

COMPREHENSIVE PROGRAM TO SUPPORT SMALL BUSINESS AND MICROENTERPRISE

(BO-0171)

EXECUTIVE SUMMARY

**BORROWER:** Republic of Bolivia

**EXECUTING AGENCIES:** Credit subprogram:  
Nacional Financiera Boliviana, SAM [Bolivian National Finance Joint Venture] (NAFIBO)  
Technical cooperation subprogram:  
Servicio de Asistencia Técnica [Technical Assistance Service] (SAT) and Vice Ministry of Microenterprise

**AMOUNT AND SOURCE:** IDB: US\$35 million (FSO hard currency)  
Local contribution: US\$8.75 million  
Total: US\$43.75 million

**FINANCIAL TERMS AND CONDITIONS:** Amortization period: 40 years  
Disbursement period: 4 years  
Grace period: 10.5 years  
Interest rate: 1% during the grace period and 2% per annum thereafter  
Inspection and supervision: 1%  
Credit fee: 0.75%

**OBJECTIVES:** The general objective of the program is to strengthen the economy of urban and rural small businesses and microenterprises in Bolivia to reduce poverty, unemployment and social marginality.

**DESCRIPTION:** To achieve the proposed objective, the program will have two subprograms: (a) a line of credit for the granting of subloans to help small businesses and microenterprises gain access to the financial system, designed to act as a catalytic element to consolidate the continuity of the target group's participation in formal financial services; and (b) technical cooperation for direct support of the target group served by the SAT and to strengthen the agency governing the microenterprise sector.

**CESI:** The Committee on Environment and Social Impact (CESI) recommended the inclusion of rules on environmental prevention and control, and identified activities that could affect the environment. The rules have been included. The Committee also recommended the inclusion of gender issues and the participation of

indigenous groups, and these aspects were taken into consideration in preparation of the operation (paragraphs 2.29 to 2.36).

**BENEFITS:**

The program is designed to promote comprehensive development of small business and microenterprise, by helping them to gain access to credit from the formal finance system and to training, both at the management level and at the level of workers in such enterprises with the objective of increasing their productivity, increasing income and creating new sources of employment. User eligibility criteria will be strict, to prevent the exclusion or replacement of the target group.

Additional credit resources from the program, that the small businesses and microenterprises will receive will allow longer loan terms, so that investment projects in the productive sectors can be financed and microenterprises can develop and graduate.

The technical cooperation that the small businesses and microenterprises will receive under the program will improve their productive structures and the quality of the goods and services they provide, in addition to helping them to improve their management and accounting and the marketing of their products. The assistance is expected to help them gain access to modern technology, so that they can penetrate foreign markets, and thereby increase the country's exports.

**RISKS:**

Macroeconomic context: The national government has reaffirmed its willingness to maintain current policies. Nevertheless, an interruption of the macroeconomic program and an environment of price stability could discourage investment and the demand for credit under the program.

Financial intermediaries: The eligibility criteria for the ICIs that will participate in the program will be strict, so that only the most solvent ones may participate, guaranteeing effective channeling of Program funds to the target group.

**THE PROJECT'S ROLE  
IN THE BANK'S  
COUNTRY AND  
SECTOR STRATEGY:**

The principal objective of the Bank's activity in Bolivia consists of supporting the government's efforts to fight poverty, through the creation of private-sector employment opportunities and an increase in worker productivity and measures to alleviate poverty, by helping the most disadvantaged groups gain access to basic education, health,

sanitation and housing services. The strategy has three lines of action: (i) economic growth and the creation of opportunities; (ii) development of human capital and access to basic social services; and (iii) governability and consolidation of reforms.

The line of action for economic growth and the creation of opportunities emphasizes the promotion of services for rural and microenterprise development in the areas of: (a) access to credit; (b) access to nonfinancial support services; and (c) rural development and environmental protection.

In the first line of action, the Bank will concentrate on (a) expanding flows of resources for investment in microenterprises, (b) supporting policies and regulations favorable to the sector; (c) strengthening sector institutions; and (d) increasing access to financial services, especially for low-income microentrepreneurs from certain disadvantaged groups (women and indigenous groups). With regard to access to nonfinancial productive support services, support will be provided for the Technical Assistance Service (SAT) for microentrepreneurs among other activities.

**SPECIAL  
CONTRACTUAL  
CONDITIONS:**

**Conditions precedent to the first disbursement:**

(a) Credit subprogram: execution of the transfer agreement between the borrower and NAFIBO (paragraph 3.3); and entry into force of the Credit Regulations (paragraph 3.4); (b) technical cooperation subprogram: for each component, execution of the respective transfer agreements between the borrower and the SAT and the Vice Ministry of Microenterprise (paragraph 3.3); entry into force of the Operating Regulations for the component under the responsibility the SAT (paragraph 3.22); and a system to gradually cover the SAT's operating costs (paragraph 3.36).

**Conditions during the life of the loan:** Once 25% of the funding has been disbursed, the borrower and the Bank will evaluate the program's progress so that any necessary revisions and adjustments to the agreed-upon implementation mechanisms (paragraph 3.46) can be made. In addition, there will be contractual clauses requiring progress reports and audited financial statements for each of the executing agencies. In addition, borrowing caps will be established for the ICIs and the subborrowers (paragraphs 3.16 and 3.18).

**Recognition of previous expenditures:** Up to US\$1.5 million in expenses incurred may be recognized as part of the proposed financing and US\$375,000 as part of the local counterpart funding (paragraph 3.39).

**PROCUREMENT OF  
GOODS AND  
CONSULTING  
SERVICES:**

The threshold above which international competitive bidding will be required for procurement under the technical cooperation subprogram will be US\$350,000 for goods and US\$200,000 for consulting services (see paragraphs 3.40 to 3.42).

**SOCIAL  
CLASSIFICATION:**

As established in paragraph 2.13 of the Eighth Replenishment document (document AB-1704), the proposed operation qualifies as a social program, since many of the activities it encompasses are designed to create income and employment opportunities for the most disadvantaged segments of Bolivian society, through development of the microenterprise sector. The operation also qualifies as a poverty-targeted program (paragraph 2.15 of document AB-1704).

## I. FRAME OF REFERENCE

### A. Macroeconomic framework

- 1.1 In the last decade, Bolivia has established conditions fundamental to accelerating its economic growth. The program of structural reforms reestablished macroeconomic stability and stimulated moderate growth in the economy. The first generation of reforms, implemented between 1985 and 1989, included, among others: (i) unification of the exchange rate; (ii) elimination of restrictions on imports and movement of capital; (iii) tax incentives for nontraditional exports; (iv) liberalization of the job market; (v) guarantees for foreign investment; (vi) simplification of the tax system; (vii) elimination of official prices; and (viii) decontrol of interest rates. As a result of these measures, price stability was achieved, the fiscal deficit reduced, and the economy revitalized. In 1994, the second generation of reforms was initiated with administrative decentralization, the "capitalization" of State-owned companies, and State and education reform. By the end of 1997, the country had achieved the economic targets of an Enhanced Structural Adjustment Facility (ESAF) with the IMF, and it is continuing with its program of structural reform.
- 1.2 These changes, complemented by social policies, will improve the living conditions of the population. Inasmuch as the reduction of poverty is one of the principal goals for achieving sustained economic growth, the government is committed to continued implementation of social reforms, principally in the areas of education and health and it will make greater efforts to improve rural development.
- 1.3 The Property and Popular Credit Act was passed to promote greater economic growth and achieve better living conditions for the population. Its objective consists in consolidating the right of ownership in capitalized companies and democratizing credit through the use of *acciones populares* (individual ownership interest in capitalized companies) as a guarantee for loans from the formal financial system. At the same time, the operation of NGOs, second-tier entities and financial system regulations will be normalized and regulated.

- 1.4 Comprehensive support for the development of small business and microenterprise is top priority 1/. This sector is the principal generator of employment and rural development will depend in great measure on the productive growth that small rural units can achieve in the near future. This program will contribute to the achievement and fulfillment of these objectives.

B. The financial system and its relationship with the target group

1. General characteristics

- 1.5 The Bolivian financial system has progressed remarkably since 1985; the level of deposits increased from US\$60 million in 1985 to more than US\$3.3 billion in 1997. Deposits are concentrated primarily in banks, although the participation of other nonbanking institutions has been growing gradually and these now account for 13% of total deposits. The structure of the public's deposits shows a predominance of fixed-term transactions, 43% of which are deposits with terms of over 360 days. This situation reflects a decrease in the volatility of the system's resources.
- 1.6 The system's portfolio plus contingent liabilities increased from US\$856 million in 1987 to US\$4.381 billion in 1997. Of the system's total gross portfolio 4.4% is in arrears, and the average level of loan loss provisions was 30% of the total portfolio in arrears. Of the total portfolio, 75% is concentrated in loans of over US\$100,000, granted to 2% of borrowers. On the other hand, loans of less than US\$5,000 (5% of the total) cover 80% of borrowers. This situation drove local authorities to promote the creation and development of credit institutions to serve the small business and microenterprise sector (private financial funds (FFPs), mutual savings and loan associations, savings and loan cooperatives, etc.) in regions other than the central corridor (La Paz, Cochabamba and Santa Cruz).
- 1.7 The system faced difficulties with some banks, but these difficulties were soon overcome. The system's solvency has improved significantly, reducing the possibility of systemic risk. The net worth of banking institutions has continued to grow,

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1/ For purposes of the program, small businesses and microenterprises are defined as individuals or legal entities performing activities related to production, trade or the provision of services, and which, in the judgment of participating intermediary credit institutions (ICIs), have the technical and financial capacity to implement and/or perform the activity that is the object of the financing. Borrowers in the credit subprogram will have to meet the following requirements: (a) have no more than 20 employees, including the owner; (b) have total productive assets of no more than US\$50,000; and (c) have annual sales that do not exceed US\$200,000.

reaching the equivalent of US\$357 million by the end of 1997. National legislation established that financial institutions must maintain a net worth of at least 10% of total risk assets and contingent assets weighted according to risk, a requirement that is being met satisfactorily.

