

**MULTILATERAL INVESTMENT FUND
INTER-AMERICAN DEVELOPMENT BANK**

***Innovation Initiative
Supporting Innovations in Financial and Business Development Services for
Microenterprises (MIF/GN-55)***

I. BACKGROUND

- 1.1 In June 2000, in order to promote sustainable development of the microenterprise sector, the Inter-American Development Bank (IDB), with resources from the Multilateral Investment Fund (MIF), approved the program “Innovation Initiative—Supporting Innovations in Financial and Business Development Services for Microenterprises” (MIF/GN-55). The program seeks, through a competitive process, to promote the development of high-quality, replicable innovative initiatives to improve the efficiency of microenterprises and raise the standard of living of microentrepreneurs in Latin America and the Caribbean.
- 1.2 The cost of the program will be US\$8 million, of which the MIF will contribute up to US\$5 million, with the remaining US\$3 million to be contributed by participating institutions. The program, in the first competition, targets national or international networks that specialize in providing services to microenterprises, or alliances made up of: nongovernmental organizations (NGOs), private consulting firms, and/or universities with experience in providing such services.
- 1.3 The program will finance 63% of each innovative project, with a maximum of US\$750,000 per project. The remaining 37% of the total cost of the project will be financed with resources from contributions made by beneficiary institutions participating in the project. The Bank, through SDS/MSM, will contract the proposed specialized institution, within each network, to carry out the activities envisaged for each project.

II. INVITATION TO TENDER

- 2.1 The IDB announced the program during the Third Inter-American Forum on Microenterprise, held in Barcelona in November 2000. The program was publicized through the IDB website and through various other media.
- 2.2 The first competition to select projects was launched on January 15, 2001 with the establishment and publication, on the Bank’s website, of the competition guidelines and application form, with March 16, 2001 set as the deadline for submitting proposals.
- 2.3 In this initial invitation, innovations in three areas were solicited: (i) financial services; (ii) business development services; and (iii) other innovations, which, due to their innovative and creative nature, do not fit a specific category.

- 2.4 Financial Services include the following issues: (i) rural microfinance products or services that meet the financial needs of the sector; and (ii) risk management: mechanisms to improve information on credit and risk in the portfolios of microfinance institutions.
- 2.5 Business development services include: (i) services for new enterprises, microenterprises and small enterprises; and (ii) instruments for providing marketing services to microenterprises.

III. RATING AND SELECTION PROCESS

- 3.1 The process of receiving, reviewing, analyzing and rating proposals, used by the project team and by the technical selection committee, was as follows: (i) sixty-five proposals were received at SDS/MSM by March 16, 2001;¹ (ii) the content of *all proposals received* was reviewed to verify that they met basic eligibility criteria and proposal requirements, as per competition guidelines; (iii) evaluation and rating of the 43 *eligible proposals* were conducted by two different specialists from the MIF or SDS/MSM, in accordance with established eligibility and selection criteria; (iv) a preliminary ranking of the 43 proposals was prepared, based on total points assigned during the two technical reviews, and the average points assigned for “innovation”; (v) 13 *semi-final proposals* were selected by the technical selection committee; (vi) a detailed review and rating of the 13 semi-final proposals was conducted by the technical selection committee, composed of 5 persons from within and outside the Bank; (vii) a ranking of the 13 proposals was prepared, based on the average points assigned by the 5 members of the technical selection committee; and (viii) an analysis, comparison and final rating of the 13 semi-final proposals were carried out by the technical selection committee, in order to recommend a short list of finalists to the Manager of the MIF and to the Deputy Manager of SDS/PEF, for their final decision.
- 3.2 The Managers ratified the selected proposals, totaling US\$2.74 million in requested MIF funds. These five final proposals, which represent significant innovations for the microenterprise sector in the region, propose to introduce technologies and methodologies that are not widely known or disseminated in Latin America and that will have a broad impact on the clientele and operations of institutions that make up the selected networks and firms.
- 3.3 The selected proposals underwent a process of detailed analysis and negotiation, conducted by SDS/MSM specialists. *The result of this process is a set of five proposals (attached as Annexes 2-6) that make up the package of initiatives to be considered by the MIF Donors Committee under the short procedure.*

¹ Annex I contain a list of the names, applicant institutions and countries of origin of the 65 proposals received. The complete files of each proposal received are available at SDS/MSM.

3.4 Among the proposals, the five finalists were:

- a. “Integrated Technologies for Microfinance Operations” (TC-0105040-RS), presented by: the Corporación Mundial de la Mujer-Bogotá; Fundación Mundial de la Mujer Bucaramanga; the WWB Foundation-Colombia, Cali; the Corporación Mundial de la Mujer-Medellín; Fundación Mundo Mujer Popayán; Asociación Dominicana para el Desarrollo de la Mujer; and Women’s World Banking (U.S.A.), which will be contracted as the specialized agency;
- b. “Development and Implementation of Credit Scoring Technology in the ACCION Network” (TC-0105045-RS), presented by Banco Solidario (Bolivia), MiBanco (Peru), Compartamos (Mexico) and Acción International (U.S.A.), which will be contracted as the specialized agency;
- c. “New Financial Services and an Innovative Cost Management Tool” (TC-0105043-RS), presented by Caja de Ahorro y Préstamo los Andes S.A. (Bolivia), Financiera Calpiá (El Salvador), Financiera Confía (Nicaragua), Micro Credit National (Haiti) and Frontier Finance International (U.S.A.), which will be contracted as the specialized agency;
- d. “Deepening Rural Financial Services of the Savings and Loan Cooperative System in Guatemala” (TC-0105044-RS), presented by Federación Nacional de Cooperativas de Ahorro y Crédito de Guatemala and Catholic Relief Services (Guatemala), which will be contracted as the specialized agency; and
- e. “Facilitating Sustainable Linkages Between Central American Microenterprise Producers and US/Regional Markets” (TC-0105042), presented by Atuto S. de R.L. (Honduras), Oyanca (Nicaragua), La Casa (Guatemala) and Weidemann Associates Inc. (U.S.A.), which will be contracted as the specialized agency.

IV. EXECUTION MECHANISM FOR THE PROJECTS

A. Execution, administration and payments

- 4.1 The Bank, through SDS/MSM, will be responsible for execution, administration and monitoring of each of the selected projects. The Bank, through SDS/MSM, will directly sign consulting contracts with the specialized institutions selected, within each project, and will make the corresponding payments and monitor each project.
- 4.2 The selected projects will be executed by the Bank in a period not to exceed two years, by directly contracting specialized institutions responsible, in each project, for carrying out the activities envisaged. The Bank will make payments in 3 tranches, for 40%, 40% and 20%, respectively, of the value of the contract.

- 4.3 Payments made by the Bank, through SDS/MSM, to each of the selected specialized institutions within each project will be subject to the achievement of targets and performance indicators, and to the presentation of monitoring reports, as detailed in each proposal (Annexes 2-6).
- 4.4 The selected projects will be financed charging MIF Window III on a nonreimbursable basis. It shall be established, in the consulting service contracts that the Bank, through SDS/MSM, signs with each of the selected specialized entities, that:
- a. the project has financing from the MIF's Innovation Initiative;
 - b. all funding for the project will be from the Bank and from the MIF; and
 - c. sources of local counterpart funding for the project shall be approved by the Bank.
- 4.5 In consulting contracts signed with the selected specialized firms, it shall be established that such firms will give the Bank any copyrights, patents or other type of right that may arise in connection with the work and with documents that the Bank produces and finances for disseminating and promoting lessons learned and best practices obtained in the course of the projects. The Bank will grant nonexclusive licenses free of charge to the specialized firms selected.
- 4.6 The Bank, through SDS/MSM, shall also sign letters of commitment with the entities participating in each of the selected projects, in order to establish the parties' rights and obligations, and confirm their commitment to participate in the program and to contribute local counterpart resources to the corresponding project.

B. Summary of proposals

- 4.7 Total MIF contribution for the five proposals will be US\$2,741,162, and total local counterpart resources will be US\$1,863,059, as detailed in Table I, below.

Table 1
Summary of Proposals (in US\$)

Project	MIF Contribution	Counterpart	Total
TC-0105040-RS	293,500	160,630	434,130
TC-0105045-RS	654,135	426,607	1,060,742
TC-0105043-RS	756,500	435,650	1,172,150
TC-0105044-RS	554,527	562,672	1,097,199
TC-0105042-RS	482,500	277,500	740,000
Total	2,741,162	1,836,059	4,577,221

V. LESSONS LEARNED AND SUGGESTIONS FOR THE NEXT ROUND OF THE COMPETITION

- 5.1 The results of this first round of the competition appropriately reflected the program's main objectives and qualification criteria, while at the same time reflecting the intention to support innovative initiatives by sound institutional networks with a high level of capacity for execution and with affiliated offices in different countries in the region. Nevertheless, there is a recognition that such criteria may have created a bias favoring larger, better-known and more experienced networks and institutions. Four of the five winners are, in fact, networks coordinated from the United States. Thus, in order to minimize the bias favoring large, developed institutions in the larger countries, the following measures are recommended for the next competition:
- disqualify institutions selected in the first round from participating in the second round of the competition;
 - improve publicity and opportunities to attract institutions that did not participated in the first competition, in order to be able to reach a broader group of participants;
 - design and introduce measures in the qualification and selection process that tend to promote the participation of institutions from small countries and encourage higher-risk proposals, possibly establishing competitions by development category;
 - evaluate the possibility of opening the competition to institutions that are not part of a formal, established alliance or network; and
 - place on the competition's website a list of suggestions for presenting "winning" proposals.
- 5.2 SDS/MSM shall make advance preparations for the next competition, in order to be able to place the appropriate information on the website by the first week of November 2001. This will permit the MIF to announce the opening of the second competition during the Fourth Inter-American Forum for Microenterprise, to be held in the Dominican Republic.
- 5.3 Once 50% of the resources from the Innovation Initiative has been committed (which occurs with the signing of the five attached proposals), SDS/MSM shall prepare the program's mid-term evaluation process, pursuant to the instructions of the Donors Committee contained in the original approval of the overall program.

