio management, training and organization of systems for granting small-scale credit, in institutions that provide credit to small producing or commercial units. To conduct the work must use experts with extensive experience in the area (at least four years) and post-graduate studies. The expert(s) will work full-time and be based at the institution's headquarters, although frequent travel in the field will be required.

Duration: Two consultant/months (in two different periods at least ten months apart).

Activities:

(i) To conduct a program for the transfer of lending mechanisms suited to the needs of the beneficiaries and the capacity of the intermediaries, with a view to proper resource management.

(ii) To recommend and implement a suitable process for the presentation, analysis, delivery, monitoring, control and recovery of the portfolio, seeking efficient resource management and maximizing coverage of low-income groups.

(iii) To work with the systems specialist in implementing the credit system within the integrated information system.

(iv) To establish a system for monitoring credits based on the extension worker as unit of cost and administrator of the respective portfolio. The performance indicators to be used for periodic evaluation must be defined.

(v) To fine-tune extension methods in order to reach as many beneficiaries as possible, taking into account the time of field personnel and costs involved.

(vi) To design a strategy for broadening the credit program with a view to expanding the services offered.

(vii) To develop mechanisms for the setting of interest rates, use of recoveries, and collection of financial intermediation costs.

(viii) To train the members of the loan committees, employees and technical extension workers on operation of the credit system.

(ix) To design a project monitoring system, based on the project indicators, as described in Annex III.

(x) To design a system to evaluate the impact on the target group (in conjunction with the systems consultant), to monitor the following areas: (a) women's participation; (b) the establishment of microenterprises; (c) job creation and consolidation; (d) increase in income level; and (e) changes in the quality of life (health, nutrition, housing, etc.).

(xi) To present to the intermediary (with a copy to the Bank) the final report setting out the results and recommendations on future action, within 30 days of the date of completion of the contract.

C. Consulting service in information systems

Qualifications: University degree in information processing or related areas, with extensive experience (at least three years) with developing information systems and documentation centers. Experience in designing systems for institutions that finance microenterprises and small-scale agricultural credit would be desirable. Will work full-time and be based at the institution's headquarters.

Duration: Two months.

Activities:

(i) To design and/or adapt a computerized system to perform the following functions: (a) funds accounting with financial and accounting records; (b) control of loan portfolio, segregating costs according to financial intermediation; (c) recording of general data required for program administration;

(ii) Working with the consultants in lending mechanisms, to design a computerized information system to monitor and evaluate the

credit program, that covers the following aspects: (a) permanent information on the status of the portfolio; (b) development of a data bank on program beneficiaries and its impact, including background on the beneficiaries, loan performance, income level, job creation, etc.; and (c) monitoring the achievement of program goals.

(iii) To lend advice on the purchase of appropriate computer equipment for the intermediary's activities.

(iv) To prepare procedural manuals on the systems created.

(v) To train the intermediary's staff in management of the systems introduced.

(vi) To present to the intermediary (with a copy to the Bank) a final report indicating the results and recommendations on future action, within 30 days of the date of completion of the contract.

D. Consultants in microentrepreneurial training

Qualifications: Post-graduate university degree in sociology or economics, with extensive experience (at least three years) in training low-income groups and working in the activities listed below. Will work full-time, based at the institution's headquarters. Frequent travel within the country will be required to monitor beneficiary training.

Duration: 10 months.

Activities:

(i) To identify the training needs of the beneficiary groups, as well as the best means of providing the necessary services, bearing in mind the cost per beneficiary, recovery of costs and possibilities of working together with specialized institutions in the field.

(ii) To review, adjust and develop strategies and methodologies for improving and strengthening training for target population, as well as defining its content by level (basic and advanced). Must include subjects relating to management of microenterprise and small agricultural holdings. Consider mechanisms to permit full participation by women (i.e. convenient schedules, child-care, etc.).