- 1.8 The dynamic growth of microfinance institutions was achieved without a legal or regulatory framework. The majority began their activities informally, without SBEF supervision by the SBEF [Superintendency of Banks and Financial Institutions]. At this time, the rapid expansion of their deposit and lending activities requires prompt normalization of their activities, because microfinance institutions will not be able to remain informal intermediaries without affecting the financial stability and monetary management of the country.
- 1.9 Financial institutions can be classified as regulated or unregulated, depending on whether they are supervised by the SBEF. Regulated institutions account for 92% of the financial system's portfolio, and consist of 12 private domestic banks, four foreign banks, nine savings and loan cooperatives, fourteen mutual savings and loan companies for housing, five (FFPs), seven general bonded warehouses and two financial service companies. Unregulated financial institutions consist of approximately 35 financial NGOs and 193 savings and loan cooperatives which transact business only with their members.
- 1.10 The financial market is fragmented. Commercial banks offer financing to large and medium-sized businesses. BANCOSOL, created exclusively to serve microenterprise, and two small commercial banks (Banco Unión and Banco Económico) are exceptions. The FFPs that grant credit to microenterprises and loans for the purchase of consumer goods constitute the most promising group for directing resources to the target group. Regulated savings and loan cooperatives finance the purchase of consumer goods and, to a lesser extent, small and medium-sized businesses.

## 2. Financing of small business and microenterprise

- 1.11 The financing of small business and microenterprise is limited essentially by: (i) commercial banking's ignorance of the sector and the appropriate technology to serve it; (ii) concentration of commercial bank operations in the cities in the main corridor (La Paz, Cochabamba and Santa Cruz); and (iii) the informal status of the financial NGOs that substantially serve microenterprise, which does not permit them to absorb a greater proportion of domestic savings or to have access to official lines of credit. This operation will cooperate with the government to overcome these limitations.
- 1.12 Financial system rules and regulations require that only supervised institutions accept deposits, limiting informal institutions'

source of resources to foreign assistance, which is deposited without appropriate risk analysis criteria and without the supervision of the competent authority. Notwithstanding, recent studies indicate that only 22% of rural microenterprises and 24% of urban ones have access to any form of credit, demonstrating that more than three quarters of these companies do not have access to financial services.

- 1.13 Through the catalytic line of credit, this program will support the consolidation and normalization of financial intermediaries and the adoption of effective standards for granting credit to the target group. The inclusion of both small business and microenterprise in the program is due to the following: (i) the most successful microenterprises become small businesses, although they continue to obtain financial services from their original ICIs; (ii) the portfolio of the ICIs is diversified, allowing them to keep microentrepreneurs who have graduated into being owners of lower-risk small businesses; and (iii) longer loan terms will promote the development of investment projects for larger microenterprises and small businesses, with high potential for expanding their activities.
- 1.14 The ICI guarantee requirements have not limited the increase in the flow of resources to the target group. The ICIs have the ability to evaluate the quality of loans and request the appropriate level of guarantees. Most guarantees are joint and unsecured, with a lower proportion guaranteed by real property, because of the circumstances of the borrowers. Two new elements will improve the provision of guarantees: (i) the Property and Popular Credit Act, which will allow *acciones populares* to constitute a guarantee; and (ii) the improvement of chattel and real property records which will be instituted with the help of international organizations.

### 3. Participating nonbank financial intermediaries

#### a. Private financial funds (FFPs)

- 1.15 FFPs channel resources to small business owners and microentrepreneurs borrowers in urban and rural areas. They act under the general framework established by the Banks and Financial Institutions Act and other regulatory requirements of the Central Bank and the SBEF. Although regulations for the establishment and operation of these funds and internal procedures to handle formalization applications have been drafted, the corresponding rules are still being developed. Currently, the SBEF is evaluating applications from various institutions that want to become FFPs. In March 1998, there were five FFPs in operation and four in the process of being established.

b. Nongovernmental organizations (NGOs)

- 1.16 The Banks and Financial Institutions Act defines nongovernmental organizations (NGOs) as nonbanking financial institutions. As long as they do not have a license to operate from the SBEF, they are not permitted to accept deposits from the public, and they make their loans with resources from foreign grants and loans. Local authorities are encouraging the formalization of (financial) NGOs with the objective of normalizing and supervising their borrowings and loans. The SBEF has created a special unit for this purpose, and at present four NGOs are processing their formalization and incorporation into the regulated system.

c. Savings and loan cooperatives (SLCs)

- 1.17 Savings and loan cooperatives constitute an important source of financing for urban and rural small business and microenterprise. They can accept fixed-term deposits from their members and can turn to Nacional Financiera Boliviana (NAFIBO) to obtain financing. There are approximately 200 but only 17 are supervised by the SBEF. The amount of an average SLC loan is US\$2,600, and the maximum does not exceed US\$10,000. In 1997, the debt to equity ratio of regulated SLCs was 18%, higher than the 10% required for the rest of the system. Nevertheless, the rate of arrears (17%) was higher than that of the banking system (4.4%). In view of this situation, only two or three SLCs would be participating in the Program.
- 1.18 The SBEF issues licenses and supervises the "open" SLCs which engage in operations with their members, the public in general, and with domestic and foreign financial institutions that target low-income groups. These cooperatives must be set up in accordance with the General Cooperative Companies Act, and their operations and activities are subject to the Banks and Financial Institutions Act. The SBEF is developing internal procedures to deal with formalization applications from other cooperatives and to bring them into line with the law which regulates their operation.

4. Superintendency of Banks and Financial Institutions

- 1.19 The supervision the SBEF exercises over the banking system is satisfactory. In late 1997, the SBEF created the Intendencia de Entidades No Bancarias [Office of Nonbanking Institutions] (IENB). USAID and the IDB (with MIF resources) provided technical cooperation funding to strengthen the operation of the IENB and thereby improve the quality of financial services for the target group (TC-97-10-37-9). Execution of the operation is proceeding satisfactorily. The United States Agency for International Development (USAID) is committed to allocating the majority of its contribution, and the principal portion of the project will be completed shortly. The proposed program will benefit from the results achieved under the above-mentioned project, which will have

made significant progress by the time the present program is initiated.

C. The microenterprise sector

- 1.20 The microenterprise sector, including informal businesses and self-employed workers, for several years has been the principal generator of employment and income at the national level.
- 1.21 At the end of 1997, the microenterprise sector employed 1.85 million people, the equivalent of 58.7% of the country's employed population. Urban microenterprises are primarily engaged in trade (47.6%) and manufacturing (22.7%), as a result of the new opportunities generated after the economic stabilization process in 1985-1987. Deregulation of the exchange system and foreign trade contributed to an increase in imports and the marketing of the imported goods domestically.
- 1.22 It has been estimated that there are on the order of 850,000 microenterprises 2/ nationally, of which almost 500,000 are urban businesses. The trade sector showed an average of 1.15 workers per company, which indicates that the great majority of people in the sector are essentially self-employed workers. Companies in the manufacturing sector had an average of three workers, while those in the construction sector had 2.5, the social services sector, 2, and the transportation and communications sectors, 3 workers per economic unit.
- 1.23 The microenterprise sector has become a valid alternative in the fight against poverty, permitting: (i) the generation of employment and income at a reduced cost; and (ii) the incipient development of an entrepreneurial mentality, in a country in which the State was traditionally the most important player in the economy. The average annual income generated by a microenterprise has been sufficient to keep the owner's family above the extreme and relative poverty lines 3/.

D. The small business sector

- 1.24 The majority of productive businesses in Bolivia belong to this sector. Small businesses that employ between five and 29 people account for 17% of the total, and those that employ over 30 people,

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2/ To establish the number of businesses, the number of people was divided by the average number of workers per economic unit (2.18 persons), according to information obtained from credit NGOs.

3/ According to the World Bank definition, the extreme poverty line is the monetary value of one basket of basic food items of 2,200 calories per day and the relative poverty line corresponds to the monetary value of two baskets.

barely 3%. The program will support small businesses with up to 20 employees in order to reach the smaller units.