INNOVATION INITIATIVE

List of Proposals Received in the First Competition—March 2001

Register	Institution	Nationality
1	AGENCY FOR THE ECONOMIC DEVELOPMENT OF THE CITY OF CÓRDOBA (ADEC)	ARGENTINA
2	IBEROAMERICAN ASSOCIATION FOR THE DEVELOPMENT AND MARKETING OF CRAFTS (AIDCA)	PERU
3	BURO DE INVESTIGACIONES LEGALES S.A. DE C.V.	MEXICO
4	FUNDACIÓN CODESPA	SPAIN
5	BANK TRAINING INSTITUTE	PERU
6	CANELSA INTERNATIONAL GROUP	CANADA
7	APAC-APESALCO-APICUP (PROMADE)	PERU
8	ARTENIK GROUP SRL	ARGENTINA
9	MERCADEANDO S.A.	PERU
10	OIT PERU	PERU
11	CENTRO DE DESARROLLO ESTRATEGIAS	PERU
12	CENTRO EDUCATIVO IXTLIYOLLOT	MEXICO
13	ECONOMIC CONFEDERATION OF THE PROVINCE OF BUENOS AIRES (CEPBA)	ARGENTINA
14	INDUSTRIAL CHAMBER OF BAKERS AND RELATED BUSINESSES OF THE PROVINCE OF SALTA	ARGENTINA
15	IDEPRO - CIPAME - CEDLA - FIE - FUNDES - INASET	BOLIVIA
16	IDEPRO - CIPAME - CEDLA - FIE - INASET	BOLIVIA
17	COORDINATING COMMITTEE OF MICROENTERPRISE ENTREPRENEURS OF CENTRAL AMERICA (COCEMI)	PANAMA
18	CEDU - VEC-IP-ANGMRU "SUCEDE"	URUGUAY
19	ASSOCIATION OF TECHNOLOGY, ECOLOGY AND DEVELOPMENT (DETEC)	PERU
20	BANCO SOLIDARIO S.A. & DECISIÓN S.A.	ECUADOR
21	BANCO SOLIDARIO S.A., FUNDACIÓN ESQUEL, & FUNALGODON	ECUADOR
22	CARITAS DEL PERU	PERU
23	COOPERATIVA DE EMPRENDIMIENTOS MÚLTIPLES SUDECOR LITORAL LIMITADA	ARGENTINA
24	SELF-DEVELOPMENT PROGRAM FOR SOCIAL INITIATIVES (PAIS)	BOLIVIA
25	COOPERATIVA DE AHORRO Y CRÉDITO DESARROLLO DE LOS PUEBLOS LTDA.	ECUADOR
26	PRISMA, COSUDE, COPEME	PERU
27	FONCAP	ARGENTINA
28	TECNOCUERO, CADEPIA, CEPLAG	BOLIVIA
29	MERCOSUR WOMEN'S FORUM	ARGENTINA
30	FUNDACIÓN FUNPRECIT	ARGENTINA
31	FUNDASOL	URUGUAY
32	FINCA & FUNDEFIR	COSTA RICA
33	CENTER FOR CULTURE AND COMPREHENSIVE TRAINING - ENTROPIA	ARGENTINA
34	ASOCIACIÓN INTERNACIONAL DEVNET	URUGUAY
35	PROMUC, CENTRO IDEAS, ARARWA, & GCOD	PERU
36	WOCCU, FFH, COOPERATIVAS DE CRÉDITO SANTA Y CHONE	ECUADOR/USA
37	CARE PERU, EDYFICAR, VOXIVA, & BRAIN CAPITAL	PERU
38	FAMPESC	BRAZIL

39	PROMOCIÓN DEL DESARROLLO -PRODES-	PERU
40	CEPI, FUNDACIÓN SOLIDARIDAD, CEPESIU, FASIC	PERU
41	ACCION INTERNATIONAL BANCO SOL, MIBANCO, COMPARTAMOS	USA
42	CARE INTERNATIONAL & FUNDACIÓN CAMPO	EL SALVADOR
43	UNIVERSIDAD AUTÓNOMA DE MANIZALES	COLOMBIA
44	FUNDACIÓN CON LOS NIÑOS Y FAMILIAS DEL CAMPO IAP	MEXICO
45	EL CENTRO DE SOLIDARIDAD Y SERVICIOS JUAN DIEGO IAP Y DE LA ASOCIACIÓN DE MICROEMPRESARIOS DE EL MOLINO A.C	MEXICO
46	FUNDES	CHILE
47	MICROENTERPRISES OF ANTIOQUIA	COLOMBIA
48	ENVASADORA Y EMPACADORA PUEBLOS MANCOMUNADOS S.S.S.	MEXICO
49	BOLIVIAN SHOJI S.R.L. & CIAT	BOLIVIA
50	FUNDACIÓN HUANCAMELICA	ECUADOR
51	MINISTRY OF PRODUCTION & UNIVERSIDAD CATÓLICA DE SALTA	ARGENTINA
52	UNIÓN DE CONTRIBUYENTES EN GRAL DE MEXICO, A.C. & LATIN AMERICAN ASSOCIATION OF MICROENTERPRISES AND SMALL AND MEDIUM-SIZED ENTERPRISES (ALAMPYME)	MEXICO
53	SUSTAINABLE DEVELOPMENT NETWORK -UNIDA, ANDAR, ACPRODIH, REDNA AND RDS-HN-	HONDURAS
54	CONCERN WORLDWIDE US INC.	USA
55	REGIONAL CENTER FOR ECONOMIC AND SOCIAL DEVELOPMENT STUDIES (CREDES)	ARGENTINA
56	CENTRO DE EXTENSIÓN PROFESIONAL DE LA UNIVERSIDAD CENTRAL DE VENEZUELA (1)	VENEZUELA
57	CENTRO DE EXTENSIÓN PROFESIONAL DE LA UNIVERSIDAD CENTRAL DE VENEZUELA (2)	VENEZUELA
58	FUNDACIÓN COOMEVA	COLOMBIA
59	RED CONFIAR	URUGUAY
60	CATHOLIC RELIEF SERVICES -CRS-	GUATEMALA
61	FRONTIER FINANCE INTERNATIONAL	USA
62	ASOCIACIÓN DE PROMOCIÓN Y DESARROLLO EL TALLER, MINKA, CIRNMA, & PIRKA	PERU
63	WEIDEMANN ASSOCIATES, INC	USA
64	WOMEN'S WORLD BANKING	USA
65	UNIVERSIDAD EMPRESARIAL SIGLO 21	ARGENTINA

INTEGRATED TECHNOLOGIES FOR MICROFINANCE OPERATIONS

WOMEN'S WORLD BANKING

I. SPECIALIZED AGENCY AND BENEFICIARIES

- 1.1 The Women's World Banking network, with the participation of six of its affiliated entities—five in Colombia and one in the Dominican Republic¹—will be contracted by the Bank, through SDS/MSM, to carry out the project. The Bank will sign the contract with Women's World Banking/New York (WWB),² which will serve as the specialized agency responsible to the IDB for carrying out project activities and for meeting the project's objectives.
- 1.2 WWB is an international network with affiliates in 37 countries. It was created in 1979 to expand the power and economic participation of poor women, through access to finance, information and markets. It has more than 20 years of experience in the field of microfinance and the participating entities have been affiliated with the network for more than 10 years. Together, they serve nearly 102,000 clients, of which more than 60% are women.
- 1.3 The main beneficiaries of the project will be microenterprise and small enterprise clients in Colombia and the Dominican Republic, which will receive higher-quality microfinance services and products. Participating microfinance institutions will benefit by improved operational efficiency and enhanced capacity to serve their clients.

II. OBJECTIVE

- 2.1 The general objective of the project is to improve the quality and efficiency of financial services provided to microenterprises and small enterprises by introducing advanced technologies to the microfinance operations of WWB network affiliates in Colombia and the Dominican Republic. This will allow for increased efficiency in the loan process and will improve channels for distributing these services. Improvements in efficiency and productivity will translate to lower interest rates for low-income borrowers at participating institutions and more flexible products, designed to meet their needs.
- 2.2 The specific objectives consist of introducing the following elements to the loan process at participating institutions: (i) credit scoring models (parameterized

¹ Participating entities in: (a) Colombia: Corporación Mundial de la Mujer-Bogotá (CMM-Bogotá), Fundación Mundial de la Mujer-Bucaramanga (FMM Bucaramanga), Fundación WWB-Cali (WWB-Cali), Corporación Mundial de la Mujer-Medellín (CMM-Medellín) and Fundación Mundo Mujer-Popayán (FMM-Popayán); and (b) Dominican Republic: Dominican Association for Women's Development (ADOPEM).

