

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BOLIVIA

SOCIAL ENTREPRENEURSHIP PROGRAM

EXECUTIVE SUMMARY

**INTEGRATED BUSINESS SERVICES FOR SMALL PRODUCERS IN
THE ALTIPLANO**

(BO-S1005)

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I. PROJECT OVERVIEW

A. Executing agency

- 1.1 Instituto para el Desarrollo de la Pequeña Unidad Productiva [Small-Production - Unit Development Institute] (IDEPRO)

B. Amount and source of financing

	IDB US\$	IDEPRO US\$	Total US\$
Reimbursable financing:	500,000	250,000	750,000
Nonreimbursable technical cooperation:	<u>180,000</u>	<u>87,000</u>	<u>267,000</u>
Total:	680,000	337,000	1,017,000

Source: Net income from the Fund for Special Operations (FSO)

C. Terms and conditions

Amortization period: 10 years
Grace period: 5 years for principal
Interest rate: 4% per annum
Currency: U.S. dollars
Execution period: 48 months
Disbursement period: 60 months

- 1.2 The grace period will apply only to amortization of the principal, not to interest. The loan will be denominated, disbursed, and repaid in U.S. dollars.

D. Statement of no objection

- 1.3 The Bolivian Deputy Minister of Public Investment and External Financing received a copy of the project for his information, since he had informed the Bank that statements of no objection were no longer issued for private-sector projects.¹

E. Problem to be addressed

- 1.4 **Rural poverty:** Significant numbers of people are flowing from Bolivia's rural areas to urban ones. This is primarily due to the lack of opportunities to create jobs and increase the incomes of families primarily engaged in small-scale farming and stock raising. One of the poorest areas losing the most inhabitants is within the Oruro and Potosí departments of Bolivia's southern Altiplano. This region has a total population of 92,810,² of whom 75% reside in rural and 25% in urban areas. It is estimated that over 78% are poor, and over 43% live in extreme poverty. Most families live in small, scattered rural towns or hamlets far removed from the cities in Oruro and Potosí; these remote locations also have harsh climates. Seventy-four

¹ The written communications between the Bank and the Government of Bolivia reflect the understanding that the Deputy Minister of Public Investment and External Financing need only be informed of private-sector projects and does not issue no-objection letters for specific projects.

² Estimate based on the 2001 National Population and Housing Census.

percent of the population are working age and 39% belong to the economically active population. The predominant language is Aymara, followed by Spanish and, to a lesser extent, Quechua. The literacy rate is 80%.

- 1.5 **The quinoa, camelid, and tourist sectors:** Despite these high levels of rural poverty, there are economic activities with sufficient market potential to become local alternatives to migration. Quinoa and camelid production and small-scale tourist enterprises have the greatest potential for small producers. The activities of microentrepreneurs and small producers in these sectors are part of the value chain that extends from primary production through the export of finished goods. These chains are also in sectors that the Government of Bolivia has prioritized in its national development plan.
- a. **Quinoa** is an Andean grain grown only at high altitudes. Demand for the product, recognized for its high protein content, is growing on the local and international market.³ In general, over 80% of quinoa is grown by small farmers using traditional methods—manual processes, conventional seed, and obsolete tools—with limited introduction of modern technologies and inputs or mechanization. Small quinoa farmers cultivate between 5 and 15 hectares of conventional quinoa with an average yield of 12 quintals per hectare (qq/ha) in a single annual harvest, generating annual income of US\$900 to US\$3,500. The quinoa is sold at local fairs or to brokers, who generally take delivery of it at their farms. The price of quinoa depends on various factors: the price of organic quinoa (sold almost exclusively on the international market) is between US\$1,200 and US\$1,600 per metric ton, while a metric ton of conventional quinoa (exported to some other Andean countries or sold locally) brings an export price from US\$800 to US\$1,200, and from US\$650 to US\$700 within Bolivia.
 - b. **Camelids** include llamas, alpacas, vicuñas, and guanacos (the latter two are wild). This value chain has three productive subsystems: fiber, meat, and hide. Given the products' strong value and market potential, raising camelids is one of the most popular economic activities in the Altiplano.⁴ The region's producer sector in this value chain consists of approximately 53,000 families

³ To illustrate the importance of this sector to the Southern Altiplano, roughly 15,000 families in the region are involved in quinoa production, which provides between 55% and 85% of their income. In 2004, 11,197 metric tons of quinoa were produced in the Oruro Department and 5,353 in Potosí, together totaling 67% of Bolivian production. In terms of marketing, an estimated 50% is used for home consumption, 14% for the local market, 19% for official registered exports, and 17% for unregistered exports, although the latter figure could be higher (up to 30%).