(iii) To prepare a module on environmental education and environmentally appropriate technologies in the training programs.

(iv) To design and implement a training program for the intermediary's staff that emphasizes the credit methodology being implemented in the institution (working with the international consulting firm assisting with lending mechanisms), credit promotion, portfolio administration, implementation of the recommendations and systems designed, among other aspects. Similarly, will provide special training for employees responsible for beneficiary training programs to ensure the continuity of those programs.

(v) To prepare manuals, booklets, technical documents, course outlines, training seminars and other programs in the special fields of study for promotional and educational purposes.

(vi) To present to the intermediary (with a copy to the Bank) a final report indicating the results and recommendations on future action, within 30 days of the date of completion of the contract.

E. Specialist in evaluation of credit programs and institutional strengthening

Qualifications: International expert or consulting firm specializing in microenterprise credit. Must be a specialist in institutions and finance with at least five years' experience in Latin American countries evaluating microenterprise credit programs. Would also need extensive experience in analysis of institutional development, consolidation and financial self-sufficiency of institutions that offer credit services to microenterprises and/or small farmers. The expert or consulting firm will be hired directly by the Bank, using resources charged to the proposed program.

Duration: Three weeks.

Activities:

(i) Evaluation of the institution's financial policies, including: (a) credit risk (criteria for granting credits, evaluation of applications, diversification of risk, etc.); (b) portfolio management (policies on collection of overdue accounts, monitoring of clients, etc.); (c) profit margins policy (control of operating costs, provisions for bad debts); (d) determination of interest rate (rationale used in setting the interest rate, maintenance of value and recoveries); (e) liquidity policies (level of money in cash and due from banks considered appropriate, cash flow management).

(ii) Assessment of the financial position: (a) capital growth; (b) indebtedness (ratio between current liabilities and assets, and between fixed liabilities and assets, etc.); (c) liquidity level; (d) profitability and level of financial self-sufficiency

(return on capital, return on earning assets, total return on assets, financial spread, operating margin, net margin, etc.); (e) analysis of portfolio quality (level of delinquency); (f) performance in loan recovery; (g) effective annual yield of loan portfolio; (h) level of provisions for bad debts; and (i) degree of compliance with financial conditions associated with the Bank program (e.g. level of delinquency, interest rates, etc.).

(iii) Evaluation of administrative performance: (a) degree of organization of the credit program (chain of command, responsibility flows, accountability, etc.); (b) procedures for credit approval; (c) internal inspection and control procedures; (d) staff productivity and efficiency; (e) performance and use of information systems; (f) services offered to beneficiaries and monitoring; (g) trend in personnel and administration costs; and (h) extent to which the recommendations made by local experts have been implemented (especially relating to planning, organization, information systems, etc.).

(iv) Evaluation of the lending methodology: (a) number of credits disbursed each month, identifying how many are to new customers, and total active customers; (b) analysis of time use in evaluation of applications from new clients, evaluation of applications from active clients, supervision and training; (c) geographical dispersion of clients and distance from the central office; (d) size of loans; (e) loan use by category; (f) types of guarantees used; (g) degree of adaptation of lending methodology and financial products to beneficiary needs; (h) portfolio by credit agent; and (i) impact and degree of implementation of recommendations made by the local credit expert, hired out of technical-cooperation funding.

(v) To make recommendations to the intermediaries on adjustments to program based on the results of the aforementioned evaluations. Must develop a program to implement the recommendations made, working together with the directors and managers of the institution.

(vi) To prepare and present to the Bank, with a copy to the intermediary, a report on the situation found, the advice offered, the rate of execution and the extent to which of project objectives have been achieved, within 30 days following the completion of the consulting service.

INDICATORS

The indicators to verify the achievement of the objectives of both the credit program and the parallel technical-cooperation funding are as follows:

1. Overall objective

   The overall objective of the project is to strengthen IPRU as a financially and institutionally viable institution, committed to the process of economic and social development of low-income microentrepreneurs and small producers, so that they can have permanent access to efficient training and financing services tailored to their needs.