² The legal name of the institution is: Friends of WWB/USA Inc., domiciled in New York, N.Y.

credit scoring), to help in evaluating their clients' credit risk, while improving efficiency in portfolio management; (ii) hand-held computers (Palm Pilots), to streamline the process and reduce the cost of placing and monitoring loans; and (iii) smart card technology, in Colombia, to improve mechanisms for disbursing credits.

III. DESCRIPTION

- 3.1 In order to achieve the above objectives, project activities are to be carried out under the following components: (i) development of credit scoring models; (ii) introduction of hand-held computers (Palm Pilots) to the loan process, integrating them in the credit scoring model systems; (iii) introduction of smart card technology in Colombia; and (iv) dissemination of the results.

A. Component 1: Credit scoring models

- 3.2 This component involves the design and development of four credit scoring models: two for the five affiliated institutions in Colombia, on delinquency and cancellation variables, and two on the same variables for ADOPEM, in the Dominican Republic. Activities within this component will include: (i) definition of variables; (ii) design of credit scoring models; (iii) testing of the predictive capacity of the models; (iv) presentation of these models to loan executives and managers at the participating institutions; and (v) incorporation of the models into the management information systems of the participating institutions.

B. Component 2: Hand-held computers (Palm Pilots)

- 3.3 The second component includes introducing hand-held computers (Palm Pilots) in the loan process at participating institutions and incorporating them into the credit scoring model systems developed in the first component. Initially, these new tools will be developed, tested and introduced at WWB-Cali. Subsequently, after appropriate adjustments, they will be extended to FMM-Popayán and FMM-Bucaramanga, and later to CMM-Medellín, CMM-Bogotá and ADOPEM.
- 3.4 Activities within this component include: (i) developing and implementing credit software for the Palm Pilots, including software that makes it possible to incorporate credit scoring models in hand-held computers (Palm Pilots); (ii) implementation of a program to provide for communication and data transfer between hand-held computers and information systems; (iii) use of computer systems in the loan process, on an experimental basis; (iv) training participating loan officers and managers in use of the new tools; (v) performance testing of the new mechanism; and (vi) implementing the portable system in the loan process.

C. Component 3: Smart cards

- 3.5 The third component includes the development and implementation of a new credit product by participating entities that are part of the Colombian network, based on smart card technology. This technology provides a more efficient alternative for disbursing credit for certain types of clients, particularly those making purchases from large distributors. The new product will be introduced gradually, first at WWB-Cali, then at FMM-Popayán and FMM-Bucaramanga, and finally at CMM-Medellín and CMM-Bogotá.
- 3.6 Activities associated with this component include: (i) design and market testing of the product, including use of focus groups with potential clients and distributors to gauge and analyze interest in and acceptance of smart cards; (ii) adjustments to the product; (iii) design of software needed to operate the cards; (iv) implementation of marketing and training programs for distributors; (v) implementation of marketing and training programs for clients; (vi) implementation of the product; and (vii) monitoring the performance of the product.

D. Component 4: Dissemination

- 3.7 WWB will organize workshops to present the project to other WWB network affiliates and to microfinance institutions interested in adopting similar innovations. Upon completing the pilot phase with WWB-Cali, when the project has benefited from the experiences and lessons learned in the initial phase, WWB will use its regional and international meetings, as well as workshops, to present and discuss the results of the project. At the conclusion of the project, the main results will be disseminated to members of the WWB network and to the microfinance industry, through a report to be published by WWB in English and Spanish, which will be made available on the WWB website.

IV. COST AND FINANCING

- 4.1 The total amount of the contract will be US\$454,130, of which the Multilateral Investment Fund (MIF) will contribute up to US\$293,500 of nonreimbursable technical cooperation resources, including US\$20,000 for external evaluation and audits, to be contracted by SDS/MSM. WWB will contribute US\$160,630.

Description	MIF	% MIF	Local	Total	% Total
Component 1 – Credit Scoring	63,700	23%	64,800	128,500	30%
Consulting services	45,000			45,000	
Training	10,000			10,000	
Travel expenses	6,200			6,200	
Equipment/software	2,500		5,000	7,500	
Salaries and benefits			53,800	53,800	
Other expenses for administration and support			6,000	6,000	
Component 2 – Palm Pilot s	89,200	33%	46,800	136,000	31%
Consulting services	60,000			60,000	
Training	15,000			15,000	
Travel expenses	9,200			9,200	
Equipment/software	5,000		12,500	17,500	
Salaries and benefits			29,300	29,300	
Other expenses for administration and support			5,000	5,000	
Component 3 – Smart Cards	98,470	36%	49,030	147,500	34%
Consulting services	48,000			48,000	
Training	34,500			34,500	
Travel expenses	10,800			10,800	
Equipment/software	5,170		24,830	30,000	
Salaries and benefits			21,200	21,200	
Other expenses for administration and support			3,000	3,000	
Component 4 – Dissemination	22,130	8%		22,130	5%
Training: Workshops on best practices	15,000			15,000	
Publication and dissemination	7,130			7,130	
Sub-total for the project	273,500	100%	160,630	434,130	100%
External evaluation/audits (SDS/MSM)	20,000			20,000	
Total	293,500		160,630	454,130	

V. SCHEDULE OF PAYMENTS, REPORTS, AUDITS AND FINAL EVALUATION

A. Schedule of payments

- 5.1 The contract will be executed over a 24-month period, with payments made over a period of 30 months. The IDB will make contract payments in three tranches, equivalent to 40%, 40% and 20%, respectively, of the total resources contributed by the MIF for the project. These payments will be subject to presentation by WWB, to the Bank's satisfaction, of the work plans and progress reports indicated in paragraph 5.3, and fulfillment of the conditions indicated in paragraphs 6.2, 6.3 and 6.4.

- 5.2 In the event of significant delays or failures to meet performance indicators, the IDB may suspend future disbursements until such time as WWB corrects the situation to the Bank's satisfaction.

B. Reports

- 5.3 The IDB will conduct monitoring of the project, based on the work plans and progress reports that WWB must present to the Bank's satisfaction:
- a. Work plan: (i) this shall be designed to meet the goals and results envisaged in the logical framework that the executing agency presents along with the financing proposal; and (ii) it shall include both qualitative and quantitative performance indicators for each of the project's components. The work plan shall be presented at the start of the project and may be adjusted during the project's execution.
 - b. Progress reports that include: (i) information on project execution and on progress in meeting project objectives, which shall include references to performance indicators; (ii) information on budget execution and on counterpart contributions made; (iii) an account of the main problems encountered or envisaged, if any, in implementing the project; and (iv) any adjustments to the annual work plan considered to be relevant, and justification thereof. Progress reports shall be presented along with requests for disbursement of the second and third tranches of contract resources.
- 5.4 At the conclusion of the project, to aid in disseminating the experiences, the specialized agency shall present to the IDB a final report summarizing the main achievements and experiences as regards innovations implemented by the WWB network.

C. Audits and final evaluation

- 5.5 Once 100% of the MIF resources allocated for the four components of the project (see Section III of this document) have been disbursed, the IDB, through SDS/MSM, will contract: (i) the specialized services of an independent firm to audit the use of funds allocated, under the contract, by the MIF and by the counterpart for execution of the project; and (ii) the services of an independent consultant to conduct a final evaluation of the project.

VI. SPECIAL CONTRACTUAL CONDITIONS

- 6.1 The financing proposal and its annexes, presented to the MIF in March 2001 as part of the Innovation Initiative by the executing agency, is incorporated into this document and will constitute the contract's terms of reference.

- 6.2 For the first contract payment, WWB will provide, to the Bank's satisfaction: (i) evidence that a project coordinator has been designated; (ii) the terms of reference for consultants to be contracted with MIF resources during the succeeding 12 months; (iii) evidence of having signed participation agreements with the six WWB network affiliates; and (v) the work plan for activities during the first year of the project (see paragraph 5.3).
- 6.3 For the second contract payment, WWB will present, to the Bank's satisfaction, a progress report (see paragraph 5.3) demonstrating that, at a minimum, the following have occurred: (i) with regard to ***Component 1-Credit scoring models***: (a) four credit scoring models have been developed: two for Colombia and two for the Dominican Republic; (b) the credit scoring model has been tested in at least four of the participating entities; and (c) the credit scoring model has been incorporated into the management information systems (MIS) of at least three participating entities; (ii) with regard to ***Component 2-Hand-held computers (Palm Pilots)***: (a) design of software for the Palm Pilots has been completed; (b) credit scoring models have been incorporated into the WWB-Cali Palm Pilot system; and (c) testing of credit scoring/Palm Pilot technologies at WWB-Cali has begun; and (iii) with regard to ***Component 3-Smart cards***: meetings with focus groups have taken place.
- 6.4 For the final contract payment, WWB will present, to the Bank's satisfaction, a progress report (see paragraph 5.3) demonstrating that, at a minimum, the following have occurred: (i) with regard to ***Component 1-Credit scoring models***: (a) the credit scoring model has been incorporated in the MIS of the six participating entities; (b) workshops have been conducted with loan managers and agents at the six participating entities; and (c) implementation and supervision of the model has been undertaken at the six participating entities; (ii) with regard to ***Component 2-Hand-held computers (Palm Pilots)***: (a) credit scoring models have been incorporated in the Palm Pilot system of the six participating entities; (b) training of personnel at the six participating entities has been conducted; and (c) implementation of this technology at the six participating entities has begun; and (iii) with regard to ***Component 3-Smart cards***: (a) smart card software has been designed and implemented; (b) smart card software has been incorporated in the MIS of WWB-Cali; (c) marketing and training for the product's wholesalers and clients have been completed at WWB-Cali; and (d) implementation of the financial product associated with this technology has begun at WWB-Cali.