- 1.25 Given a limited and technically backward industrial sector, with limited capacity to generate employment, small business activity has alleviated the unemployment problem, although its contribution could have been even greater with a combination of appropriate policies and specific programs to support and promote their activities. This program contemplates that type of support through the Servicio de Asistencia Técnica [Technical Assistance Service] (SAT). Small businesses, establishments employing between five and 29 people, provided 34,583 jobs in 1990, which represents 74% of the people employed in industry as a whole. The greatest concentration of that percentage is in urban centers.
- 1.26 In recent years, the growing need to compete internationally has increased the interest of small businesses in acquiring the factors they need to modernize, particularly in the area of technical advice on production, quality control, marketing and training. The factors that limited the growth of demand were: (i) limited perception of the need for those services; (ii) the difficulty in identifying suppliers of those services who are reliable and can adapt to specific needs; (iii) the cost of available services; and (iv) limited capacity to negotiate, define contract specifications, evaluate results and implement consultants' proposals.

E. The Bank's experience in the sector

1. IDB support for microenterprise in Bolivia

- 1.27 Since 1982, the Bank's support for microenterprise in Bolivia has been significant. This support consisted primarily of the financing of NGOs and cooperatives through the Small Projects Financing Program. The total amount of Bank financing for small projects was US\$19.5 million at December 1997. Through the Multilateral Investment Fund (MIF), the IDB, has made capital contributions so that some NGOs could qualify. These contributions have been on the order of approximately US\$2 million. The Inter-American Investment Corporation (IIC) supported the creation of BANCOSOL with a capital contribution, and it later sold its interest, supporting the creation of one of the most important financial institutions for microenterprises in Bolivia.
- 1.28 The line of activity program (TC-98-02-39-0 for US\$10 million), financed with MIF resources and administered by the Microenterprise Unit of the Sustainable Development Department (SDS/MIC), will provide nonreimbursable resources for institutional strengthening and expansion of activities of the ICIs in amounts of up to US\$300,000 for each entity selected. The aforementioned operation will complement the objectives of the proposed program, facilitating the qualification of ICIs eligible to participate in it.

## 2. Support for microenterprise from other cooperation agencies

- 1.29 USAID has supported the financing of microenterprise in Bolivia since 1987. This support has been given to NGOs, SLCs and the SBEF. Support for NGOs has consisted of the financing of operations, technical assistance and the financing of operating costs. The beneficiary institutions include PRODEM, AGROCAPITAL, SARTAWI, PROMUJER and FIE. USAID also participated in the creation of BANCOSOL, and it is currently considering mechanisms to help that institution raise long-term resources.
- 1.30 Support for the SLCs has consisted of: (i) the creation of a stabilization fund for cooperatives in the amount of US\$2.4 million; and (ii) technical assistance to cooperatives with the collaboration of the World Organization Community of Credit Unions (WOCCU).
- 1.31 Support from other cooperation agencies (Sweden and Germany primarily) in the microenterprise sector has been limited to grants, loans on concessional terms and technical assistance to the NGOs of their choice. Technical assistance to these ICIs is directly administered by the international cooperation organizations, and is provided on different terms, but always at lower rates of interest and for longer periods than those in force in the national financial system. The exception to this generalization would be the Swiss cooperation agency, which financed US\$2 million for the operation and activities of the Microcredit Program.
- 1.32 Lastly, through Private Sector Development loan IDA-2134-BO in the amount of US\$4.5 million, the World Bank supported investments in domestic companies, including microenterprises, in amounts of up to US\$300,000. The operation is being executed by NAFIBO.

## F. Strategy of the Bank with the country

- 1.33 The principal objective of the Bank's activity in Bolivia consists of supporting the government's efforts to reduce poverty, by promoting sustained growth through efforts in the productive infrastructure, microenterprise and rural development sectors; promoting the creation of private-sector employment opportunities and increasing worker productivity; and supporting direct actions to improve access to basic education, health, sanitation and housing services. The strategy consists of three lines of action: (i) economic growth and the creation of opportunities; (ii) development of human capital and access to basic social services; and (iii) support for governability and consolidation of reforms.
- 1.34 The line of action for economic growth and the creation of opportunities, emphasizes the promotion of services for rural and microenterprise development in the areas of: (i) access to credit;

(ii) access to nonfinancial support services; and (iii) rural development and environmental protection.

## II. THE PROGRAM

### A. Objectives

- 2.1 The program's general objective consists of contributing to the strengthening of the rural and urban small business and microenterprise economy in Bolivia, in order to reduce poverty, unemployment and social marginality.
- 2.2 The program's specific objectives are to: (i) help the participating ICIs meet the growing demand for credit from small business and microenterprise in a self-sustainable manner; and (ii) support the development and technical strengthening of the small businesses and microenterprises served by the SAT, and of the sector's governing regulatory body.

### B. Beneficiaries

- 2.3 The program beneficiaries will be small businesses and microenterprises established as self-employed individuals or business entities, that carry out activities in production, trade or the provision of services. These businesses may be individuals or companies, rural or urban, based in Bolivia.

### C. Description

- 2.4 To achieve its objectives, the program will have two subprograms: (i) a line of credit for the granting of subloans through formal supervised ICIs, which will also use local resources for the same objectives; and (ii) technical cooperation to provide technical, business and direct institutional support to the target group.

### D. Credit subprogram

- 2.5 The subprogram's resources will be used to grant short- and medium-term loans to individuals or firms in the small business and microenterprise sector that require them to finance working capital and the acquisition of fixed assets to establish, consolidate, expand and/or increase the productivity of their economic activities. The subprogram will be carried out by NAFIBO.
- 2.6 NAFIBO is a second-tier joint venture financial institution established in December 1995. Eighty per cent of its shares are owned by the Republic of Bolivia and the remaining 20 per cent by the Andean Development Corporation (CAF). The institution's objective is the financial intermediation of funds exclusively to private financial institutions, legally established and supervised by the SBEF. Its purpose is to ensure a sustainable supply of medium- and long-term funds to support private investment with the goal of contributing to the economic growth of the country. In

1997, total NAFIBO assets reached the equivalent of US\$43.6 million, of which 98% corresponded to the loan portfolio. Portfolio arrears were nonexistent. Liabilities totaled US\$10.4 million and net worth, US\$33.2 million. A large capacity for financial leverage and a low return on equity (3.6%) were observed.

- 2.7 The multisector nature of the program, the allocation of resources under market conditions and the intermediation of supervised ICIs will help ensure optimal channeling of the program resources. The ICIs will assume full credit risk for the subloans, which will be granted under financial conditions freely agreed upon by the parties.

E. Estimated demand and sizing

- 2.8 While credit needs are growing at an accelerated pace, the supply of financial services is limited by: (i) the small number of formal entities serving the target group; (ii) the reluctant attitude of large and medium-sized commercial banks toward financing the sector; and (iii) the fact that unregulated institutions are prohibited from accepting deposits.
- 2.9 It is estimated that regulated institutions willing to finance the target group would cover a demand of approximately US\$87.7 million, a figure higher than the amount proposed for the credit subprogram (US\$15 million). The consolidated net worth of these institutions as of December 1997 was more than US\$100 million, with only US\$13.3 million of liabilities to the Central Bank of Bolivia (BCB)-NAFIBO. The only other line available to NAFIBO to cover the demand consists of a loan from the Germany cooperation agency KfW for DM 8 million, which is being processed concurrently with the proposed program. The FFPs and SLCs would channel 56% of that demand, leaving 44% for BANCOSOL and the two small commercial banks. It is estimated that three commercial banks, five FFPs and two SLCs will participate in the program.
- 2.10 However, meeting to the demand for credit in the rural sector will increase significantly because of: (i) the policy adopted by the government (Property and Popular Credit Act) of encouraging the establishment of private ICIs in smaller municipalities and localities; (ii) the use as loan guarantees of *acciones populares* distributed as a result of the capitalization of State-owned enterprises; (iii) the formalization and expansion of the operations of financial NGOs; and (iv) the support of the SAT, which will improve the quality of borrowers, by introducing modern production, administration and marketing techniques.

F. Financing of 80% of the Program

- 2.11 The Bank's participation in the credit subprogram is designed to supplement domestic savings, not replace it. The operation was

designed to introduce elements of regulation that will improve credit activity for the target group. The Bank's participation does not imply that it will cover the entire demand for credit on the part of the target group. Unmet demand for financing from small business and microenterprise greatly exceeds the program amount, and there is no incentive for intermediaries to stop attracting domestic savings, their natural source of financing. The greatest attraction could be the longer loan terms for certain operations with a greater investment content.