⁴ The gross value generated by camelid production is approximately US\$22 million, and its magnitude and international scope is expected to increase in the coming years. Since 1990, the value of production has increased by over US\$10 million, with cumulative growth of 55%. In 2003, the combined value of fresh and dried meat (charqui) was US\$14 million, while the total value of production, processing, and export of products derived from camelid fiber totaled US\$6.4 million, and from hide and calves approximately US\$1.4 million.

(89% of the country's total producers), each of whom owns 52 head on average. The small camelid farmers manage herds of 40 to 150 head.⁵ They access markets where there is little competition (fairs and brokers/intermediaries) and generate gross income from this activity ranging from US\$350 to US\$500 per year. They supplement their income with agricultural activities and essentially with non-farm work.

- c. **Small-scale tourism** and ecotourism in this region of the Southern Altiplano has recently begun to flourish. There are internationally recognized tourist circuits in the area, such as the Salar de Uyuni and the tourist route between the municipio of Pampa Aullagas (the Lost City), Salinas de García Mendoza (Alcaya reserve) and Llica (Chullpares), and the past decade has seen a significant increase in tourist flows. The number of tourists recorded between 1994 and 2004 grew from 4,858 to 47,003 per year. The circuit that includes the Salar de Uyuni and the Eduardo Avaroa Andean Fauna Reserve (the most important, though not the only circuit in the region) received 12% of all tourists recorded nationwide in 2004. Despite this growth, the routes are still seriously lacking in services, including lodging, food, transport, microenterprises providing tourist guides and auxiliary services, handmade textiles, and others. The few that offer tourist services (family-owned microenterprises or groups of entrepreneurs) in the region are frequently the same families who raise quinoa and camelids and diversify through activities ranging from work as tour guides to microenterprises or community-based entities offering lodging, food, and/or related services. These activities generate annual incomes between US\$300 and US\$5,000.
- 1.6 Despite the potential for these sectors, most small producers and microenterprises in the region **generate very low incomes and live at subsistence levels**, because they lack the means to increase production levels, fetch better prices for their production, and become more dynamic actors in the respective chains.
 - 1.7 The **low incomes** of small producers and microentrepreneurs are due to an interrelated series of factors, which can be viewed in terms of productive and commercial aspects:
 - a. **Productive aspects:** (i) the *rudimentary techniques and manual methods* (inputs, tools, equipment, practices) that reduce the productivity of various activities (growing, harvest, post-harvest; managing livestock herds, obtaining and collecting camelid fiber; and providing tourist services); (ii) the *small scale* of farming operations, due in part to low penetration of mechanization and technological innovation, which restricts improvement in workers'

⁵ While a herd of this size would appear to be a significant asset, the market value of a live animal is only about US\$30, so the average herd of 52 head would be worth US\$1,560. Each family sells an average of one animal per month.

productivity;⁶ (iii) *low prices* due to the quality of quinoa grown (conventional), the type and quality of camelid fiber produced (not suited to market demand), or the quality of tourist services offered; and (iv) the lack of complementary economic activities among small producers to take advantage of the region's high tourist potential and allow them to diversify the risks of farming activities.

- b. **Commercial aspects:** Partly due to the low income from farming, producers *lack the liquidity needed* for family expenses and replacement of tools and inputs for their business, which forces them to sell their production for a much lower price for immediate payment against delivery of the product. These *liquidity restrictions* prevent small producers from selling their product at times when the markets are rising or from obtaining price certainty (futures markets). In general, small producers' business transactions are hindered by lack of information on sales opportunities and a *weak bargaining position* vis-à-vis the brokers.
- 1.8 The direct result of the combination of these problems **is a structural deficiency in the producers' financing system**. Due to small margins, low productivity, and the inability to take advantage of price increases, producers never have sufficient liquidity to take advantage of negotiating and fetch better prices (for example, by selling when prices are on the rise). At the same time, they lack sufficient funds to finance the capital and/or technology investments enabling them to increase productivity or start up complementary activities (such as tourism) and thereby increase their margins and generate additional surpluses. This interaction of causes, problems, and consequences becomes self-perpetuating and seriously limits the options for breaking the vicious circle reflected in poverty among the region's inhabitants, and therefore external intervention is required. *Accordingly, this project proposes a system to address these problems through the timely provision of credit, information, and technical assistance to the families under conditions suited to their production patterns.*
- 1.9 **Microfinance supply and unmet demand in the region:** Due to physical distances, difficult access to rural areas, and dispersion of the population, there is considerable unmet demand for financing in the project area, even though major microfinance entities operate there.⁷ This supply is concentrated mainly in the following nongovernmental organizations (NGOs): FADES, which has a portfolio