DEVELOPMENT AND IMPLEMENTATION OF CREDIT SCORING¹ TECHNOLOGY

ACCIÓN INTERNATIONAL

I. SPECIALIZED AGENCY AND BENEFICIARIES

- 1.1 The Acción International (AI) network, with the participation of three of its affiliates—Compartamos (Mexico), Mibanco (Peru), and BancoSol (Bolivia)—will be contracted by the Bank, through SDS/MSM, to carry out the project. The Bank will sign the contract with AI, which will serve as the specialized agency responsible to the IDB for carrying out project activities and for ensuring that the project's objectives are met.
- 1.2 AI is a private nonprofit organization with more than 25 years of experience in the field of microfinance, and was one of the pioneers in implementing microfinance in Latin America. It has 19 affiliates in 13 countries, seven affiliated programs in the United States, and strategic technical relationships with non-affiliated entities. Its mission is to increase financial self-sufficiency and transform informal entities into formal institutions, in order to facilitate access to capital and be able to expand its services. Of the 19 affiliates, five have completed the transformation process (BancoSol, Finamérica, Mibanco, Finsol and Compartamos); two are currently in the process of being formalized (FAMA and Génesis) and, lastly, major institutions, such as Bangente, Sogebank, Banco do Nordeste, Multicredit Bank and Banco Solidario have relied on AI's technical services to assist in their expansion and in incorporating microcredit as part of their activities.
- 1.3 As of December 2000, the network served 463,293 active clients (65% women), with a current portfolio of US\$274.3 million, a repayment rate of 98%, and with an average loan amount of US\$592. More than half of the affiliates are financially self-sustainable, and the remaining ones are operationally sustainable. Their credit methodology includes individual and joint and several loans in both urban and rural settings.
- 1.4 The beneficiaries of the project will be microenterprises that are current or potential clients of Compartamos, in Mexico, Mibanco, in Peru, and BancoSol, in Bolivia. They will receive quality microfinance services and products providing improved risk analysis, reduced transaction costs, and increased client retention rates.

¹ Parameterized credit scoring.

II. OBJECTIVE

- 2.1 The objective of the project is to improve the quality and efficiency of financial services provided to microenterprises, by incorporating credit scoring technology in the handling of individual and solidarity loans in both urban and rural settings.
- 2.2 The specific objectives are: (i) to reduce costs associated with the loan approval process; (ii) to improve portfolio quality, through improved risk management; and (iii) to increase client retention rates and promote institutional growth. Specifically, it is anticipated that: (i) **Mibanco** will achieve the following results: (a) 30% of clients will have their loans automatically renewed and will have access to general lines of credit; (b) costs per dollar lent will decline by 20%; and (c) there will be an average of 50% growth in the portfolio, without any resulting increase in the arrears rate; (ii) **BancoSol** will achieve the following results: (a) recovery of nonperforming loans will increase by 25%; (b) past-due loans will be reduced by 20%; (c) costs per dollar lent will decline by 20%; and (d) automatic loan renewal will be introduced; and (iii) **Compartamos** will achieve the following results: (a) there will be a 15% increase in the client retention rate; and (b) costs per dollar lent for individual loans will decline by 20%.

III. DESCRIPTION

- 3.1 In order to achieve the above objectives, the project includes activities under the following components: (i) development of credit scoring models; (ii) training of personnel; and (iii) dissemination of results.

A. Component 1: Credit scoring model

- 3.2 This component includes purchasing and adapting the parameterized credit-scoring model to microfinance. Seven credit scoring models will be developed: two for Mibanco, on selection of new clients and segmentation of current clients, in order to cross-reference information and introduce new products; three for BancoSol, on selection of new clients, segmentation of current clients, and recovery of nonperforming loans; and two for Compartamos, on selection of new clients in urban areas and segmentation of current rural clients, in order to “graduate” them to individual loans and to introduce new products.
- 3.3 The activities envisaged for this component are: (i) adaptation of the credit scoring model; and (ii) adapting the software for the model implemented to the management information systems (MIS) of each participating entity.
- 3.4 The component is expected to yield the following results: (i) adaptation of the credit scoring model to microfinance, for use in both urban and rural settings; and (ii) development of seven different parameterized credit score cards.

B. Component 2: Training of personnel

- 3.5 This component envisages activities needed to incorporate Palm Pilots into the loan process of the participating entities and to integrate them into the credit scoring system.
- 3.6 Activities of this component include: (i) training personnel in the use and interpretation of score cards; (ii) training and evaluation of risk management reports and validation of score cards; (iii) support for monitoring implementation of the methodology in the field by loan officers and administrative staff; and (iv) adjustments to the pilot program.

C. Component 3: Dissemination

- 3.7 AI will be responsible for describing the implementation of this technology, and the results of doing so, at the annual conference of network directors, where the topic will be introduced and analyzed in depth, so that relevant information can be made available to other interested network institutions. AI will also sponsor trips by the directors to the three entities participating in the project, so that they can examine the innovation in the field.

IV. COST AND FINANCING

- 4.1 Total cost of the project will be US\$1,080,742, of which the MIF will contribute US\$654,135 in nonreimbursable resources, including US\$20,000 for external evaluation and audits, to be contracted by SDS/MSM. AI will contribute US\$426,607. The following budget details the different categories of investment and their respective sources of financing:

Description	MIF	% MIF	Local	Total	% Total
Credit Scoring	481,330	76	253,285	734,615	69.3
Consulting services	200,000			200,000	
Software and equipment	20,000			20,000	
Travel expenses	53,005			53,005	
Salaries and benefits	183,725		209,785	393,510	
Materials and direct costs	24,600			24,600	
General support services			43,500	43,500	
Training of personnel	135,995	21.4	151,572	287,567	27.1
Travel expenses	45,534			45,534	
Salaries and benefits	78,161		108,072	186,233	
Materials and direct costs	12,300			12,300	
General support services			43,500	43,500	
Dissemination	16,810	2.6	21,750	38,560	3.6
Travel expenses	4,510			4,510	
Materials and direct costs	12,300			12,300	
General support services			21,750	21,750	
Sub-total for the project	634,135	100.0	426,607	1,060,742	100.0
External evaluation/audits (SDS/MSM)	20,000			20,000	
Total	654,135		426,607	1,080,742	

V. SCHEDULE OF PAYMENTS, REPORTS, AUDITS AND FINAL EVALUATION

A. Schedule of payments

- 5.1 The project will be executed over a 24-month period, with payments made over a period of 30 months. IDB payments for implementing the project's components will be made in three tranches, equivalent to 40%, 40% and 20%, respectively, of the total resources contributed by the MIF for the project. Payments will be subject to presentation to the Bank by AI, to the Bank's satisfaction, of the work plans and progress reports indicated in paragraph 5.3, and fulfillment of the conditions indicated in paragraphs 6.2, 6.3, and 6.4.
- 5.2 In the event of significant delays or failures to meet performance indicators (see paragraph 2.2), the Bank may suspend future disbursements until such time as AI corrects the situation to the Bank's satisfaction.

B. Reports

- 5.3 The Bank will carry out monitoring of the project, based on the work plans and progress reports that the specialized agency must present to the Bank's satisfaction:
- a. Work plan: (i) this shall be designed to meet the targets and results envisaged in the logical framework that AI presents along with the financing proposal; and (ii) it shall include qualitative and quantitative performance indicators for each of the project's components. The work plan shall be presented at the start of the project and may be adjusted during the project's execution.
 - b. Progress reports are to include: (i) information on project execution and on progress in meeting the project's objectives, including reference to performance indicators; (ii) an account of budget execution and of contributions made by the counterpart; (iii) an account of the main problems encountered or envisaged, if any, in executing the project; and (iv) adjustments to the annual work plan considered to be relevant, and justification thereof. Progress reports shall be presented together with requests for the second and third disbursements.
- 5.4 At the conclusion of the project, in order to facilitate dissemination of the experiences, the specialized agency shall present to the Bank a final report summarizing the main achievements and experiences in relation to innovations implemented by the project.

C. Audits and final evaluation

- 5.5 Once 100% of the MIF resources allocated for the execution of the components envisaged (see Chapter III) have been disbursed, the Bank, through SDS/MSM, shall: (i) contract the services of an independent external auditor, in order to

verify the use of funds allocated for the project by the MIF and by the counterpart; and (ii) contract the services of an independent consultant to conduct a final evaluation of the project.