   Indicators

   a. Maintenance of the equity base in real terms (as a minimum requirement).

   b. Level of dependency on grants.

   c. Portfolio by credit analyst 12 months after commencement of program (minimum);

      - 60 credits

      - portfolio of US$120,000

      After 24 months, indicators will be increased by 25%.

   d. Administrative costs as a share of total average gross portfolio.

   e. Portfolio of loans to microentrepreneurs and small producers (minimum):

      - growth of US$150,000 12 months after commencement of program.

      - growth of US$350,000 24 months after commencement of program.

   f. Diversification of portfolio (minimum):

      - 25% of portfolio for fixed assets 12 months after commencement of program.

g. Quality of portfolio (minimum):

   - balance of credits overdue by more than 30 days less than 5% of total portfolio.

h. Amount of average loan (during the year).

i. Number of loans granted (per year).

j. Amount of average current loan.

k. Number of current loans.

l. Number and type of training courses offered.

m. Cost per participant of courses.

n. Extent to which costs are covered by registration fees.

o. Level of satisfaction of students in courses in terms of: relevance of training to their microenterprise operations, expectations and ease of implementing recommendations in their microenterprise.

CREDIT REGULATIONS

Article 1. General conditions

These regulations set forth the terms that would regulate the credit program to be executed by IPRU, henceforth referred to as "the intermediary". This is a private nonprofit institution, created for the purpose of providing technical assistance and training to low-income microentrepreneurs and small farmers, henceforth called "beneficiaries", who do not have access to financing from formal credit institutions. The project will be financed by the Inter-American Development Bank, henceforth called "the Bank", and executed by the intermediary pursuant to the terms and conditions described below.

Article 2. Program objectives and description

The principal objective of the program is to expand the access and coverage of credit and technical assistance for low-income microentrepreneurs and farmers, by means of actions designed to increase and enhance production and productivity, as well as to strengthen and increase levels of employment and sales. It is geared to those microentrepreneurs who live hand to mouth and due to their impoverishment lack access to other conventional sources of credit or to knowledge of appropriate business management and administration techniques.

The program includes the execution of credit programs, technical assistance and financial-administrative training designed to:

a. finance raw materials, inputs, working capital, fixed assets required for production, as well as marketing of goods and services; and

b. promote the strengthening of the beneficiaries as entrepreneurs through financing, technical assistance and training.

The intermediary would independently manage the resources earmarked for credit to microentrepreneurs through its own Credit Committee.

Article 3. Beneficiaries

The program beneficiaries will be microentrepreneurs located in rural areas and poor urban districts of Uruguay, defined according to the guidelines in these regulations, who have the capacity to execute and operate the project(s) for which financing is requested and lack access to conventional sources of credit.

Article 4. Use of program resources

The program resources may be used to finance the fixed assets and working capital needed for the execution of microentrepreneurial activities in trade, services and production, that are technically and financially feasible.

Article 5. Advisory services

The intermediary will disseminate information and provide initial orientation for the potential beneficiaries with the support of its extension agents, and, when advisable, would promote their organization into mutual aid groups. Through the extension agents, the intermediary would support the beneficiaries in preparing investment projects and credit applications, providing the financing, advisory services and necessary monitoring.

Article 6. Financing

The intermediary will grant financing to individual beneficiaries, mutual aid groups and/or families.

Article 7. Eligibility requirements

A microentrepreneur must meet the following requirements in order to be eligible to receive credit under the program:

a. be of statutory age;

b. have been operating the business for at least 12 months in the case of individual loans;

c. have an annual per capita income of less than the amount estimated by the Bank to determine low-income groups in Uruguay;

d. undertake to follow the recommendations made by the intermediary;

e. lack access to other conventional sources of credit;

f. the microenterprise or farm to be financed must constitute their principal source of income and activity;

g. undertake to use the credit resources exclusively for the purposes authorized;

h. have an identifiable site of operation; and

i. have a microenterprise of small agricultural holding with a maximum of around five permanent salaried employees, annual

sales of less than about US$50,000 equivalent or total assets of up to approximately US$40,000 equivalent.