- 2.12 In 1997 the formal system portfolio for the target group totaled the equivalent of US\$485.5 million, and most of it was financed by attracting domestic savings deposits. The proposed operation represents only 3% of that amount. The cost of the program resources is higher than the system average deposit rate, adjusted for reserve requirements, and is therefore less attractive to the ICIs than attracting savings deposits.
- 2.13 The objective of the line of credit is to act as a catalyst and to lengthen loan terms for microentrepreneurs prepared to expand their activities. As a catalyst, the line of credit will lead to adoption by NAFIBO and the ICIs on an ongoing basis of the following concepts in their services for the target group: (i) clear definition of the latter; (ii) interest rates consistent with those recorded in the national market; (iii) borrowing cap (equal to the net worth of the ICIs); (iv) an incentive to attract domestic savings to supplement the funds needed, by requiring that at least 30% of liabilities consist of deposits by individuals; (v) formalization of participating financial institutions under the supervision of the Superintendency of Banks; and (vi) identification, monitoring and control of environmental impact. Loans granted with resources from the KfW and Canadian Group will be subject to the Operating Regulations of this operation, adopting the Bank's project criteria.
- 2.14 The limit, equal to the net worth of the ICIs, for gaining access to NAFIBO's rediscount will allow credit to be offered to a greater number of entities. Even with this limit, the ICIs that might participate in this program have a consolidated net worth of more than US\$100 million, with BCB-NAFIBO rediscounts of US\$13.3 million. These amounts mean that the proposed line of credit would cover, in the best case, only 17% of the amount of financing to which participating ICI could gain access.
- 2.15 The possible financing will not be detrimental to ICI efforts to attract their own resources. The rediscount calls for the intermediary to agree to allocate a minimum of 20% of its own resources to cofinance the program. Needless to say, at the subloan level, the form of "local contribution" in these programs will vary according to each operation's characteristics with respect to cost structure, beneficiary qualifications, categories eligible for financing, guarantees, national regulations and the

ICI's decision based on its perception of project risk and sustainability. In each operation, there are resources, from both the company's own sources and those of the financial system, that will be raised to finance the company's activity. In practice, the Bank financing represents a minor portion of the investment, production or expansion plan of a small business or microenterprise. In the Bank's experience, in many cases, its resources finance just 35% to 50% of the unmet needs of the beneficiary companies.

- 2.16 Preparation of Operating Regulations for the program will require the ICIs to demonstrate that, prior to their access to the program, at least 30% of their total liabilities are in savings deposits by individuals.
- 2.17 A quick analysis of two of the ICIs most likely to qualify to participate in the program shows the following: (i) BANCOSOL is financed: 67% by domestic savings deposits, 13% by its own equity and 20% by resources from financial organizations and institutions; and (ii) Caja Los Andes is financed: 52% by domestic savings, 13% by its own equity and 35% by international organizations.
- 2.18 In summary, by its very nature, the program does not include any steering or subsidy for interest rates. The program is catalytic: it will help to normalize the supply of resources and will encourage the technical strengthening of the ICIs and consolidation of their equity. The program amount and conditions are not attractive enough to discourage ICIs from attracting domestic savings deposits, and its cost will prevent them from changing their motivation to obtain domestic resources themselves. In addition, NAFIBO will not finance an entity whose funds came solely from international organizations. NAFIBO is a joint venture, in which private-sector criteria and policies are followed. It conducts rigorous risk analyses on its clients and on the requirements and use of the funds it provides. Under no circumstances would it constitute the principal or the only creditor of an ICI.

G. Technical cooperation subprogram

a. Direct support for small businesses and microenterprises

- 2.19 This component will have as its objective the development and strengthening of the business capacity of small business and microenterprises.
- 2.20 To achieve its objective, the component will partially cofinance training activities, technical assistance, marketing, direct services for companies in the Action Program for Women in

Productive Small Business and Microenterprise 4/ and such other programs as may be created as a result of demand from the end-beneficiaries.

- 2.21 The component will be implemented by the Technical Assistance Service (SAT), which is a decentralized government agency, with recognized legal status, independent assets, and autonomy for technical, administrative and financial management. It has a mixed board of directors, composed of two representatives of the public sector and five representatives of the private sector, of recognized prestige.
- 2.22 The SAT was created to contribute to the development of the private productive sector in urban, periurban and rural areas. It came into existence in August 1990 (Agreement IDA 2134-B0), with implementation of the component to provide technical assistance to improve the productive capacity of domestic industry, with an emphasis on small business and microenterprise. It operates under a mechanism driven by demand from the end-beneficiaries, serving them either as a "first-tier" or "second-tier" institution through some 100 intermediary institutions 5/ which channel the demand of the entrepreneurs.
- 2.23 The final evaluation of Agreement IDA 2134-B0 produced the following results on the SAT's performance: (i) through August 1997, it invested US\$10.7 million in 2,707 projects, benefitting 56,967 entrepreneurs in the sector; (ii) it has devised, tested and validated the "intervention methodology" processes of: consortia; flexible specialization; total quality processes; business development, business assessment and gender intervention; (iii) it has ensured demand from the target groups, reflecting the real needs of entrepreneurs and has developed an supply of consulting services specific to the sector, which did not exist before; (iv) it has validated simple procedures for entrepreneur access, directly or through intermediary institutions. The projects submitted annually to the SAT are analyzed in detail by its experts, reviewed according to parameters established to ensure their viability, and summarized in an operating plan which is approved by the board of directors, subject to nonobjection by the financing organization; (v) it has developed a database of consulting services available by specialty and area of activity at the national level, maintaining a record of consultant performance and has also instituted an informal system for tracking and monitoring their operations; and (vi) it has earned the confidence of such other organizations as the European Union to implement the technical assistance component of the Project for Assistance and

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4/ In coordination with the Vice Ministry for Gender Issues, and Family.

5/ Trade associations, business chambers, nongovernmental organizations, public utilities, financial institutions.

Promotion of Small Private Initiatives (PROMMI project) and of the Swiss government to perform business service activities for the private sector.

b. Institutional strengthening of the Vice Ministry of Microenterprise

- 2.24 This component will have as its objective to support the development and strengthening of the government agency that governs and regulates the microenterprise sector in Bolivia.
- 2.25 To achieve this objective, the component will finance the hiring of technical consulting services to review and formulate proposals on high-priority topics on the regulatory framework affecting the development of microenterprise; conduct basic studies for the formulation of policies and strategies; develop an information system with basic data on microenterprise; and organize technical events to disseminate national and international experiences in financial and nonfinancial services for microenterprise.
- 2.26 The component will be implemented by the Vice Ministry of Microenterprise (VMM) of the Ministry of Labor and Microenterprise (MTM), which is empowered to act as the governing and regulatory agency for the microenterprise sector, pursuant to Law 1788 and Supreme Decree 24855.
- 2.27 It is the responsibility of the Vice Ministry of Microenterprise to perform the following activities: (i) formulate policies and promote the development of microenterprise; (ii) support and stimulate technical training for administrative management of microenterprise; (iii) foster the development of microcredit, especially in regulated nonbank financial institutions for microenterprise; and (iv) ensure compliance with the Cooperatives Act, by promoting development of the system and its adaptation to market conditions.

H. Cost and financing

- 2.28 The cost and financing of the program would be the following (in thousands of United States dollars):

| CATEGORY                             | IDB           | LOCAL CONTRIBUTION | TOTAL         |
|--------------------------------------|---------------|--------------------|---------------|
| 1. Credit subprogram                 |               |                    |               |
| 1.1 Credit operations                | 14,850        | 3,750              | 18,600        |
| <b>SUBTOTAL</b>                      | <b>14,850</b> | <b>3,750</b>       | <b>18,600</b> |
| 2. Technical cooperation subprogram  |               |                    |               |
| 2.1 Technical Assistance Service     | 18,810        | 4,750              | 23,560        |
| 2.2 Vice Ministry of Microenterprise | 990           | 250                | 1,240         |
| <b>SUBTOTAL</b>                      | <b>19,800</b> | <b>5,000</b>       | <b>24,800</b> |
| 3. Inspection and supervision        | 350           | 0                  | 350           |
| <b>TOTAL</b>                         | <b>35,000</b> | <b>8,750</b>       | <b>43,750</b> |
| %                                    | 80            | 20                 | 100           |

I. Environmental concerns

- 2.29 To comply with the recommendations of the CESI, specialized outside consulting services were hired and concluded that the microenterprise activities for the most part, pose no environmental risks or involve environmental risks which are not significant.
- 2.30 Nevertheless, the program includes measures for environmental prevention and control. Several of the risks stem from inadequate basic sanitation infrastructure in the places where the activities are being carried out. The possible environmental impact is the following: (a) proliferation of vectors and transmission of diseases through water pollution and lack of hygiene in the manufacture and shipment of food; and (b) water pollution from the discharge of detergents, dyes, reagents and organic matter.
- 2.31 The national agencies responsible for compliance with rules and regulations for environmental protection are weak. Despite international support to strengthen them, their limited operation and capability have been recognized. To address this situation and support increased awareness and protection of the environment, the Credit Regulations for the credit subprogram include the following provisions:
- Using a standard categorization, based on the International Standard Industrial Classification (ISIC), the SAT will classify the subloans according to their environmental impact.
  - The ICIs will provide the SAT, through NAFIBO, with the ISIC rating of the subloans they grant.

- c. The SAT will select the activities with an adverse environmental impact and will promote training and technical assistance programs for environmental prevention and control for small business and microenterprise, in accordance with its services. Also, through specialized services, annual evaluations will be performed on a representative sample of operations with a high negative impact. To that end, use will be made of the stipulation that subborrowers must facilitate inspections, which should appear in all subloan contracts.
- d. Subborrowers that need technical assistance to prevent and control adverse environmental impact may obtain it from the SAT. Subborrowers disqualified by the annual environmental impact assessments will not be eligible for future financing unless they comply with the recommendations to mitigate the negative impact.