⁶ By way of example, producers in the area yield an average of 10 quintals per hectare of quinoa, while producers using advanced techniques yield 20 quintals per hectare.

⁷ The following operate in the area, with a combined portfolio of US\$3.4 million and 5,700 clients as of September 2006: PRODEM, FIE S.A., the Asociación Nacional Ecuánica de Desarrollo [National Ecumenical Development Association] (ANED), the Centro de Investigación del Desarrollo Regional [Center for Research on Regional Development] (CIDRE), Crédito con Educación Rural [Credit for Rural Education] (CRECER), Fundación para Alternativas de Desarrollo [Foundation for Development Alternatives] (FADES), Fondo de Crédito Solidario [Solidarity Loan Fund] (FONCRESOL), Fundación Boliviana para el Desarrollo [Bolivian Development Foundation] (FUBODE), and Fundación Sartawi.

of US\$1.3 million (38% of total lending), ANED, with US\$980,000 (29% of lending), and CRECER, with US\$326,000 (10% of lending). According to a November 2006 market study and estimates by IDEPRO on demand in the project area, the unmet demand from existing entities over the next four years is over US\$4 million. The lack of competitive pressure in the area means that on the demand side, clients are offered only limited services with insufficient price competition to drive improved efficiency and thereby improve the small producers' well-being. In addition, the existing supply is oriented primarily toward traditional microlending services in urban areas and capitals in the project zone, and concentrated on products for working capital and, to a lesser extent, investment loans. At the same time, due to the severity of production conditions and poverty in the area, the producers and microenterprises require not only access to flexible credit under appropriate conditions, but also other support services to help ensure their effective use of resources, improve their productive conditions, and deepen their insertion into local value chains. IDEPRO, through its initial activities with producers in the area and the analysis of productive sectors, has found that producers and microentrepreneurs require integrated services including innovative financial services designed according to the flows and productive and commercial aspects of their activities, *together with* business development services, which minimize risk and support better use of loans.⁸ IDEPRO is the only entity in the area capable of providing both services (financial as well as advice and technical assistance in business development) to these sectors.

F. Solution proposed by IDEPRO

- 1.10 In order to respond to the demand for an integrated solution from producer families in these three chains in the Southern Altiplano, IDEPRO has offered to support the Social Entrepreneurship Program (SEP) in financing a project that provides integrated, supplemental financing and business development services to clients in order to address their financing (credit) needs as well as their technical, productive, and commercial needs.
- 1.11 IDEPRO will address *production-related problems* by providing financial resources (credit for entrepreneurial initiatives by individuals and/or producer groups)⁹ and **integrated, complementary** technical assistance in operations aimed at improving output and/or obtaining higher prices for the goods and services produced. This involves activities such as: (i) "technification" of processes by financing the acquisition of technologies for growing, harvest, post-harvest, shearing, bulking, and other processes, as well as capacity to better use them; (ii) expanding the

⁸ IDEPRO's experience shows that a system of financing productive chains is more efficient not only because it provides working capital and investment capital where it is lacking, but also because it resolves many of the information and transaction-cost asymmetries, given that one of its features is its work with different groups of information (producers, agroexporters, input suppliers, livestock fairs, etc.).

⁹ IDEPRO has experience with lending for business initiatives by producer groups that have yielded positive results.

productive scale by planting larger areas or acquiring more and/or higher-quality animals; (iii) improving product quality and characteristics by providing financing for organic certification services for quinoa and/or production of finer fibers (smaller fiber diameter, measured in microns); and (iv) creating added value by financing the installation and/or improvement of small processing or primary processing equipment for quinoa grain or camelid fibers and through technical assistance, either directly and/or as a counterpart to rural production support programs.