VI. SPECIAL CONTRACTUAL CONDITIONS

- 6.1 The financing proposal and its annexes, presented by the executing agency to the MIF in March 2001 as part of the Innovation Initiative, are incorporated into the present document.
- 6.2 For the first contract payment, AI shall provide, to the Bank's satisfaction: (i) the terms of reference for consultants to be contracted with MIF resources during the succeeding 12 months; (ii) evidence that a project coordinator has been designated; (iii) evidence that participation agreements have been signed with at least two of the three entities participating in the project; and (iv) the work plan for activities during the first year (see paragraph 5.3).
- 6.3 For the second contract payment, AI shall present, to the Bank's satisfaction, a progress report (paragraph 5.3) demonstrating that, at a minimum, the following goals have been achieved: (i) with regard to **Component 1**: (a) at least five credit scoring models have been developed; (b) these models have been incorporated in the management information systems of the three entities; and (c) the pilot phase has been initiated in at least one of the entities; (ii) with regard to **Component 2**: (a) loan officers of the three entities have received training; and (b) at least two strategy meetings with directors of the three entities have been held.
- 6.4 For the final contract payment, AI shall present, to the Bank's satisfaction, the progress report (paragraph 5.3) demonstrating that, at a minimum, the following goals have been achieved: (i) for **Component 1**: (a) at least seven credit score cards have been completed; (b) final incorporation of the credit scoring system has been achieved in the three affiliates; and (c) results of monitoring and oversight of the system in at least two of the entities have been obtained; (ii) for **Component 2**: (a) workshops have been conducted with all of the loan officers of the three entities; and (b) four strategy meetings with directors of these entities have been held.

**New Rural Financial Services and Innovative Cost Management Tools
in Microfinance Institutions in Bolivia, El Salvador, Haiti, Ecuador and Nicaragua
FRONTIER FINANCE INTERNATIONAL (FFI)**

I. Specialized Institution and Beneficiaries

- 1.01 To carry out this project, the Bank, through SDS/MSM, will contract the Frontier Finance International (FFI) network, which includes the following specialized microfinance institutions (MFIs): Caja Los Andes Private Financial Fund (Bolivia), Financiera Calpiá (El Salvador), Financiera Confía (Nicaragua), Micro Crédito Nacional (Haiti), and a new institution currently being established in Ecuador. FFI specializes in development finance at the small end of the market, and its professionals have extensive experience in microfinance and small business lending, agricultural and industrial credit, equity investment and financial sector policy.
- 1.02 The Bank will sign the contract with the headquarters office of Frontier Finance International (FFI) in Washington, D.C., which will be the point of contact for contract payments, supervision and reporting. This institution will be responsible for coordinating the project activities, hiring specific individual consultants, and providing all reports and information to the Bank and MIF, in accordance with the terms of reference detailed below.
- 1.03 The principal project beneficiaries will be the small and microentrepreneur clients that will receive the new products and services provided through the specialized microfinance institutions in Bolivia, El Salvador, Haiti, Ecuador and Nicaragua. Additionally, the mentioned MFIs will benefit through the incorporation of the new products into their portfolio of financial products.

II. Objectives

- 2.01 The project's general objective is to contribute to a sustainable increase in the productive potential of micro and small enterprises, with a particular focus on rural areas, through the provision of innovative financial services and increased transparency of the cost of providing such services in rural areas. The specific objectives are to design, develop and implement: (i) long-term credit products for micro and small business clientele in Bolivia, El Salvador, Haiti, Nicaragua and Ecuador; (ii) a system for international cash transfers (remittances) that meet the needs of the small and microentrepreneurs by linking this product to other financial services in the participating MFIs, attempting to lower costs to the client; and (iii) a process-oriented cost analysis and accounting system to ensure the sustainability of these innovations and to increase the efficiency of the participating microfinance institutions, in general.

III. Description

- 3.01 In order to fulfill these objectives, FFI will carry out the following activities under each of three components: (i) Innovative Credit Products; (ii) Remittances System; and (iii) Cost Accounting System:

A. Component 1: Innovative Credit Products

- 3.02 FFI will develop new credit technologies for the participating MFIs, including a housing acquisition and a long-term investment loan product, with special focus on the rural and agricultural enterprises. These products will first be researched, designed and tested in Caja Los

Andes (Bolivia), and based on the results of this pilot test period, both products will be replicated in Financiera Calpiá (El Salvador), and if possible, in Haiti. The housing acquisition product may also be tested and/or introduced in the new institutions in Ecuador. The individual steps in this process include:

- (a) Analysis of possible modalities for extending housing and long-term investment loans;
- (b) Development of adequate credit technologies for the two products;
- (c) Pilot product testing (100 loans each) in Caja Los Andes, and fine-tuning the product;
- (d) Implementation of products to all branches of Caja Los Andes;
- (e) Training of 30 credit analysts in application of the products;
- (f) Transfer and replication of the products (pilot testing) in Financiera Calpiá, and then to other countries.

B. Component 2: Remittances System

- 3.03 FFI will support the development of a new money transfer system for remittances to serve the target group of existing and new clients of the participating microfinance institutions. Consultants will be hired to investigate and analyze the existing best practices for remittances and will design an adapted system to be integrated into the operations of the participating MFIs. The product will be designed and developed in El Salvador, and replicated later in Bolivia, Nicaragua and Ecuador. The activities for this component include:

- (a) Investigation and analysis of existing remittances systems, and identification of best practices that can be applied through the MFI network, and possible business partners;
- (b) Development of an adapted remittances system and establishment of strategic alliances and contracts with the selected business partner that is an existing large-scale provider of money-transfer services;
- (c) Development and implementation of a marketing plan to sell the services to regions and towns with high proportions of families with members living abroad;
- (d) Implementation of the services in all branches of Financiera Calpiá (El Salvador);
- (e) Analysis of results in El Salvador and modification to procedures and operations as needed;
- (f) Analysis of conditions and partnering possibilities in other countries where the services could be replicated;
- (g) Replication of the service to the other participating microfinance institutions.

C. Component 3: Process-oriented Cost Accounting System

- 3.04 The third component of the project is the development of a new type of cost accounting system, whereby all of the procedures and processes involved in offering any particular financial product or services are evaluated, streamlined, priced and compared to the revenue they generate. This will allow each financial intermediary to determine the exact cost of adding on each new product and the price it must charge in order to make it sustainable and profitable. FFI will design this new system, develop a software to manage it, develop documentation and manuals for its operation and maintenance, and implement the new system in the participating microfinance institutions. It will be developed first in Caja Los Andes and will later be replicated in Financiera Calpiá. The activities required to complete this component are:

- (a) Identification and specification of needs within the microfinance institutions;
- (b) Evaluation and diagramming of workflows and procedures;

- (c) Design of the process-oriented cost accounting system based on the workflows;
- (d) Selection and adaptation of a basic software package to manage the system;
- (e) Development of user interface to the accounting system;
- (f) System testing and analysis in a first pilot phase;
- (g) Modification as required, and full implementation in Caja Los Andes;
- (h) Documentation and development of user manuals;
- (i) Transfer and replication in Financiera Calpiá.

- 3.05 **Dissemination:** The participating microfinance institutions and Frontier Finance International will disseminate the project results using the following methods: (i) analysis and results from project components will first be provided to all financial intermediaries in the FFI network; (ii) results of particular interest will be published in sectorial bulletins to be made available to the microfinance audience in general; (iii) key results will be presented in specialized microfinance seminars, such as the Development Finance Seminar and the Bank's Interamerican Microenterprise Forum; and (iv) technical exchange visits by specialists from other microfinance institutions to the MFIs participating in this project will be promoted and coordinated by FFI.

IV Cost and Financing

- 4.01 The total cost of the contract is estimated at US\$1,192,150, of which the MIF will contribute up to US\$756,500 in non-reimbursable technical cooperation resources, including US\$20,000 for the external audit and evaluation to be contracted by SDS/MSM. The participating network will contribute US\$435,650. The following budget details each budget category and source of funding:

<i>Description</i>	<i>MIF</i>	<i>% MIF</i>	<i>Local</i>	<i>Total</i>	<i>% Total</i>
Component 1 – Innovative Credit Products	275,500	37%	126,350	401,850	34%
Consulting Services	184,000			184,000	
Salaries and Benefits			64,350	64,350	
Training	48,000			48,000	
Materials/direct costs			10,000	10,000	
Equipment			52,000	52,000	
Travel expenses	43,500			43,500	
Component 2 – Remittances System	209,000	28%	136,500	345,500	29%
Consulting Services	144,000			144,000	
Salaries and Benefits			60,500	60,500	
Training	32,000			32,000	
Materials/direct costs			10,000	10,000	
Equipment			66,000	66,000	
Travel expenses	33,000			33,000	
Component 3 –Process-oriented Cost Accounting System	156,000	21%	172,800	328,800	28%
Consulting Services	144,000			144,000	
Salaries and Benefits			82,800	82,800	
Materials/direct costs			10,000	10,000	
Equipment			80,000	80,000	
Travel expenses	12,000			12,000	
Project Coordination and Administration	96,000	14%		96,000	9%

Sub-total for the Project	736,500	100%	435,650	1,172,150	100%
External Audit/Evaluation (SDS/MSM)	20,000		0	20,000	
Total	756,500		435,650	1,192,150	

V Sequence of Payments, Reporting, Evaluation and Audit

A. Sequence of Payments

- 5.01 The contract will have an execution period of 24 months and a payment period of 30 months. The Bank will effect contract payments through three tranches of 40%, 40% and 20% of the total amount of MIF resources for the project. These payments will be subject to FFI's presentation of the work plans and progress reports indicated in paragraph 5.03, to the Bank's satisfaction, and to the fulfillment of the conditions indicated in paragraph 6.02 – 6.04.
- 5.02 If the project experiences significant delays or unfavorable deviations in meeting the established performance indicators, the Bank reserves the right to suspend future payments until FFI corrects the situation to the Bank's satisfaction.