Article 8. Criteria for the selection of projects to be financed

The general project selection criteria to be taken into consideration for the approval and granting of credit are as follows:

a. the existence of sufficient available liquid assets to take on the credit;

b. the economic unit must show a surplus and allow reinvestment of the surplus in the microenterprise or agricultural holding;

c. the microentrepreneur or small farmer must demonstrate technical and administrative ability to run the enterprise;

d. there must be a sufficient market for the products or services;

e. the project must result in the generation or strengthening of jobs;

f. must use an acceptable level of labor and appropriate technology; and

g. must use productive techniques and practices that do not cause pollution or degrade the natural resources that serve as raw material.

Article 9. Restrictions on the use of program resources

Program resources may not be used to finance:

a. the purchase of real estate;

b. payment of debts, dividends or capital recoveries;

c. purchase of shares, bonds or other bearer securities;

d. consumption requirements;

e. rental or purchase of land, houses, constructions or buildings;

f. purchase of vehicles or articles for personal use; and

g. taxes.

Article 10. Terms and conditions of the credits

The credits will be subject to the following terms and conditions:

a. **Currency**: The loans financed using program resources will be denominated in local currency.

b. **Amounts**: The microenterprises may receive individual credits from program resources in amounts that, as a whole, do not exceed US$3,000 equivalent in national currency in the case of working capital, and US$6,000 equivalent in national currency in the case of acquisition of fixed assets. The maximum amount of joint or group loans would be US$24,000 equivalent in local currency, always subject to the per capita amount indicated above.

c. **Periods**: The maximum amortization periods for credits granted using program resources would be up to 12 months for working capital and up to 36 months for capital investments or for the financing of perennial crops. The period of the subloans would be determined by the intermediary based on such considerations as: type of microenterprise or productive unit, useful life of the good to be financed, nature of the investment, projected volume of revenue and ability to pay.

d. **Interest**: The intermediary will independently fix the interest rate for the borrower, so as to cover all intermediation costs including risks, on the total financing disbursed. That rate would be variable, be reviewed at least every 90 days, and be positive in real terms. It will be determined based on the interest rate of Uruguayan 90-day Treasury Bills in pesos or the average rate of private banks for 90-day deposits, to which would be added the intermediation costs and provisions for uncollectible accounts (risk).

e. **Form of payment**: In all cases, payments of capital and interest may be made in weekly, monthly, quarterly or semiannual payments, depending on the characteristics of each loan.

f. **Early collection**: The credits granted will be deemed due and payable in full if one or more of the following circumstances arises:

   (i) the existence of information proven to be erroneous provided by the beneficiary in the loan application;

   (ii) the beneficiary resists inspection of the investments or of the goods given as guarantee or any fact likely to diminish their value or compromise their ownership;

(iii) the beneficiary fails to totally or partially make the payments or fails to comply with the contract agreements, as indicated in that credit contract; and

(iv) the beneficiary, without the written permission of the intermediary, encumbers or transfers to third parties the goods financed or given in guarantee; and

g. **Amortization**: The intermediary will provide the beneficiary(ies) with an amortization schedule showing the amounts and dates of payments of capital and interest, amount of the loan and interest rates.

Article 11. Guarantees

The following types of guarantees will be required:

a. joint promissory note signed by group members;

b. mortgage goods;

c. chattels;

d. land titles;

e. guarantee fund guarantees;

f. solvent co-debtor; or

g. personal signature of the microentrepreneur.

