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BOLIVIA

RURAL CREDIT AND INVESTMENT FUND AND TECHNICAL ASSISTANCE FOR PRODUCTIVE AND COMMERCIAL SMES

(SP/TC-02-02-00-6-BO)

FINANCING AND TECHNICAL COOPERATION PROPOSAL

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INFORMATION AVAILABLE IN SDS/MSM FILES

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PRODEM Foundation: Institutional presentation form and Annexes

PRODEM Foundation: Financial statements and history

Fundación Bolivia Exporta: Corporate environmental policy

PRODEM financial statements, 1999 to 2001

Description of Fundación Bolivia Exporta (FBE)

Financial projections

EXECUTION:

Operating and Credit Regulations

Itemized budget

ABBREVIATIONS

BPRS	Bolivia Poverty Reduction Strategy
MFI(s)	microfinance institution(s)
MIF	Multilateral Investment Fund
NGO(s)	nongovernmental organization(s)
PRODEM	Foundation for Microenterprise Promotion and Development
SEP	Social Entrepreneurship Program
SPP	Small Projects Program

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EXECUTIVE SUMMARY

Executing agency: Fundación para la Promoción y Desarrollo de la Microempresa [Foundation for Microenterprise Promotion and Development] (PRODEM)

Amount and source:	Reimbursable financing:	US\$1,000,000
	Technical cooperation:	US\$ 380,000
	Local contribution:	<u>US\$1,425,000</u>
	Total:	US\$2,805,000

The resources will come from the net income of the Fund for Special Operations (FSO).

Financial terms and conditions:	Amortization period:	20 years
	Grace period:	5 years
	Disbursement period:	5 years
	Interest rate:	2.5% per annum
	Currency:	U.S. dollars

The grace period applies only to repayment of principal, not to interest. The Financing will be denominated and repaid in U.S. dollars. PRODEM will assume the entire credit and exchange risk of the Financing.

Terms:	Implementation period:	60 months
	Disbursement period:	66 months

Problem addressed: The convergence of a number of factors makes this a propitious time to propose alternative ways of channeling Social Entrepreneurship Program funds to Bolivian small and mid-sized enterprises (SMEs) that have the potential to considerably improve the lives of the country's rural and periurban poor. These factors are: (i) the need to support poverty reduction efforts, particularly to tackle rural poverty, by making funding available to productive-commercial SMEs that purchase goods and services from low-income small producers; (ii) the difficulties faced by such SMEs in borrowing or securing other investment finance, and (iii) the Bank's and the Bolivian government's strategy to promote rural and microenterprise development.

In light of the above, it is proposed that a *Rural Credit and Investment Fund for Productive and Commercial SMEs* be established within PRODEM (the executing agency) whereby, to help supply the unmet demand for this kind of financing, the Bank would make available a nimble, reliable second-tier facility to channel funds to the poorest population groups. The financial support envisaged in the proposed program will take the form of loans, equity investments and technical cooperation for SMEs that buy goods and services from small producers, preferably based in rural areas. The planned arrangement would spur production and the development of chains that take in low-income suppliers of raw materials and other inputs (small producers). The end result will be a stronger production chain and a larger market. At the start of the chain, small producers living in poor areas of Bolivia will see their income rise and their employment and socioeconomic prospects improve.

Objectives: The program's **general objective** is to help enhance the economic and earning prospects of about 800 low-income rural households by means of viable productive and commercial activities.

Its **specific objectives** are to: (i) facilitate funding access for at least seven SMEs so they can expand their productive-commercial services that benefit low-income small producers, and (ii) help the targeted small producers and microentrepreneurs to better absorb production technologies and know-how, through complementary technical assistance, training and other services.

Description: The total program budget comes to US\$2,805,000. The Bank's share of the program cost will be the equivalent of US\$1,380,000; PRODEM will contribute US\$1,425,000. The program consists of two components: (i) reimbursable financing to establish the Rural Credit and Investment Fund for Productive and Commercial SMEs (hereinafter the "Fund") and (ii) nonreimbursable technical-cooperation funding.

With the **reimbursable financing** (Bank: US\$1 million, PRODEM: US\$1 million), PRODEM will set up the Fund, which will provide financing for at least seven SMEs over the life of the program, adhering to the strategies and procedures established therein. Using the Bank's funding PRODEM will provide medium- and long-term loans to the SMEs, which will have been selected by reference to social, financial, business, and environmental criteria and other specific requirements set out in the Operating and Credit Regulations. Using these funds the SMEs will expand their productive-commercial operations, the aim being to boost the flow of money to the small producers who supply the SMEs' raw materials. The Bank-sourced

reimbursable funds are to be used exclusively to increase the working or operating capital of the subborrower SMEs that are directly related to their input purchases from the small suppliers.

Complementing the above-described activity, PRODEM will use its cash counterpart resources to capitalize the SMEs that receive the loans, by way of venture capital, convertible debt, or other vehicles. The SMEs are to use this funding for capital investments such as: (i) machinery or equipment purchases to expand their productive or operating capacity, (ii) expansion of plants or other production facilities, and (iii) other business needs. Operating details for this funding are described in the Operating Regulations and Credit Regulations.