B. Reporting

- 5.03 The Bank will monitor the project based on the work plans and progress reports that FFI will present to the Bank's satisfaction:
- i. Work Plans: (i) will be designed to ensure the fulfillment of the planned project targets and outputs as established in the Logical Framework presented by FFI in original project proposal; and (ii) will include quantitative and qualitative performance indicators, where possible, for each project component. The Work Plan will be presented at the beginning of the project and can be adjusted during its implementation.
 - ii. Progress Reports will include: (i) information on project implementation and the progress achieved in meeting objectives, including references to the performance indicators; (ii) information on budget execution and the counterpart resources provided to the project activities; (iii) information on the difficulties encountered or foreseen, if any, in project implementation; and (iv) modifications to the annual work plan that may be pertinent, and their justification. The progress reports will be presented together with the requests for the second and third contract payments.
- 5.04 At the conclusion of the project, in order to facilitate the dissemination of project results, FFI will present to the Bank a final report that summarizes the principal achievements and experiences regarding the innovations supported and developed in the project.

C. Audits and Final Evaluation

- 5.05 When 100% of MIF resources assigned to the implementation of the project's three components have been paid (see Section III of this document), the Bank, through SDS/MSM, will: (i) hire the services of an independent external auditor to audit the use of MIF and counterpart resources for this project; and (ii) contract an external consultant to carry out a final project evaluation.

VI Special Conditions

- 6.01 The original project proposal presented by FFI to the Innovation Initiative in March 2001, including its annexes, forms part of this MIF project document and the terms of reference for the contract.
- 6.02 Prior to the first contract payment, FFI will provide to the Bank's satisfaction the following: (i) terms of reference for the individual consultants to be contracted with MIF resources during the first year of the project; (ii) evidence of having designated a project coordinator; and (iii) an annual work plan for the first year of project operations (see paragraph 5.03).
- 6.03 Prior to the second contract payment, FFI will present to the Bank a progress report, as mentioned in Paragraph 5.03, which will include evidence of having completed the following activities: (i) **Component 1:** Activities (a) and (b) in Paragraph 3.02, and a written evaluation regarding the first loans 20 loans disbursed using the described technologies; (ii) **Component 2:** Activities (a), (b) and (c) in Paragraph 3.03 and an implementation plan for installing the product in all branches of Financiera Calpiá; and (iii) **Component 3:** Activities (a), (b) and (c) in Paragraph 3.04.
- 6.04 Prior to the third and final payment, FFI will present to the Bank a progress report, as mentioned in Paragraph 5.03, which will include evidence of having completed the following activities: (i) **Component 1:** Activities (d) and (e) in Paragraph 3.02; (ii) **Component 2:** Activities (d), (e) and (f) in Paragraph 3.03; and (iii) **Component 3:** Activities (d), (e), (f) and (g) in Paragraph 3.04, and an implementation plan for the transferal of the system in Financiera Calpiá.

**DEEPENING RURAL FINANCIAL SERVICES OF THE
SAVINGS AND LOAN COOPERATIVE SYSTEM**

CATHOLIC RELIEF SERVICES (CRS)

I. Specialized agency and beneficiaries

- 1.1 The Bank, through SDS/MSM, will contract Catholic Relief Services (CRS)/Guatemala, with the participation of the Cooperative Financial Corporation FENACOAC (National Federation of Savings and Loan Cooperatives) and three of its affiliated cooperatives—San Jerónimo Cooperative, Movimiento Campesino, and Santiago de Coatepeque—to carry out the project. The Bank will sign the contract with CRS/Guatemala, which will serve as the specialized agency responsible to the IDB for carrying out project activities and for ensuring that the project's objectives are met.
- 1.2 CRS is an international development organization with a network of offices in 42 countries and programs in 82 countries. CRS's programs provide humanitarian and technical support to promote the self-determination and economic development of the neediest populations. At present, CRS is implementing microfinance programs in 30 countries, serving 220,000 clients, with a current portfolio of US\$14 million, primarily under the communal bank model. CRS/Guatemala has been involved for seven consecutive years in adapting the communal bank model to serve mostly rural populations, with a focus on gender equity.
- 1.3 The beneficiaries of the project will be microentrepreneurs and poor small rural farmers with limited access to financial services. Outside urban centers, Guatemala's mostly-indigenous rural population relies primarily on informal sources of financing—relatives, informal lenders and merchants. This project will serve poor, primarily indigenous, rural families, providing them permanent access to quality financial services.

II. Objective

- 2.1 The general objective of the project is to help poor rural families in Guatemala and in other parts of Latin America gain permanent access to quality financial services, through the cooperative savings and loan system.
- 2.2 The specific objectives are: (i) to adapt and incorporate the "rural communal bank" methodology in three savings and loan cooperatives (San Jerónimo, Movimiento Campesino, and Santiago de Coatepeque), enabling them to serve the rural population, which ordinarily lacks access to commercial banking services and has only limited access to the cooperative system; and (ii) support the replicability of the experience, for which purpose the project will produce documentation detailing the adjustments to the communal bank model to facilitate its adoption by other savings and loan cooperatives.

III. Description

3.1 In order to achieve the above objectives, the project will focus on adapting and applying the rural communal bank model, as well as on adapting operational support systems for the model, with emphasis on information systems and management of field personnel. The project comprises activities under the following five components:

A. Component 1: Adapting communal-bank financial products to savings and loan cooperatives

3.2 Through this component, the communal bank methodology will be reviewed and adapted to the working arrangement of Guatemala's savings and loan cooperatives. To this end, the following activities will be carried out:

- a. Two workshops with personnel from the cooperatives and from FENACOAC. In the first workshop, there will be a review of communal bank methodology, in order to define the most important adjustments needed, which will be validated in the field (see paragraph 3.5). In the second workshop, the results of the mid-term evaluation will be discussed, analyzing the extent to which the communal bank model can be adapted to the cooperative system.
- b. The development of credit manuals adapted to the working arrangement of Guatemala's savings and loan cooperatives.

B. Component 2: Human resources

3.3 This component seeks to support savings and loan cooperatives in selecting and training field personnel, who will supervise the communal banks. In addition, there will be a review of the policy of incentives for credit personnel. To this end, the following activities will be carried out:

- a. Development of a profile for the position of loan agent at communal banks, and assistance in hiring such staff. A total of six loan agents will be hired.
- b. Training of new personnel on communal bank methodology. Training will be both theoretical and practical (internships).
- c. Design of a system of evaluation and of incentives for loan agents, adapted to the human resource policies of the savings and loan cooperatives.

C. Component 3: Adaptation of the cooperatives' management information systems

3.4 This component will review and adapt the cooperatives' management information systems (MIS), based on the requirements of the communal bank model. To this

end, the following activities will be carried out: (a) specialized technical assistance will be contracted to evaluate and adapt the cooperatives' MIS to the communal bank model.

D. Component 4: Formation and consolidation of rural loan portfolios at communal banks

3.5 This component seeks to strengthen the capacity of savings and loan cooperatives to manage sound loan portfolios at communal banks. To this end, the following activities will be carried out:

- a. Preparation of a plan for portfolio formation, based on the potential and risks of the respective areas covered by the cooperatives. Such a plan should include semiannual performance targets and the conditions needed to meet these targets.
- b. Preparation of plans for marketing and promoting communal bank products, in order to successfully penetrate the new market.
- c. Formation of a loan portfolio and validation of the application of communal bank methodology to the cooperative system. CRS will assist and advise management and field personnel of the cooperatives and of FENACOAC during the stage in which communal bank loan portfolios are formed. The purpose of this assistance is to ensure that the cooperatives' staff receives training regarding communal banks and to validate adjustments to the methodology.

E. Component 5: Monitoring, evaluation and dissemination

3.6 This component will document the entire process of adjusting the communal bank model and incorporating it into Guatemala's cooperative savings and loan system, so that it can be replicated. To this end, the following activities will be carried out:

- a. Design of a monitoring and evaluation system. CRS/Guatemala and FENACOAC will develop a system that will allow them to collect information on the overall execution of the components proposed in the logical framework's matrix, using its respective indicators, and on the financial performance of the cooperatives in forming and managing communal bank loan portfolios.
- b. Semiannual evaluation workshops will be held with all of the participating institutions to gauge the progress of the plan and to make appropriate adjustments.