Article 12. Credit Committee

The Credit Committee of the intermediary, comprising a minimum of three members who would be directors and/or employees of the institution, will be responsible for autonomously performing the following functions:

a. implementing these regulations;

b. resolving (approving, rejecting or deferring) all credit applications, based on the criteria, periods and amounts established in the regulations, except for applications made by its members, that must be studied and resolved by the Executive Committee of the institution;

c. approving and signing the minutes of the committee which record the consideration of credit applications and the decision reached, including the conditions (amount, period, type of amortization, interest, guarantees, etc.) and/or the reasons for rejection or deferment; and

d. analyzing program progress, the status of the portfolio and unforeseen situations that might affect loan recoveries, for which extensions may be granted.

Article 13. Records and control

The program's cash flow would be recorded separately within the intermediary's general accounting, under the heading "Revolving Fund, IDB Project". To this end, the intermediary would keep proper records based on the chart of accounts approved by the IDB precedent to the first disbursement of the financing. Those records must identify the credits granted, along with the use of recoveries of those credits, to enable the preparation of balance sheets, income statements, statements of source and application of funds of the program.

Article 14. Amendments to the regulations

The intermediary may suggest amendments to these regulations to adapt them to new circumstances or conditions that might arise during the course of program execution. Written approval from the Bank would be required for any amendment to these regulations.

IPRU
BALANCE SHEET AS OF JUNE 30
US$

	1992	1993	1994
CURRENT ASSETS	142,794	143,672	415,250
Cash in hand and in bank	54,814	47,165	261,420
Loan portfolio	87,774	96,307	153,631
Other	206	200	200
FIXED ASSETS	228,112	254,584	321,527
Property and equipment	167,794	147,557	139,535
Grants to be used/accounts receivable	60,318	107,027	181,993
Other funds			
TOTAL ASSETS	370,906	398,255	736,778
CURRENT LIABILITIES	26,968	35,439	35,930
Accounts payable	26,968	35,439	35,930
LONG-TERM LIABILITIES	161,843	176,421	214,468
Accrued liabilities (interest, outstanding loans)	57,964	102,451	60,194
Third party deposits	172	7,080	109,017
Provisions	10,179	8,330	(1,592)
Long-term debt	93,527	58,561	46,848
TOTAL LIABILITIES	188,811	211,861	250,397
TOTAL NET WORTH	182,095	186,395	486,381

INCOME STATEMENT
FOR PERIOD ENDED JUNE 30

	1992	1993	1994
INCOME	439,964	451,549	671,686
Financial income	78,341	33,217	69,405
Grants	321,481	364,124	564,774
Technical assistance	21,636	26,776	15,904
Other income	18,506	27,434	21,603
EXPENSES	422,789	439,768	375,187
Finance charges	33,792	12,793	15,520
Operating costs	356,635	365,965	317,401
Depreciation	14,523	18,169	18,040
Other costs	17,839	42,841	24,227
SURPLUS (DEFICIT)	17,175	11,781	296,499
Exchange rate (Uruguayan pesos $)	3.00	4.00	5.00

PROPOSED RESOLUTION

URUGUAY. FINANCING AND TECHNICAL COOPERATION TO THE INSTITUTO DE PROMOCION ECONOMICO SOCIAL DEL URUGUAY 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, as Administrator of the Special Fund of Japan, to enter into such agreement or agreements as may be necessary with the Instituto de Promoción Económico Social del Uruguay, of the República Oriental del Uruguay, to grant it, within the Program for Financing Small Projects, approved by Resolutions DE-85/78 and DE-147/79: (a) nonreimbursable financing for the execution of the program referred to in Document PR- ; and (b) nonreimbursable technical cooperation for the execution of the program, in accordance with Annex I of said document.

2. That up to the sum of US$500,000, is authorized for the purposes indicated in paragraph 1(a), and up to the sum of US$100,000, for the purposes indicated in paragraph 1(b), both chargeable to the resources of the Special Fund of Japan.