J. Social impact

- 2.32 In accordance with the provisions of the Eighth Replenishment document (document AB-1704), the proposed operation qualifies as a social program, since its activities are designed to create employment and income opportunities for the most disadvantaged groups in Bolivian society, through development of the small business and microenterprise sector. It also qualifies as a poverty-targeted program because of the characteristics of the target group for which the program is designed, which has a low per capita income and difficult living conditions.

K. Gender issues

- 2.33 Since 1985, with changes that arose from radical economic measures and their social consequences, many families found microenterprises to be an alternative means of survival. This phenomenon spread throughout the country, and by 1992, the participation of women in the domestic economy was already very significant. Of the 2.5 million economically active persons, almost 1 million were women. In the informal sector, approximate assessments indicate that some 60% are women. This high percentage of participation by women in microenterprise and small business is related to the nature of these businesses, 80% of which are family initiatives.
- 2.34 In recent years, efforts have been made to change the situation of women, which affects the family and quality of life of Bolivians. Among these efforts, this program calls for activities to provide direct services to the target population would be carried out under the activities to be implemented by the SAT, either directly to beneficiaries or through women's business associations.
- 2.35 In addition, through training activities normally cofinanced by the SAT, the program will also include the gender-specific elements necessary to achieve an increase in the percentage of women clients

in ICI credit operations. The executing agencies have procedures for classifying loans by the gender of the beneficiaries. The proportion of credit granted to female microentrepreneurs can therefore easily be determined.

1. Participation of indigenous groups

- 2.36 The largest proportion of indigenous groups is found in the rural sector. The program will promote the establishment and expansion of ICI operations in that sector. Consequently, indigenous groups will be able to obtain financial services located in proximity to the areas in which they are situated. Also, the technical assistance to be provided by the SAT includes technical production and marketing support for groups of artisans, organized by indigenous communities, who will seek to improve the quality of their products, which are usually offered to tourists and in many cases are exported. One of the priorities of the SAT is to provide support to groups and microentrepreneurs located outside the central corridor and, in particular, to rural populations.

### III. EXECUTION

#### A. Borrower and executing agencies

- 3.1 The borrower in the program will be the Republic of Bolivia, represented by the Ministry of Finance (MH).
- 3.2 The executing agency for the credit subprogram will be Nacional Financiera Boliviana [Bolivian National Finance Joint Venture] (NAFIBO). The executing agencies for the technical cooperation subprogram will be the Technical Assistance Service (SAT) and the Vice Ministry of Microenterprise. Each executing agency will be responsible for fulfilling the applicable contractual conditions set forth in the contract between the Bank and the borrower.
- 3.3 Prior to the first disbursement of loan proceeds for each of the program components, the borrower, on the one hand, and NAFIBO, SAT and the Vice Ministry of Microenterprise on the other, will enter into agreements under which the borrower will transfer the program resources to each of the other parties in accordance with the conditions established in the loan contract with the Bank.

#### B. Implementation of the loan subprogram (US\$18.6 million; 80% IDB, 20% local)

- 3.4 The resources of the subprogram will be allocated to eligible ICIs, according to guidelines established in Credit Regulations. For its part, NAFIBO and eligible participating ICIs will enter into an Agreement for participation in the program and opening of a line of credit. A condition precedent to the first disbursement of the loan for the subprogram will be that NAFIBO has implemented the Credit Regulations negotiated with the Bank. The main elements of the Credit Regulation proposed for this operation are described below.

##### 1. Eligibility of ICIs and subborrowers

- 3.5 To participate in the subprogram, ICIs must meet the following eligibility criteria:
  - a. Be subject to the supervision and inspection of the Superintendency of Banks.
  - b. Submit evidence to the satisfaction of NAFIBO of the ability to promote, evaluate and administer the subloans.
  - c. No more than 10% of an ICI's total portfolio, calculated on outstanding balances, may have been in default for more than 30 days, nor may more than 5% of the total portfolio net of reserves be in arrears.

- d. Financial performance in real terms must be positive.
  - e. The ratio of net worth to assets classified by risk may not be less than 10%, applying the weighting criteria of Basle Committee standards.
  - f. Savings and loan cooperatives may maintain as institutional net worth 10% of risk-weighted assets in accordance with Basle Committee standards.
  - g. The ratio of liabilities for domestic savings deposits to total liabilities may not be lower than 30%, and is to be computed quarterly. ICIs commencing activity as formal institutions will have two years to reach that percentage.
- 3.6 Small businesses and microenterprises, established as self-employed individuals or business entities, which perform activities related to production, trade or the provision of services, and which, in the opinion of the participating ICIs, have the technical and financial capacity to implement and/or perform the activity to be financed, may be borrowers under the subprogram. The ICIs may grant financing to small businesses and microenterprises established as individuals and firms, located in rural and urban areas, and based in Bolivia. Subborrowers will have to meet the following requirements in order to have access to credit: (i) have no more than 20 employees, including the owner; (ii) have no more than US\$100,000 in total productive assets; and (iii) have annual sales that do not exceed US\$200,000.

## 2. Transfer of resources

- 3.7 NAFIBO will be responsible for channeling the loan resources through the ICIs that meet the subprogram's eligibility requirements. The participating ICIs will assume the credit risk of the respective subloans and will be responsible for use of resources, in accordance with the Operating Regulations.

## 3. Interest rates

### a. General factors

- 3.8 The program interest rate was determined, taking into account three factors. First, the FSO rate for the Republic of Bolivia would not be transferred to NAFIBO. NAFIBO's rate would be a market rate reflecting that institution's real cost of attracting deposits. The spread would be retained by the Treasury, to cover debt service on the nonreimbursable technical assistance components. Second, in order to ensure that the program resources supplement rather than replace domestic savings, the interest rate for ICIs would remain consistent with the domestic financing costs of attracting funds for those entities, which in the domestic market reflects the system's average deposit rate (ADR) 180-day deposits, adjusted for

reserve requirements, plus 0.5% for institutions with a track record in the system or 1.5% for new ICIs recently formalized by the SBEF. Finally, in no case may the rate for transfer from NAFIBO to the ICIs be lower than the Bank's lending rate for ordinary capital (OC) loans granted from the currency pool, as reported semiannually. The end users rate would be determined freely by the ICIs, according to the risk, term and cost of each operation.

- 3.9 The financial liberalization process initiated in 1985 has eliminated managed interest rates, leaving the determination of interest rates to the forces of supply and demand. The new strategy has (i) contributed to better allocation of resources, increasing the efficiency of the investment; (ii) had a positive influence on income distribution, allowing small savers to receive positive interest rates; (iii) resulted in the payment of attractive deposit rates, which encourage domestic savings and the repatriation of capital; and (iv) expanded access to credit to owners and operators of small businesses and microentrepreneurs, by making allowing rates to vary in accordance with the cost and risk of the operations.
- 3.10 As a result, there has been a decrease in lending and borrowing rates, owing to the stability of prices and exchange rates, greater direct outside financing for large businesses and lines of credit to qualified local banks. Approximately 95% of active loans are denominated in United States dollars. In April 1998, deposit rates in the banking sector for dollar deposits fluctuated between 7% and 8.5%. The annual average deposit rate (ADR), represented by 180-day certificates of deposit, was 7.81%. NAFIBO offered loans for exports at an annual rate of LIBOR (180 days) plus 1% (6.75%). Foreign banks and other sources of financing, including the Andean Development Corporation, offered annual rates between LIBOR plus 1% and LIBOR plus 2.5% (between 6.75% and 8.25%). The program rate would fluctuate between an annual rate of ADR plus 1% and ADR plus 3% (8.81% to 10.81%). The ADR to be used in the program would be adjusted for reserve requirements for that period of operations.
- 3.11 The lending interest rate for end users has shown a downward movement, although it is still deemed high considering that loans to small business owners and microentrepreneurs are denominated in United States dollars. This high spread is due to the high costs of administering loans to microenterprise and the risks implicit in these operations, which represent 66% of the lending rate. In 1996, the average annual rate at regulated institutions was 48%, and in April 1998, it was down to 30%. This decrease can be explained by: (i) adoption of better credit technology by the ICIs; (ii) a significant increase in the loan portfolio, and a relative decrease in operating costs; and (iii) more experience on the part of the ICIs, resulting in lower arrears and the establishment of reserves.

b. Determination of the transfer rate to ICIs

- 3.12 The interest rate for the transfer of resources to the ICIs will be determined on the basis of the average deposit rate (ADR) in the national system for 180-day dollar deposits, adjusted for reserve requirements, plus a percentage which will fluctuate between 0.5% and 1.5%, in accordance with the risk perceived by NAFIBO for each ICI. Rates determined in this manner will include a NAFIBO risk and administration commission of between 2% and 3%. The ADR, adjusted for reserve requirements, will be determined taking into consideration the reserve level and earnings thereon, in accordance with the following formula:

$$ADRa = ADR / (1-r) - c (i)$$

where: ADRA Average weighted system rate, adjusted for reserve requirements.