IV. Cost and financing

- 4.1 The total estimated cost of the project is the equivalent of US\$1,117,199, of which the MIF will contribute up to US\$554,527 in nonreimbursable technical cooperation resources, including US\$20,000 for external evaluation and audits, to be contracted by SDS/MSM. The CRS network, made up of FENACOAC and the three participating cooperatives, will be responsible for contributing US\$562,672. The following budget details the different categories of expenditures and their respective sources of financing:

Description	MIF	% MIF	Local	Total	% Total
Component 1 – Adaptation of Communal Bank Model	37,953	7%	239	38,192	3%
Consulting services / CRS	29,228		239	29,467	
Materials/ Direct costs	8,725			8,725	
Component 2 – Human Resources	101,931	19%	28,579	130,510	12%
Consulting services / CRS	29,228		239	29,467	
Consulting services / Cooperatives	70,843		28,340	99,183	
Training/Internships	1,860			1,860	
Component 3 – Formation and consolidation of rural loan portfolios at communal banks	250,486	47%	518,395	768,881	69%
Credit fund			465,300	465,300	
Consulting services / CRS	146,138		1,436	147,575	
Consulting services / FENACOAC	47,211		22,469	69,680	
Motorcycle equipment			21,000	21,000	
Transportation costs / Travel allowance	31,123			31,123	
Materials / Direct costs	13,800			13,800	
General support services	12,214		8,190	20,404	
Component 4 – Adaptation of MIS	44,228	8%	239	44,467	4%
Technical assistance	15,000			15,000	
Consulting services / CRS	29,228		239	29,467	
Component 5 – Monitoring, evaluation and dissemination	99,929	19%	15,219	115,148	11%
Consulting services / CRS	29,228		239	29,467	
Consulting services / FENACOAC	31,474		14,979	46,453	
Internal control	29,228			29,228	
Materials / Direct costs	10,000			10,000	
Sub-total for the project	534,527	100%	562,672	1,097,199	100%
External evaluation / Audits (SDS/MSM)	20,000			20,000	
Total	554,527		562,672	1,117,199	

V. Schedule of payments, reports, evaluation and audits

A. Schedule of payments

- 5.1 The project will be executed over a 24-month period, with payments made over a period of 30 months. IDB payments for execution of the project's components will be made in three tranches equivalent to 40%, 40% and 20%, respectively, of the total resources contributed by the MIF for the project. IDB payments will be subject to the presentation by CRS/Guatemala, to the Bank's satisfaction, of the

work plans and progress reports indicated in paragraph 5.3, and fulfillment of the conditions indicated in paragraphs 6.2, 6.3 and 6.4.

- 5.2 In the event of significant delays or failures to meet the objectives and indicators established in the work plan, the Bank may suspend future payments until such time as CRS/Guatemala corrects the situation.

B. Reports

- 5.3 The IDB will monitor the project, based on the work plans and progress reports that the specialized agency must present to the Bank's satisfaction:
- a. Work plan: (i) this shall be designed to meet the targets and results envisaged in the logical framework that the executing agency presents along with the financing proposal; and (ii) it shall include qualitative and quantitative performance indicators for each of the project's components. The work plan shall be presented at the start of the project and may be adjusted during the project's execution.
 - b. Progress reports are to include: (i) information on the execution of the project and on progress in meeting the objectives established in the work plan, including reference to performance indicators; (ii) an account of budget execution and of counterpart contributions made; (iii) an account of the main problems encountered or envisaged, if any, in executing the project; and (iv) adjustments to the work plan considered to be relevant, and justification thereof.
- 5.4 At the conclusion of the project, in order to aid in disseminating the experiences, the specialized agency shall present to the IDB a final report summarizing the main achievements and experiences involving innovations implemented by the project.

C. Audits and final evaluation

- 5.5 Once 100% of the MIF resources allocated for the project's five components has been disbursed (see Chapter III of this document), the Bank, through SDS/MSM, shall: (i) contract the services of an independent external auditor to examine the use of funds allocated to the project by the MIF and by the counterpart; and (ii) contract the services of an independent consultant to conduct a final evaluation of the project.

VI. Special contractual conditions

- 6.1 The financing proposal and its annexes, presented to the MIF by the executing agency in March 2001 as part of the Innovation Initiative, are incorporated into the present document.
- 6.2 For the first contract payment, CRS shall provide, to the Bank's satisfaction: (i) the terms of reference for consultants to be contracted with MIF resources

during the first year of the project; (ii) evidence of the signing of participation agreements with the entities participating in the project (FENACOAC and the three cooperatives); and (iii) the work plan for project activities (see paragraph 5.3).

- 6.3 For the second contract payment, CRS shall present a progress report (see paragraph 5.1) demonstrating that the following have occurred: (i) the first workshop to review and adapt communal bank methodology to savings and loan cooperatives (see paragraph 3.2) has been held; (ii) all activities under component 2 involving human resources (see paragraph 3.3) have been carried out; (iii) the marketing plan and the plan for portfolio formation (see paragraph 3.4) have been prepared; (iv) the MIS of the three cooperatives have been evaluated and adapted; and (v) the system for monitoring and evaluating the project has been designed.
- 6.4 For the final contract payment, CRS shall present a progress report (see paragraph 5.1) demonstrating that the following activities have been satisfactorily carried out: (i) the second workshop to review and adapt the communal bank methodology to savings and loan cooperatives has been held; (ii) the first workshop to disseminate the experience has been conducted; and (iii) communal banks have sound loan portfolios.

**Facilitating Sustainable Linkages between Central American
Microenterprise Producers and US/Regional Markets
WEIDEMANN ASSOCIATES, INC. (WAI)**

I. Specialized Institution and Beneficiaries

- 1.01 To carry out this project, the Bank, through SDS/MSM, will contract Weidemann Associates Inc. (WAI) network, which includes the following specialized microfinance institutions (MFIS's): ATUTO S. DE R.L. (Honduras), Oyanca (Nicaragua), and La Casa (Guatemala). Weidemann Associates, founded in 1989, is known for its expertise in business development services (BDS), microfinance, monitoring and evaluation, technical assistance and training. In addition, this institution has provided technical input and guidance to best practices in BDS and microfinance.
- 1.02 The Bank will sign the contract with the headquarters office of Weidemann Associates Inc, the institution that will be the point of contact for contract payments, supervision and reporting. This institution will be responsible for coordinating the project activities, hiring specific individual consultants, and providing all reports and information to the Bank and MIF, in accordance with the terms of reference detailed below.
- 1.03 The principal project beneficiaries will be rural microentrepreneurs, especially women, in Honduras, Nicaragua, and Guatemala.

II. Objectives

- 2.01 The project's general objective is to increase economic security of rural microentrepreneurs in Honduras, Nicaragua, and Guatemala. The specific objective is to increase the income generating capacity of rural microentrepreneurs, especially women, in Honduras, Nicaragua, and Guatemala by facilitating linkages to secure profitable international and regional markets for their products.

III. Description

- 3.01 The project will focus in developing the market for the home furnishing and decorative accessory subsectors, particularly in growing market for furniture accessories with iron components. The project will undertake a series of demand and supply side interventions to expand the market links and deepen and extend current exporter's reach in the rural areas of these Central American countries. On the demand side, international and regional buyers will be linked with Central American microentrepreneurs who are trained and ready to meet their product design, quality, and on-time delivery needs. This will allow buyers to diversify and expand their products sources and meet market demands. On the supply side, the project will channel market information, technical assistance and training from BDS providers to microentrepreneurs to improve their capacity to meet and respond to changes in market demand with export-quality products.
- 3.02 In order to fulfill these objectives, WAI will carry out the following activities under each of the 5 components: (i) Institutional Strengthening; (ii) Innovation and Investment in New Product Development; (iii) Market Development; (iv) Training; and (v) Information Dissemination.

A. Component 1: Institutional Strengthening

- (a) Develop a detailed business plan and first-year work plan that includes a workshop with local partners.
- (b) Assist local partners in the development of operation plans. This will include a two step process. First a local assessment of operations process, capacity, and productivity.

Second a plan for improving productivity, scheduling, information flows, inventory management, quality control, and research and development.

- (c) Assess current information tracking or management information systems in place by different partners. Upgrade these systems to instill internal controls in production and operations and provide partners with important data for decision making.

B. Component 2: Innovation and Investment in New Product Development

- (a) Based on operations plan and market assessment work with product developers to develop a product strategy that meets customer demands through product development.
- (b) Work with product developers to enhance existing products as well as new product lines ensuring that they fit with market demand and production capabilities of each of the partners.
- (c) Coordinate product design and sample making.

C. Component 3: Market Development

- (a) Perform further market research and analysis to assess the market's potential and establish specific enhancements as well as new product lines that would be developed in response to consumer demand.
- (b) Identify and develop provider/partners and producer needs to expand into national, regional and international markets.
- (c) Identify promotion techniques to reach new customers and providers.
- (d) Perform an ongoing monitoring of market trends and develop price points for each of the product lines as well as the product commercialized by partners.
- (e) Determine the scale of production required to meet and expand market needs.
- (f) Plan and implement a trade-show for existing and new buyers as part of one of the promotion techniques used to acquaint buyers with this regional Central American market.
- (g) Develop a distribution strategy to open local, regional and international markets expanding the market and increasing competition.