- 1.12 IDEPRO will also address *commercial problems* by: (i) providing loans under modalities consistent with the specific liquidity and capital requirements, such as warrants, lines of credit, and others tailored to the flows of the economic activities financed. This will help clients establish linkages with other actors (processors, intermediary marketers, and/or exporters) under more favorable conditions than would otherwise be possible, with the support of complementary services such as technical advice and assistance;¹⁰ and (ii) specialized technical assistance to improve negotiating capacities, identify markets, and implement marketing channels and commercial and productive strategies.
- 1.13 IDEPRO will also provide support in developing associated and/or supplemental **tourist services** to complement the client's principal activity (for example, quinoa and/or camelids) and take advantage of the area's tourist potential. Loans will be granted based on the opportunities identified to implement or enhance tourist services, and technical support will be provided in the form of advice and/or technical assistance to clients whose main activity is tourism, as well as those for whom tourism is a means of diversifying their income and supplementing other productive activities.¹¹
- 1.14 **Beneficiaries:** The project's direct beneficiaries will be approximately 720 small, low-income producers and microenterprises from the quinoa, camelid, and tourist sector in rural areas of the Southern Altiplano in the Oruro and Potosí departments. The typical beneficiaries live in adobe dwellings without electricity or sewerage and earn between US\$1,000 and US\$1,750 per year for an average family of five.

¹⁰ Among the innovations to be tested on an expanded scale are financial products tailored to the economic activities financed, based on an understanding of the financial flows of the productive chains to which the project's clients belong, as well as an initial assessment of the client, resulting in differentiated access conditions with respect to loan terms, amortization periods, types of guarantees and other factors (product buyers, suppliers of inputs). In addition, the strategy for providing financial services, the added value contributed by consulting services to identify needs for non-financial services, and mechanisms to finance access to them will be validated in order to achieve significant improvements in economic activities.

¹¹ In this way, the project complements the Program to Support Sustainable Tourism Development (BO-0174), which inter alia supports the PRODEM Foundation in strengthening ecotourism and community tourism in the Salar de Uyuni through the creation of the Tayka network of community ecorefuges aimed at promoting and expanding microenterprise and rural community involvement in the area's tourist chain.

II. THE PROJECT

A. Objectives

- 2.1 The goal of the project is to increase the incomes of small producers and microenterprises in the quinoa, camelid, and tourist services chain of the Southern Altiplano in the Oruro and Potosí departments. The purpose is to provide approximately 720 producers and microenterprises in the quinoa, camelid, and tourist services chain with access to integrated business services to improve their production conditions and sales volumes.

B. Description

- 2.2 To this end, the project will finance two components: US\$750,000 in reimbursable financing—US\$500,000 contributed by the Bank and US\$250,000 by IDEPRO—to be used for the loan portfolio; and a nonreimbursable technical cooperation component of US\$267,000, of which US\$180,000 will be financed by the Bank and US\$87,000 by IDEPRO. The total amount of the project is US\$1,017,000.
- 2.3 The **reimbursable financing component** (IDB: US\$500,000; IDEPRO: US\$250,000) will seek to provide financing to approximately 720 small, rural producers and microentrepreneurs (individuals or groups) through working capital and investment loans tailored to their specific needs so as to expand their investments in productive assets and alleviate liquidity problems. IDEPRO will provide this financing at an annual rate of approximately 16% in dollars,¹² at terms of one to five years. The average loan amounts will be around US\$700 for quinoa, US\$900 for camelids, and US\$3,500 for tourism. Further details on the conditions, eligibility criteria, and use of the loan products are provided in the “Minimum provisions for Credit Regulations” in the project technical files. The Bank’s financing to IDEPRO will accrue an annual interest rate of 4% in dollars at a term of 10 years, with a grace period of five years for the principal.
- 2.4 The **nonreimbursable technical-cooperation component** (IDB: US\$180,000; IDEPRO: US\$87,000) differentiates this project from the microfinancing currently offered in the region, given that the resources will enable advisory and technical assistance services to be integrated with the loans provided. IDEPRO will provide advisory services and specialized technical assistance according to the needs expressed by clients in these chains, including crop and cattle herd management, organic certification, identification and coordination with more convenient marketing channels, and enhancement of complementary tourist services. The services financed with technical cooperation resources will be appropriate to the requirements of the economic activities supported and will be provided in parallel with the financial services. This will distinguish them from the products currently

¹² This is a benchmark rate, which may be adjusted according to market conditions by amending the Operating Regulations approved by IDEPRO and the Bank. This is below market rate, compared with FADES (15%-26%), ANED (16%-20%) and CIDRE (12%-20%).

offered and integrate the services thereby breaking the vicious cycle of low productivity, illiquidity, and poverty.