ADR = average weighted rate for 180-day term deposits in foreign exchange reported by the Central Bank of Bolivia

r = percentage of total reserve requirements for 180-day term deposits in foreign exchange, according to national legislation

c = percentage of reserve requirements receiving earnings, according to national legislation

i = Average interest rate of earnings

- 3.13 The ICIs may freely apply the interest rates they deem appropriate for each subloan, adding their intermediation spreads to the transfer rate for resources referred to in the previous paragraph.

c. Other conditions for subloans

- 3.14 Subloans to the ICIs and to small business owners and microentrepreneurs would be denominated in United States dollars.
- 3.15 The terms of the subloans will be determined by the ICI granting the respective subloan, on the basis of its estimate of the subborrower's ability to repay the subloan, not to exceed 60 months.
- 3.16 The amounts to be granted to the ICIs using the loan proceeds may not exceed their net worth.
- 3.17 The ICIs may charge interest penalties on loan arrears in the event of nonpayment by the subborrowers at normal financial market rates.
- 3.18 The small business owners and microentrepreneurs may receive credit to be charged to program resources in total amounts not to exceed

the equivalent of US\$30,000, and the average amount of ICI subloans may not exceed US\$3,000.

C. Implementation of the technical cooperation subprogram

1. Direct support for small businesses and microenterprises  
(US\$23.56 million; IDB 80%; local 20%)

- 3.19 The component resources will be allocated to cofinance training, technical assistance and marketing activities through rules established in the Operating Regulations. Services will be provided by specialized consultants. Demand will be identified by the SAT directly through eligible development agencies. The SAT will enter into a participation agreement with eligible intermediaries.
- 3.20 Under this component, up to the equivalent of US\$2 million of the financing may be used for direct services for businesses through the Action Program for Women in Productive Small Business and Microenterprise 6/ in coordination with the Vice Ministry for Gender, Generational and Family Issues.
- 3.21 In addition, the SAT may use up to 10% of the resources of the financing for this component for initial institutional strengthening activities for the agency, identified in the analysis of the operation (consulting services: in management, organization and systems, evaluation, regional institutionalization and computer equipment) to improve the service it provides, and to expand the scope of its activity in the country. For the selection of each of these consulting services and for the procurement of the goods required, the respective terms of reference and specifications of the equipment to be procured must be previously approved by the Bank. These resources may not be used to finance salaries or support staff.
- 3.22 It will be a condition precedent to the first disbursement of the loan resources for the component that the SAT have implemented the Operating Regulations previously negotiated with the Bank. The most important elements of the Operating Regulations proposed for this operation are presented below.

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6/ The cost of this program is US\$5 million. The components for direct services to businesses have been selected from it for financing; the remaining components (studies and institutional strengthening) will be financed by other international organizations.

a. Eligibility of beneficiaries, intermediaries and executing agencies

- 3.23 The beneficiaries of the SAT will be private businesses in the production sector in general, and especially the country's small businesses and microenterprises, individually or in groups. The requirements for being a beneficiary of the SAT's services will be: (i) meet the definition of beneficiary; (ii) not have any outstanding obligations with the SAT; and (iii) submit an application consistent with the programs and objectives supported by the SAT.
- 3.24 The SAT's intermediaries will be those public or private institutions that perform activities to support, foster and develop the private productive sector (promotion agencies) or a group composed of businesses involved in the sector (business development institutions) which act as intermediaries with the SAT, administering the allocation and disbursement of resources for the financing of projects identified under SAT programs.
- 3.25 The SAT executing agencies will be those public or private institutions that provide technical assistance, training and marketing services to the target group. The following are the requirements to be an executing agency:
- 3.26 **Individual consultants:** (i) have a professional or technical degree in their areas of specialization, issued by a university, professional school, or technical training center recognized by the Ministry of Education or a foreign educational institution; (ii) have at least three years of experience; consultants who do not have the aforementioned credentials must prove that they have at least five years of experience in their area of specialization; (iii) in those cases in which there are no consultants qualified in accordance with the aforementioned requirements, the SAT board of directors will determine whether other consultants should be hired; and (iv) have no pending conflicts or outstanding obligations with the SAT.
- 3.27 **Consulting Firms:** (i) have recognized legal status; (ii) be registered as a taxpayer in the General Internal Revenue Office (RUC); and (iii) neither the firm nor the professionals assigned to implement the projects may have any pending conflicts or outstanding obligations with the SAT.
- 3.28 **Businesses providing goods and services:** (i) have recognized legal status; (ii) be duly registered as a taxpayer in the RUC; and (iii) have no pending conflicts or outstanding obligations with the SAT.
- 3.29 **Individual providers of goods and services:** (i) have no pending conflicts or outstanding obligations with the SAT; and (ii) prove

evidence of experience in providing services in their specialization or area.

b. SAT financing

- 3.30 The technical assistance consists of providing advice on site to businesses and groups of businesses for the purpose of modernizing and improving their competitiveness, by hiring consultants or specialized consulting firms to resolve specific problems in the areas of administration, production and marketing. In addition, institutional support will be provided for the SAT promotion agencies to improve management of the projects and services carried out for their target group through incentives such as training of their human resources and institutional technical assistance.
- 3.31 **Training** will be provided for human resources development through the transfer of knowledge, skills, know-how and attitudes in courses, seminars and workshops.
- 3.32 **Marketing** services will be provided to help open markets for marketing the sector products, at both the national and international level.

c. Cofinancing

- 3.33 The contribution to be provided by the beneficiaries and intermediary institutions is defined in the Operating Regulations. The percentage applicable to each project will depend on the type of beneficiary and the following factors: (i) type of access, either direct or through intermediaries; (ii) type of project; (iii) frequency of support for the beneficiary during the period of SAT involvement; and (iv) incentives for subsectors. The weighting of these factors will determine the minimum beneficiary contribution (MBC).
- 3.34 In all cases, the contribution of the beneficiaries will be made ex ante in cash to the SAT's authorized account. The contribution may not be made in inputs, logistical support or other similar forms.
- 3.35 For group projects (with more than four beneficiaries), the contribution of the intermediary institutions may be lower than that stated, if authorized in advance by the SAT's board of directors.
- 3.36 The government wishes to make this service financially sustainable, and, to that end, upon program completion, the SAT will have financed up to 40% of its operating costs through internal generation of funds, by which time the SAT must have the ability to be totally self-financed. This goal will depend on the efficiency of the SAT's activities to implement a larger number of projects, which will contribute to greater support for its operation. In

this effort, it is estimated that it will be necessary initially to have external financing, a situation which will be progressively normalized by increasing the beneficiary contribution percentage and decreasing the costs of project execution. To achieve this objective, the SAT is reviewing its policies and legal viability. To ensure that the SAT can progressively cover its operating expenses through the services it cofinances, as a condition precedent to the first disbursement, it must propose to the Bank a cost recovery system that will enable it to meet this requirement. The SAT will inform the Bank in the progress reports of the system it has decided to implement, and the resources will appear in an independent account.

2. Support for the Vice Ministry of Microenterprise (US\$1.24 million; IDB 80%, local 20%)

3.37 The component resources will be used to finance consulting services to strengthen the recently created Vice Ministry of Microenterprise. The services to be financed are the following:

- a. International consultant and national consultant (US\$75,000 IDB contribution) to review the regulatory framework for the creation, closure, formalization (or normalization) and tax system for microenterprise, and, based on the review, to formulate proposals to issue, amend and/or improve the respective legal regulations, for a period of four months each.
- b. Consulting services for the development and implementation of a national information system for microenterprise development (US\$120,000 IDB contribution, which includes US\$36,000 for equipment and programs).
- c. International consulting services and eligible support services to disseminate new technologies in the area of financial and nonfinancial services to microenterprise, through conferences (US\$95,000 IDB contribution).
- d. Consulting services for a national microenterprise survey (US\$650,000 IDB contribution). In addition, a comparative study will be conducted on microcredit technologies in Bolivia. The cost of this specific study is estimated at US\$50,000. This study will be conducted directly by the Bank.

D. Disbursement schedule

3.38 The program would be implemented according to two calendars. Under the credit subprogram, plans call for resources to be committed in three years, and disbursed in four years. The technical cooperation subprogram will be disbursed in four years. Semiannual disbursements are planned for both subprograms, in accordance with the following schedule:

| DISBURSEMENT SCHEDULE<br>(in thousands of U.S. dollars) |              |              |              |              |              |              |              |              |               |              |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|--------------|
| SOURCE/<br>SIX-<br>MONTH<br>PERIOD                      | 1            | 2            | 3            | 4            | 5            | 6            | 7            | 8            | TOTAL         | %            |
| IDB   | 3,500        | 1,485        | 3,500        | 5,303        | 5,303        | 5,303        | 5,303        | 5,303        | 35,000        | 80.0         |
| ICI   | 0            | 375          | 600          | 600          | 600          | 600          | 400          | 575          | 3,750         | 8.5          |
| Businesses  | 0            | 475          | 712          | 712          | 712          | 712          | 712          | 715          | 4,750         | 10.8         |
| Government  | 0            | 25           | 37           | 37           | 37           | 37           | 37           | 40           | 250           | 0.7          |
| <b>TOTAL</b>  | <b>3,500</b> | <b>2,360</b> | <b>4,849</b> | <b>6,652</b> | <b>6,652</b> | <b>6,654</b> | <b>6,452</b> | <b>6,631</b> | <b>43,750</b> | <b>100.0</b> |

E. Recognition of previous expenditures

- 3.39 The borrower has asked the Bank to recognize expenses incurred and expected to be made up to the loan approval date. The project team reviewed the amounts committed and the procedures followed to grant subloans to the target group. Based on this review, the team estimates that the Bank may recognize up to US\$1.5 million as part of the proposed loan and US\$375,000 as part of the local counterpart funding for expenses incurred in the 12 months prior to the loan approval date, in accordance with the applicable Bank policy.