D. Component 4: Training

- (a) Assess the scope for linkages between producer groups, private companies, and markets.
- (b) Assist in developing a producer network and cluster strategy to smooth and increase collective output, buy raw materials at better prices, afford better and larger production equipment, share training costs for key workers, and expand production and distribution.
- (c) Assist partners to identify business training needs and set up training programs for producer networks.
- (d) Assess the scope for linkages between other development institutions to deliver social services to microentrepreneur networks.

E. Component 5: Information Dissemination

- (a) Design and set up a trade show strategy in Central America to familiarize buyers with this market in close proximity of the United States, expanding the overall market size, increasing competition, and generating more sales.
- (b) Design and produce public relations activities including outreach to media, other donors, etc.
- (c) Track and monitor indicators and produce progress reports.

3.03 The participating microfinance institutions and Weidemann Associates will disseminate the results using the following methods:

- (a) The Weidemann web site, www.weidemann.org, to share information and results with donor agencies and other microenterprise practitioners
- (b) Press releases to and, if possible, interviews with local radio and television networks, press, and other media in each country where the network operates.
- (c) The company's ongoing series of market-led development workshops.
- (d) Discussions with the IDB in Washington, DC, and with other donor agencies.
- (e) Participation at international trade shows as another venue for dissemination of the activities carried by the network.

IV Cost and Financing

4.01 The total cost of the contract is estimated at US\$760,000, of which the MIF will contribute up to US\$482,500 in non-reimbursable technical cooperation resources, including US\$20,000 for the external audit and evaluation to be contracted by SDS/MSM. The participating network will contribute US\$277,500. The chart below details the project budget, each budget category and source of funding.

DESCRIPTION	MIF	% MIF	Local	Total	% Total
Component 1: Institutional Strengthening	76,238	16%	72,888	149,126	20%
Consulting Services	64,588			64,588	
Technical Support			66,888	66,888	
Travel Expenses	11,650		6,000	17,650	
Component 2: Innovation & Investment in Product Development	179,902	39%	34,550	214,452	29%
Consulting Services	100,082			100,082	
Technical Support			25,150	25,150	
Materials/Direct Cost	50,000			50,000	
Equipment	5,500			5,500	
Travel Expenses	24,320		9,400	33,720	
Component 3: Market Development	135,733	29%	57,112	192,845	26%
Consulting Services	105,693			105,693	
Technical Support			57,112	57,112	
Materials/Direct Cost	2,500			2,500	
Travel Expenses	27,540			27,540	
Component 4: Training	55,127	12%	50,300	105,427	14%
Consulting Services	37,837			37,837	
Technical Support			50,300	50,300	
Materials/Direct Cost	10,000			10,000	
Equipment					
Travel Expenses	7,290			7,290	
Component 5: Information Dissemination	15,500	4%	62,650	78,150	11%
Consulting Services					
Technical Support			55,150	55,150	
Materials/Direct Cost	2,500			2,500	
Equipment	3,000			3,000	
Travel Expenses	10,000			10,000	
Information Systems				7,500	
Sub-total for the project	462,500	100%	277,500	740,000	100%
External Audit/Evaluation (SDS/MSM)	20,000			20,000	
TOTAL	482,500		277,500	760,000	

V Sequence of Payments, Reporting, Audit and Evaluation

A. Sequence of Payments

- 5.01 The contract will have an execution period of 24 months and a payment period of 30 months. The Bank will effect contract payments through three tranches of 40%, 40% and 20% of the total amount of MIF resources for the project. These payments will be subject to WAI's presentation of the work plans and progress reports indicated in paragraph 5.03, to the Bank's satisfaction, and to the fulfillment of the conditions indicated in paragraph 6.01 to 6.04.
- 5.02 If the project experiences significant delays or unfavorable deviations in meeting the established performance indicators, the Bank reserves the right to suspend future payments until WAI corrects the situation to the Bank's satisfaction.

B. Reporting

- 5.03 The Bank will monitor the project based on the work plans and progress reports that WAI will present to the Bank's satisfaction:
- (a) Work Plans: (i) will be designed to ensure the fulfillment of the planned project targets and outputs as established in the Logical Framework presented by WAI in original project proposal; and (ii) will include quantitative and qualitative performance indicators, where possible, for each project component to the Bank's satisfaction. The work plan will be presented at the beginning of the project and can be adjusted during its implementation.
 - (b) Progress Reports will include: (i) information on project implementation and the progress achieved in meeting objectives, including references to the performance indicators; (ii) information on budget execution and the counterpart resources provided to the project activities; (iii) information on the difficulties encountered or foreseen, if any, in project implementation; and (iv) modifications to the annual work plan that may be pertinent, and their justification. The progress reports will be presented together with the requests for the second and third contract payments.
- 5.04 At the conclusion of the project, in order to facilitate the dissemination of project results, WAI will present to the Bank a final report that summarizes the principal achievements and experiences regarding the innovations supported and developed in the project.

C. Audits and Final Evaluation

- 5.05 When 100% of MIF resources assigned to the implementation of the project's five components have been disbursed (see Section III of this document), the Bank, through SDS/MSM, will: (i) hire the services of an independent external auditor to audit the use of MIF and counterpart resources for this project; and (ii) contract an external consultant to carry out a final project evaluation.

VI Special Project Conditions

- 6.01 The original project proposal presented by WAI to the Innovation Initiative in March 2001, including its annexes, forms part of this MIF project document and the terms of reference for the contract.
- 6.02 Prior to the first contract payment, WAI will provide to the Bank's satisfaction the following: (i) terms of reference for the individual consultants to be contracted with MIF resources during the first year of the project; (ii) evidence of having designated a project coordinator; (iii) subcontracts signed with network's members; and (iv) an annual work plan for the first year of project operations (see paragraph 5.03).
- 6.03 Prior to the second contract payment, WAI will present to the Bank a progress report, as mentioned in Paragraph 5.03, which will include evidence of having completed the following activities: (i) **Component 1:** Activities (a) (b) and (c) in Paragraph 3.02, and an evaluation of the activities of the network in their use of these plans to fabricate raw materials and move them to the market as products; (ii) **Component 2:** Activities (a), and (b) in Paragraph 3.02 and a report which examines factors and trends in the gift and outdoor furniture sector and how these have informed the development of new products; (iii) **Component 3:** Activities (a), (b) and (c) in Paragraph 3.02 and an industry analysis which examines factors and trends in the gift and outdoor furniture sector and estimate the size and scope of market development activities; (iv) **Component 4:** Activities (a) and (b) in Paragraph 3.02 and a detailed reports of the critical linkages established by the project between producer groups, private companies and markets; (v) **Component 5:** Activities will be put underway and a date and plan will be presented for the organization of the first Central American trade show.
- 6.04 Prior to the third and final payment, WAI will present to the Bank a progress report, as mentioned in Paragraph 5.03, which will include evidence of having completed the following activities: (i) **Component 1:** Activity (c) in Paragraph 3.02 will be in place and a detailed report of the specifications of the management information systems in place; (ii) **Component 2:** Activity (c) in Paragraph 3.02 will be underway and a report will be prepared containing the major product innovations and investments made by each of the partners; (iii) **Component 3:** Activities (d), (e), and (f) in Paragraph 3.02 and an update of the industry analysis looking at the expansion that might be taking place in the target market as well as any other changes occurring in the make up of the market as a result of the project market development activities; (iv) **Component 4:** Activity (c) will be underway and a report of training activities conducted by the network to the producer networks; (v) **Component 5:** Activities (a), (b) and (c) will be underway and a report of these activities will be furnished; (vi) submission of terms of reference for external audit and final evaluation (see paragraph 5.05) to the Bank's satisfaction.

PROPOSED RESOLUTION

**REGIONAL. NONREIMBURSABLE TECHNICAL COOPERATIONS WITHIN THE
PROGRAM "INNOVATIONS IN FINANCIAL AND BUSINESS
DEVELOPMENT SERVICES FOR MICROENTERPRISES"**

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank or such representative as he shall designate is authorized, in the name and on behalf of the Bank, as Administrator of the Multilateral Investment Fund, to enter into such agreements as may be necessary, and to take such additional measures as may be pertinent for the execution of the projects contained in Document MIF/AT-_____ with respect to the technical cooperations selected in compliance with Document MIF/GN-55.

2. That the following amounts shall be authorized for the purpose of this resolution, chargeable to resources of the Small Enterprise Development Facility of the Multilateral Investment Fund: (i) up to US\$293,500 or its equivalent in other convertible currencies for the execution of the project described in Annex 2; (ii) up to US\$654,135 or its equivalent in other convertible currencies for the execution of the project described in Annex 3; (iii) up to US\$756,500 or its equivalent in other convertible currencies for the execution of the project described in Annex 4; (iv) up to US\$554,527 or its equivalent in other convertible currencies for the execution of the project described in Annex 5; and (vi) up to US\$482,500 or its equivalent in other convertible currencies for the execution of the project described in Annex 6.

3. That the above-mentioned amounts are to be provided on a nonreimbursable basis.