- 2.5 The technical-cooperation component will support: (i) business advisory services for project clients, including an initial assessment of economic activities, borrowing capacity, and clients' business improvement plans;¹³ (ii) short-term, specialized technical services identified as requirements in the clients' business improvement plans; (iii) engaging consulting services relating to social and environmental issues to analyze and mitigate project social and environmental risks; (iv) small equipment; (v) promotion costs; (vi) consulting assignment to develop the new financial products and adapt software to incorporate them into IDEPRO's information technology system; (vii) project audits and evaluations; and (viii) legal services as required. Start-up costs, vehicles, travel, and the operation and management of a new office in the project's area of influence will be paid by IDEPRO from its counterpart funds. The Plan of Operations and itemized budget for the technical cooperation funds are included in the technical files.

C. Sustainability and results of the financial analysis

- 2.6 The project's sustainability is assured to the extent IDEPRO can continue providing services once the project ends, the project generates positive social and private returns, and the beneficiaries earn higher incomes from the economic activities strengthened under the project. IDEPRO is financially sound and stable. In December 2006, it had a microcredit portfolio of US\$3.8 million, assets of US\$7.3 million, and net worth of US\$2.5 million. It generated revenues of US\$922,826 in fiscal year 2006, with US\$267,779 in profits for the same period. The loan portfolio currently has 2.39% in arrears and provisions of US\$158,400 (165% coverage). It therefore has sufficient financial capacity to assume and service the financial obligation with the Bank.
- 2.7 In addition, the financial projections for the project (in the technical files) show that despite the relatively low lending rate compared to the competition, the project will be capable of generating sufficient surpluses by the third year to be operationally and financially sustainable during and after the period of Bank financing, based on the conditions established for the financing. This will be achieved by tailoring credit technologies to the clients' specific needs, as well as by providing the technical assistance services, which will ensure a return on the loan portfolio.
- 2.8 For producers, the provision of integrated services is projected to enable at least 70% of the beneficiaries to increase their income by a minimum of 20% by generating additional annual surpluses resulting from productivity gains, increased production volumes, and/or higher selling prices through improved product quality or better selling conditions.

¹³ Depending on the client, the assessment may be a brief review or a comprehensive analysis encompassing all functional areas and administrative processes, to be incorporated into a technology package developed by IDEPRO with a view to integrating financial and business development services in planned processes.

D. Credit risk for the Bank

- 2.9 This operation's credit risk to the Bank is considered low because IDEPRO's operations, net worth, and profitability enable it to generate ongoing surpluses, and the IDB loan, estimated at 10% of IDEPRO's liabilities, does not represent a significant proportion of its funding. In addition, IDEPRO's vast experience and positive results in providing loans and business development services to microenterprises minimizes the risks for the Bank, because of its capacity to manage loans efficiently.

E. Expected outcomes and capture of benefits

- 2.10 The project will directly benefit approximately 720 low-income, rural small producers and microentrepreneurs who will gain access to: (i) financing for their productive activities under conditions that meet their needs and are tailored to their financial flows, with total disbursements of over US\$1.5 million; and (ii) technical business assistance not previously available and linked to the loans, including an assessment of their productive activities, enabling them to develop a plan for improvement in the medium term. At least 144 clients will receive specialized technical assistance services that will improve productivity levels, product quality, and business relationships, among other benefits.
- 2.11 At the end of project execution, it is expected that: (i) at least 500 clients will increase their incomes by up to 20%; and (ii) 641 small producers and microentrepreneurs will increase their sales volumes by up to 15%, and 128 will increase sales by up to 25%. Further details on the expected outcomes are provided in the Logical Framework and Performance Indicators in the technical files.
- 2.12 In addition, the credit market in the project area is expected to be strengthened by the expansion of IDEPRO's financial services, promoting healthy competition and encouraging microfinance institutions operating in the area to increase their investments in the sector.