F. Revolving fund

- 3.40 In conformity with prevailing Bank regulations, the program's rotating fund will be 5% of the amount financed for each component.

G. Procurement procedures

1. Procurement of goods

- 3.41 The procurement of goods required for program implementation, which may be financed in whole or in part with the loan proceeds, will be subject to normal Bank procedures. The threshold over which procurement is to take place by international competitive bidding will be US\$350,000.

2. Selection and hiring of consulting services

- 3.42 The selection and contracting of consulting services will be done in accordance with Bank procedures, as outlined in Annex C to the Loan Contract. Selection and contracting of consulting services in amounts greater than or equal to US\$200,000 will be done through an international call for proposals.

- 3.43 The contracting of consulting services by the small businesses and microenterprises participating in the program, given that they are private-sector entities, will follow the Bank's policies and procedures on the appropriate use of loan funds, eligibility of nationality and services, and the application of the principles of economy and efficiency.

3. General review procedures

- 3.44 The Bank shall conduct adequate supervision of the critical phases of the procurement process and administration of the resulting contracts. Its objective shall be to safeguard the rule of economy and efficiency applicable to the use of financing and effective program implementation, as well as the Bank's principles and policies on procurement. The executing agencies in turn must cooperate with the Bank in this supervision; to that end, and as part of the orderly process of goods procurement and the contracting of services, they are to retain and make available to the Bank all documents and records related to procurement and contract administration when requested to do so.
- 3.45 All procurement of goods in excess of US\$350,000 and contracts for services in excess of US\$200,000 handled directly by the executing agencies shall require prior consent of the Bank at each stage. Other procurement and contracts for goods and services shall follow agreed-upon procedures and the Bank shall be informed on a timely basis so for review purposes.
- 3.46 The nature of the SAT component, anticipated volume and the existence of a directory of valid consulting services, will enable businesses to utilize information from the directory to try to select and contract consulting services from a list of at least three firms. The directory shall be updated annually through the publication of notices in national and international newspapers (e.g. the United Nations publication "Development Business").

H. Tracking and Monitoring

- 3.47 Particular attention shall be paid to the monitoring and evaluation of the initial phases. With the objective of adjusting the Program on a timely basis, a review and evaluation of the program shall be conducted when 25% of the loan amount has been disbursed.
- 3.48 Agreement has been reached on monitoring activities designed to generate information on the program during implementation. This information will serve to identify any changes needed in both the program's administration and its operating mechanisms, and also to enable national authorities and the Bank to verify compliance with agreed conditions.
- 3.49 As part of the control and monitoring activities, the executing agencies shall generate periodic reports which shall be submitted

to the Bank as regular progress reports. They shall also present reports on the independent audits planned for each subprogram and component.

- 3.50 The reports referred to in the preceding paragraph must be presented by each executing agency within 60 days after the end of each semiannual period. The reports should explain the status of the implementation of the component as a whole, and contain the following information: (i) quality and achievement of objectives (indicate goals achieved and qualitative aspects of same, using the indicators provided); (ii) cost (by source of financing, explain implementation status and whether variances are anticipated); (iii) in the case of the SAT, progressive recovery of variable costs (degree of progress); (iv) overall status of implementation (identify problems and real causes), prospects for progress and future risks; (v) progress (for each activity, as applicable); (vi) procurement of goods (purchases made, method, goods acquired, origin of goods, individual cost, as applicable); and (vii) hiring of consultants (individuals, consulting firms, selection procedure, nationality, specialization, purpose for which they were hired, and cost).

#### IV. BENEFITS AND RISKS

##### A. Benefits

###### 1. For small business and microenterprise

- 4.1 The program is designed to promote the comprehensive development of small business and microenterprise, facilitating their access to credit from the formal financial system and to training, both at the business level and at the level of the workers associated with the sector, with the objective of increasing their productivity, improving earnings and creating new sources of employment. User eligibility criteria are strict, to prevent any exclusion or substitution of the target group.
- 4.2 Additional lending funds to be made available to small businesses and microenterprises under the program will make it possible to extend loan periods, allowing investment projects in the production sectors to be expanded and leading to development and graduation of units close to becoming bigger businesses.
- 4.3 The technical cooperation they will receive through the SAT will improve their productive structure and the quality of the goods and services they supply, also helping them to improve their administration and accounting and the marketing of their products. The assistance will enable them to gain access to modern foreign technology, making it possible for them to break into foreign markets, to the benefit of the country's exports.

###### 2. For financial intermediaries

- 4.4 The credit subprogram will have a catalytic effect, since it will introduce concepts into the operations of NAFIBO and the ICIs that they will continue to use in the provision of financial services to the target group. Among these are: (i) clear definition of the target group; (ii) rates of interest consistent with those of the national market; (iii) debt limits equal to the net worth of the ICIs, boosting deposits of domestic savings to meet needs for funds; (iv) identification, tracking and control of environmental effects. Loans granted with resources provided by KfW and the Canadian Group would comply with the same Operating Regulations agreed upon for this operation.
- 4.5 Integration of the new ICIs into the formal financial system will increase the number of intermediaries, increasing competition and, improving rates of interest and terms of operations aimed at the target group. In addition, it will enable informal organizations to normalize their activities under SBEF supervision. In this way, new entities will operate transparently, competing under the same rules and regulations for attracting and investing domestic savings as the remaining institutions in the financial market.

- 4.6 Also, the provision of technical assistance services to small business and microenterprise will improve the quality of ICIs' clientele, enabling them to make better investments and, consequently, to reduce risk on their loan portfolio. The inclusion of new and better clients from the target group, in addition to increasing the number of their operations, will enable the ICIs to diversify their portfolio by reducing dependency on certain activities and geographic regions. By facilitating financing for the target group, the ICIs will develop a new market segment, which in time will require other types of financial services, with an effect on the profitability of the ICIs.

### 3. For the financial system

- 4.7 Regularizing operations of the new ICIs and their inclusion in the formal credit market will facilitate management of the Central Bank's monetary and credit policy, affording greater transparency in financial transactions. In addition, it will help to increase competitiveness within the system by promoting the incorporation of other entities, and it may direct savings of the target group to regulated ICIs, eliminating the risks involved in their investment in organizations or individuals of an irregular and speculative nature.

### 4. For women

- 4.8 The level of women's participation in the target group is one of the highest in the region (55%). The proposed program contains elements designed to consolidate and facilitate the participation of women. The commercial and services subsector eligible to participate in the program shows a high presence by women who would benefit directly from the financial and technical assistance the program offers.

### 5. For the environment

- 4.9 The program calls for major steps to involve owners and operators of small businesses and microentrepreneurs in preserving the environment. In the case of activities classified as potentially having an adverse effect on the environment, subborrowers will be required to take steps to mitigate this impact. The SAT will select activities with a negative environmental impact, and will promote technical assistance and training programs to prevent and control the negative environmental effect that could be caused by some of the target group's activities. Subborrowers will facilitate inspections and will not allow those activities to be financed with program resources.

B. Risks

1. Macroeconomic context

- 4.10 Interruption of the macroeconomic program and an environment of price stability would discourage investment and demand for credit from the program, as well as the willingness of the ICIs to grant credit. Nevertheless, the national government has reaffirmed its readiness to stay the course of existing policy.

Financial intermediaries: Eligibility criteria for the ICIs to participate in the program will be strict, such that only the most solvent may participate, guaranteeing the effective channeling of program funds to the target group.

2. Program additionality

- 4.11 The development of formal non-banking institutions that provide credit services to the target group has been significant, and the loan portfolio they have generated is considerable. Therefore, it could be deduced that the credit subprogram would be a substitute for the ICIs' own funds, which are earmarked to cover the financial needs of the target group. This situation is not likely because of: (i) the limited amount of program resources earmarked for loans and their catalytic effect, aimed at consolidating and introducing technical standards that the Bank promotes in these kinds of operations; (ii) the considerable demand for small business and microenterprise loans, so that program resources will be used basically to improve the structure of loan terms for some subloans; (iii) the program's interest rate, which is higher than the average deposit rate prevailing in the market; and (iv) the strict eligibility criteria for ICIs and their obligation to demonstrate that their liabilities contain at least 30% public deposits. An appropriate control has been anticipated by the recommendation that the program's progress be reviewed once 25% of the program resources have been committed.