F. Bank strategy

- 2.13 The project is consistent with the Bank's strategy with Bolivia (document CP-2752, 11 February 2004) since it promotes the productivity and competitiveness of small rural producers and the organizations to which they belong, thereby increasing participation by the poor in wealth-creating activities. In addition, this initiative complies with the Bank's mandate to expand opportunities for the majority by providing integrated business services to low-income producers to increase their agricultural sales and incomes.

G. Cooperation with other international donor agencies

- 2.14 In preparing the project, IDEPRO and the project team consulted with various international cooperation entities active in supporting the rural productive sector in Bolivia in order to coordinate efforts and seek complementarity between this operation and their various interventions. In meetings and coordination activities with the Swiss Agency for Development and Cooperation (SDC), the International

Fund for Agricultural Development (IFAD), the United Nations Food and Agriculture Organization (FAO), the United States Agency for International Development (USAID), and the Netherlands Development Cooperation Agency, it was agreed that the Bank and IDEPRO would seek to coordinate project activities with the efforts of those entities in the quinoa, camelid, and tourism sectors.

H. Summary of the environmental and social review

- 2.15 The Committee on Environment and Social Impact (CESI) reviewed and approved this operation on 27 October 2006 (meeting 42-06), and recommended that the guidelines in OP-765 with respect to the cultural appropriateness of services and other aspects relevant to the project be taken into account. In response to this recommendation, the technical cooperation funding provides for a consultant specializing in indigenous peoples and the environment to be hired to monitor cultural and environmental aspects of the risks relating to operations financed under the project. The terms of reference describing the objectives and expected outcomes for this consulting assignment are included in the project technical files.
- 2.16 Since the project will be conducted in an area populated predominantly by indigenous peoples of the Quechua and Aymara cultures, the project will respect the cultural and territorial integrity of the indigenous peoples who make up a significant portion of the beneficiaries. Among other things, the project will: (i) establish the terms and conditions for lending operations and the provision of technical assistance services in a process designed to build consensus with the beneficiaries; (ii) respect the forms of organization of the region's inhabitants and ensure that their leaders participate in decision-making processes; (iii) seek equity in commercial transactions, especially where commercial relations between different ethnic groups are concerned; and (iv) ensure that technical assistance processes and information respect the beneficiaries' language (where necessary and relevant), usage, and cosmovision.

I. Special conditions

- 2.17 As a condition precedent to the first disbursement of the financing, IDEPRO will demonstrate to the Bank's satisfaction that the project Credit Regulations have been approved and implemented. Also, as a condition precedent to the first disbursement of the technical cooperation funds, IDEPRO will demonstrate to the Bank's satisfaction that it has designed the monitoring system and integrated assessment procedures to measure the project's impact, including environmental aspects.
- 2.18 As a special condition of execution and in order to receive more than 50% of the technical cooperation funding, IDEPRO must demonstrate to the Bank's satisfaction that at least 50% of the Bank's financing has been loaned.
- 2.19 **Recognition of expenditures:** The Bank may recognize the following expenditures made by IDEPRO from 1 January 2007 against the counterpart contribution: (i) up to US\$15,000 for lending-related expenses in the area (business advisors, administrative assistant, rental of new office); and (ii) up to US\$60,000 for the loan

portfolio, provided that the loans comply with the provisions of the Credit Regulations approved for the project.

- 2.20 **Revolving fund and disbursements:** Due to the need for liquidity to hire the experts required during project startup, the Bank will establish a revolving fund of up to 30% of the total amount of the technical cooperation component. There will also be a revolving fund of 10% of the total amount of the financing component.
- 2.21 **Procurement:** Goods and services will be procured in accordance with the provisions of document GN-2349-7. The selection and contracting of consultants will comply with the provisions of document GN-2350-7. Direct contracting may be used for services of up to one week's duration and/or for amounts not to exceed US\$2,000 or the equivalent. The Bank will conduct ex post evaluations of contracts for the procurement of goods and consulting services. The procurement plan will be reviewed every six months.

J. Reports, evaluations, and audits

- 2.22 **Indicators and baseline:** The indicators to be used for the Bank's evaluations and to assess project progress in general are set forth in the Logical Framework and the table of Performance Indicators in the technical files. During the first six months of execution, IDEPRO will establish the baseline parameters and design a system of indicators to monitor project activities and performance, which will supplement or update those established initially. Once they are approved, these parameters and indicators will serve as the basis for monitoring project performance. IDEPRO and the Bank will use the monitoring system and indicators to supervise the project.
- 2.23 **Reports:** Within 60 days following the end of each six-month period, IDEPRO will submit reports to the Bank, using the agreed format, on progress and use of project resources. These reports will include an analysis of compliance with the performance indicators and progress in executing the work plan, including: **Financing component:** (i) number of loans, average amount and total lending under the project, broken down by chain and gender; (ii) portfolio performance indicators, including portfolio at risk, current portfolio balance, and disbursements ranked by amount and term, for the project as a whole and for IDEPRO; and (iii) interest rates paid by borrowers for project funds in comparison with benchmark rates; **Technical cooperation:** (iv) information on IDEPRO's institutional performance, including quantitative (profitability, arrearages, operating efficiency, gearing, and capitalization) and qualitative data; (v) a summary of the work and results of the consulting and technical assistance services commissioned, including number of clients served and the impact of the technical assistance on the clients; (vi) a summary of progress and results of the consulting assignment on environmental and social aspects, including the implementation of new environmental policies in IDEPRO; (vii) a statement outlining the use of Bank resources and counterpart contributions; and (viii) a description of the way the project components complemented one another in project execution. The last of

these reports will be the final report, which will contain a summary of the outcomes achieved in reference to the initial objectives and indicators.

- 2.24 **Monitoring:** The Bank will review the results and recommendations presented in the progress and evaluation reports. Every six months, the executing agency will meet with the specialist from the Bank to discuss the semiannual reports and progress on the performance indicators and work plan. The results of the semiannual reports and meetings will determine subsequent disbursements for the operation. In the event there are significant deficiencies in execution, the Bank can suspend disbursements until IDEPRO takes the necessary measures to correct them.
- 2.25 **Evaluations:** The project provides for two evaluations, to be conducted by individual consultants selected and hired by the Bank's Country Office in Bolivia with technical cooperation funds. A midterm review will be conducted 18 months from the first disbursement of financing or when 50% of the financing has been disbursed, whichever occurs first, and the second evaluation will be conducted 48 months after the first disbursement. The midterm evaluation will measure progress toward fulfilling project objectives, indicators, and targets, in addition to key operational aspects. The aspects to be evaluated will include: (i) fulfillment of objectives proposed by IDEPRO with respect to credit services for its target market; (ii) quality of the IDEPRO portfolio; (iii) financial sustainability in providing integrated services; (iv) progress in boosting clients' incomes and productivity in their economic activities (results of the specialized technical assistance); (v) the project's impact on the behavior of its competition and the rural microcredit market in its areas of influence; and (vi) lessons learned and recommendations for improving the project. In addition to the items covered in the first evaluation, the final evaluation will also address: (i) the project's impact on campesino families in the area covered by the project; (ii) the results of achieving project objectives; (iii) qualitative and quantitative changes in IDEPRO's operational and financial capacity; and (iv) lessons learned and recommendations for the program's future. The indicators identified in the Logical Framework will be used to measure these aspects.
- 2.26 **Audits:** Annual audits of the financing component will be conducted in accordance with the Bank's policies, using technical cooperation funds. The technical cooperation will also cover the cost of preparing the final report, checked by independent auditors acceptable to the Bank, showing how the technical cooperation was used and verifying the contribution of counterpart funds.

K. Risks and mitigants

- 2.27 The project faces three potential risks. *Risk 1:* The first risk relates to legal uncertainty. The government's policies concerning the microfinance system and social demonstrations may adversely affect project execution. Although it would be difficult to mitigate these risks fully through direct, separate action by the project and the executing agency, IDEPRO will establish mechanisms for participation by and relationships with the government and civil society organizations to minimize

these risks. *Risk 2*: The second risk concerns the client profile (unbanked, geographically isolated, high sector concentration, and low productivity), which may impact recovery of the portfolio. This risk is mitigated by: (i) IDEPRO's credit regulations and procedures, which include contingent provisions for ongoing monitoring of arrearage indicators in order to adopt timely corrective measures; (ii) the mechanisms for compensating IDEPRO personnel, which include incentives to control arrears; and (iii) the coupling of loans with advice and technical assistance geared toward improving clients' productivity, which will positively impact their financial flows. *Risk 3*: The third risk relates to a decline in market prices for quinoa and camelids. The project will attempt to limit this risk by increasing output per plot of quinoa or herd of camelids and by separately minimizing the risk of each activity through diversification into tourist services.

L. Exceptions to Bank policies

2.28 None.