# LOGICAL FRAMEWORK

| OBJECTIVES   | OBJECTIVELY VERIFIABLE INDICATORS  | MEANS OF VERIFICATION   | ASSUMPTIONS  |              |        |       |        |   |  |
|--|--|---|--|--------------|--------|-------|--------|---|--|
| <b>OBJECTIVE:</b><br>The economy of productive urban and rural small businesses and microenterprises in Bolivia, generate employment, and reduce poverty and social marginality.                 |  |   |  |              |        |       |        |   |  |
| <b>PROGRAM OBJECTIVE:</b> To assist small businesses and microenterprises to access the financial system so as to ensure regular, ongoing participation and growth in formal financial services. | <ul style="list-style-type: none"><li>- Number of and increase in ICIs with credit operations for microenterprise</li><li>- Volume in US\$ and existing operations/contracts in microenterprise portfolios (stocks)</li><li>- Total customers served/total new customers (flow)</li></ul>  | National statistics<br>Central Bank of Bolivia, <i>Boletín Informativo</i><br>Superintendency of Banks, <i>Boletín Informativo</i>  | Political and economic stability   |              |        |       |        |   |  |
| Ensuring that the subprogram meet the demand for credit on the part of the microenterprises on a self-sustainable basis, also generating income for the microenterprises.                        | <ul style="list-style-type: none"><li>- Diversification of the portfolio: 20% of the portfolio in fixed assets by December 2001</li><li>- Existing microenterprise portfolio financed with own funds</li><li>- Growth, in real terms, in the volume of savings for ICI (compared with the situation before the subprogram)</li></ul>   | <ul style="list-style-type: none"><li>- Evaluations to be conducted during program execution</li><li>- Semiannual progress reports</li><li>- Annual audited subprogram financial statements</li></ul> | Economically viable institutions that can grant loans to microenterprise on a self-sustainable basis |              |        |       |        |   |  |
| <b>Specific Objective:</b><br>To ensure that the subprogram meet the demand for credit on the part of the microenterprises (subloans)  | <ul style="list-style-type: none"><li>- Average loan amount granted (each year)</li><li>- Number of loans granted (per year)</li><li>- Average amount of current loans</li><li>- Number of current loans</li><li>- Growth in the portfolio of loans to microenterprise (in real terms)</li><li>- Quality of the portfolio:<br/>Outstanding balance of loans more than 30 days past due equal to less than 5% of total microenterprise portfolio (participating ICIs)</li></ul> | <ul style="list-style-type: none"><li>- Inspection and monitoring visits</li><li>- Semiannual progress reports</li><li>- Annual audited subprogram financial statements</li></ul>                     |  |              |        |       |        |   |  |
| Financial management of subprogram resources   | Budget (in thousands of US\$)<br><br><table><tr><td><u>IDB</u></td><td><u>LOCAL</u></td><td><u>TOTAL</u></td></tr><tr><td>14,858</td><td>3,750</td><td>18,600</td></tr></table>  | <u>IDB</u>  | <u>LOCAL</u>   | <u>TOTAL</u> | 14,858 | 3,750 | 18,600 | <ul style="list-style-type: none"><li>- Chart of accounts</li><li>- Disbursements</li><li>- Inspection and monitoring visits</li><li>- Semiannual progress reports</li><li>- Annual audited subprogram financial statements</li></ul> |  |
| <u>IDB</u>   | <u>LOCAL</u>   | <u>TOTAL</u>  |  |              |        |       |        |   |  |
| 14,858   | 3,750  | 18,600  |  |              |        |       |        |   |  |

| OBJECTIVES   | OBJECTIVELY VERIFIABLE INDICATORS | MEANS OF VERIFICATION   | ASSUMPTIONS |
|--|-----------------------------------|---|-------------|
| <b>COOPERATION</b><br><b>OBJECTIVE:</b> to increase the number of small businesses and microenterprises and to strengthen the agency governing microenterprise in Bolivia  |                                   | SAT progress reports  |             |
| <b>Support for small businesses and microenterprises:</b> to develop a market for business services to improve the competitiveness of small businesses and microenterprises<br><br><b>Strengthening of the Vice Ministry of Microenterprise:</b> to strengthen the agency governing microenterprise in Bolivia   |                                   | <ul style="list-style-type: none"> <li>- Evaluations to be conducted during program execution</li> <li>- Semiannual progress reports</li> <li>- Audited annual subprogram financial statements</li> </ul> |             |
| <b>Support for small businesses and microenterprises:</b> (a) technical assistance; (b) marketing; and (c) action plans for women in productive small and microenterprise<br><br><b>Strengthening of the Vice Ministry of Microenterprise:</b> (a) review of policy framework; (b) national strategy system for the development of microenterprise; (c) dissemination of new information; and (d) national survey of small businesses and microenterprises |                                   | <ul style="list-style-type: none"> <li>- Inspection and monitoring visits</li> <li>- Semiannual progress reports</li> <li>- Audited annual subprogram financial statements</li> </ul>                     |             |

| OBJECTIVES   | OBJECTIVELY VERIFIABLE INDICATORS   | MEANS OF VERIFICATION   | ASSUMPTIONS               |              |                           |              |        |       |
|--|---|---|---------------------------|--------------|---------------------------|--------------|--------|-------|
| ort for small businesses and<br>prises: (a) selection and hiring<br>g services for the<br>tion of activities; and<br>ing of services for technical<br>raining and marketing and<br>ram for women in productive<br>ss and microenterprise | Budget (in thousands of US\$)   | <ul style="list-style-type: none"><li>- Chart of accounts</li><li>- Disbursements</li><li>- Inspection and monitoring visits</li><li>- Semiannual progress reports</li><li>- Annual audited subprogram financial statements</li></ul> |                           |              |                           |              |        |       |
|  | <table><tr><td><u>IDB</u></td><td><u>LOCAL CONTRIBUTION</u></td><td><u>TOTAL</u></td></tr><tr><td>18,810</td><td>4,750</td><td>23,560</td></tr></table> |   |                           | <u>IDB</u>   | <u>LOCAL CONTRIBUTION</u> | <u>TOTAL</u> | 18,810 | 4,750 |
| <u>IDB</u>   | <u>LOCAL CONTRIBUTION</u>   | <u>TOTAL</u>  |                           |              |                           |              |        |       |
| 18,810   | 4,750   | 23,560  |                           |              |                           |              |        |       |
| l strengthening of the Vice<br>Microenterprise: (a) selection<br>f consulting services for<br>tion of activities; and<br>ment of goods   | Budget (in thousands of US\$)   |   |                           |              |                           |              |        |       |
|  | <table><tr><td><u>IDB</u></td><td><u>LOCAL CONTRIBUTION</u></td><td><u>TOTAL</u></td></tr><tr><td>990</td><td>250</td><td>1,240</td></tr></table>       | <u>IDB</u>  | <u>LOCAL CONTRIBUTION</u> | <u>TOTAL</u> | 990                       | 250          | 1,240  |       |
| <u>IDB</u>   | <u>LOCAL CONTRIBUTION</u>   | <u>TOTAL</u>  |                           |              |                           |              |        |       |
| 990  | 250   | 1,240   |                           |              |                           |              |        |       |

**BOLIVIA**  
**COMPREHENSIVE PROGRAM TO SUPPORT SMALL BUSINESS AND MICROENTERPRISE**  
**(BO-0171)**

**Proposed procurement plan for the program: technical-cooperation subprogram**

| Main procurements                              | Financing |         |           | Method   | Prequalification |  |
|--|-----------|---------|-----------|--|------------------|--|
|  | IDB       | Local   | Total     |  |                  |  |
| Component                                      |           |         |           |  |                  |  |
|  |           |         |           |  |                  |  |
| Consultants                                    | 400,000   | 40,000  | 440,000   | Competition                                      | No               |  |
| Organization and systems                       | 300,000   | 60,000  | 360,000   | Competition                                      | No               |  |
| Evaluation and monitoring                      | 200,000   | 40,000  | 240,000   | Competition                                      | No               |  |
| Regional institutionalization                  | 300,000   | 60,000  | 360,000   | Competition                                      | No               |  |
|  |           |         |           |  |                  |  |
| Equipment (PC and software)                    | 200,000   | 40,000  | 240,000   | Shopping   | No               |  |
| Services for services)                         | 100,000   | 20,000  | 120,000   | Shopping   | No               |  |
| Total for the Vice Ministry of Microenterprise |           |         |           |  |                  |  |
|  |           |         |           |  |                  |  |
| Regulatory framework                           | 75,000    | 15,000  | 90,000    | Competition                                      | No               |  |
| Information system                             | 120,000   | 24,000  | 144,000   | Competition                                      | No               |  |
| Studies and research                           | 95,000    | 19,000  | 114,000   | Competition                                      | No               |  |
| Baseline survey                                | 650,000   | 120,000 | 770,000   | Consulting firm/international call for proposals | Yes              |  |
|  |           |         |           |  |                  |  |
| Equipment (PC and software)                    | 36,000    | 7,200   | 43,200    | Shopping   | No               |  |
|  | 2,476,000 | 445,200 | 2,921,200 |  |                  |  |

**PROPOSED RESOLUTION**

**BOLIVIA. LOAN /SF-BO TO THE REPUBLIC OF BOLIVIA  
PROGRAM TO SUPPORT SMALL AND MICROENTERPRISES**

The Board of Executive Directors

**RESOLVES:**

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Bolivia, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a program to support small and microenterprises. Such financing will be for the amount of up to US\$35,000,000, or its equivalent in other currencies, except that of Bolivia, which are part of the Fund for Special Operations of the Bank, and shall be subject to the "Special Contractual Conditions" and the "Terms and Financial Conditions" of the Executive Summary of the Loan Proposal.