Financing terms will be tailored to each subloan operation, but the following conditions will apply for the average total portfolio: (i) subloan **minimum and ceiling**: US\$100,000 and US\$200,000, the anticipated average being US\$150,000; (ii) **grace period**: 0 to 3 years; (iii) maximum **repayment term**: 5 years; (iv) **currency**: subloans will be denominated and repaid in U.S. dollars. The end-borrowers may make payments in local currency calculated at the dollar equivalent on the payment date. The exchange rate to be used for that purpose is the rate representing the real market cost of securing dollars; (v) anticipated average **interest rate** for the program: 12% per annum on outstanding balances, in dollars; (vi) **disbursement fee** charged to subborrowers: 2.5%.

The object of the **nonreimbursable technical cooperation** (Bank: US\$380,000, PRODEM US\$425,000) is to fund *complementary activities* (associated with approved subloans) benefiting the targeted small producers, to hire consultants to help them with supplier cluster facilitation and coordination, training and technical assistance in production, commercial, social and environmental matters, and for purchases of equipment and small infrastructure from the final beneficiaries. Also slated for financing are some specific activities required by the Bank of the executing agency to *support the program's implementation and monitoring*, including: (i) design of a computerized impact monitoring system for the program, (ii) program evaluations and audits, and (iii) environmental monitoring of the program.

The notion underpinning the program's **strategy** is that demand, not supply, is what drives growth. When there is a real demand for an item, small producers have an incentive to upgrade or rework their product offerings. Any such improvement on the supply side will be to little avail if there is no effective demand. Accordingly, the program would *identify production chains that link many raw-*

materials suppliers (small producers) to an SME that will buy their output and ultimately sell its products on the domestic and international markets. It also will help producers improve production quality, adopt modern production techniques, and organize production. Providing SMEs with capital and spurring their growth will invigorate the production chain. The SME will sell more and thus buy more raw materials, creating an income flow for the small producers, whose productivity will improve.

The social objectives of the subloans will be to create new jobs, strengthen existing employment sources, and raise the target group's income, by means of activities involving production and/or commercial services for low-income small suppliers, with due regard to efficiency and sustainability.

The proposed program has a number of innovative features. From the standpoint of **Bank operations** the innovation lies in the priority given to subloans for productive and/or commercial operations in rural parts of Bolivia or that strongly impact those areas. From a **strategy** viewpoint the innovative feature is the Bank-PRODEM partnership that will: (i) give both parties an incentive to ensure that program funds are invested in sustainable initiatives that will have a lasting impact on small producers and (ii) considerably leverage the Bank's funding, broadening the program's impact. In addition, the program would produce benefits and other impacts for small producers and microentrepreneurs via SMEs, linking these small-scale suppliers into production chains that offer them sustainable marketing channels, technology and know-how transfer, and technical assistance and training in commercial and production matters. From a **financial** standpoint the program will promote simultaneous loans and capital injections for SMEs, enabling them to balance their financial structure and solidify operations during their growth phase.

**Environmental
and social
review:**

The Committee on Environment and Social Impact reviewed the profile for this operation on 1 March 2002. Its recommendations, incorporated into the proposal which follows, addressed elements relating to social and environmental criteria to be included and evaluated in subloan analysis, environmental monitoring of subloans and of the program generally, and technical assistance for the end-beneficiaries in sustainable natural resources management.

Beneficiaries:

The program's beneficiaries will be roughly 800 poor Bolivian campesino families, predominantly rural households in departments outside the central corridor of La Paz, Cochabamba and Santa Cruz, whose income will rise when they sell more of their output to SMEs receiving support under the program. Under the nonreimbursable technical cooperation component they also will be the direct recipients of technical assistance, training and small infrastructure.

Risks:

The program presents three main risks. The first is that given the state of the economy and social and political unrest in rural Bolivia and the associated uncertainty, productive and commercial SMEs might be unable or reluctant to invest and incur financial obligations. Though the program could not completely dispel this risk, it is anticipated that the planned PRODEM screening process to find viable SME candidates will elicit workable proposals and select SMEs that offer the best prospects for success.

A second risk is the possibility that PRODEM lending would be heavily concentrated in rural businesses (farming, agroindustry, etc.) which are vulnerable to weather conditions and economic and social factors, any of which could impair portfolio performance. To alleviate this risk PRODEM will take care to diversify its lending across different geographic regions and among different agricultural products. Furthermore, it is PRODEM's policy to provision its past-due loans at 100% each fiscal year if its portfolio quality deteriorates. Though this will mean lower surpluses for PRODEM it will leave the organization better situated to repay its debt to the Bank on schedule.

The third risk is that PRODEM's limited experience with SME financing could make for less than optimum administration of the Rural Credit and Investment Fund. To attenuate that risk and build capacity to implement the program, PRODEM will form a strategic alliance with Fundación Bolivia Exporta (FBE), an agency with a 10-year track record in venture capital fund management, specializing in agroindustrial export development. Under this arrangement PRODEM will draw on FBE's experience and lessons learned in Bolivia about investment funds for productive-commercial SMEs. FBE will act as advisor and subcontractor, working closely with PRODEM on selected Fund subloan identification, appraisal and monitoring tasks.

The government's and Bank's strategy:

The proposed program is an integral part of the Bank's Bolivia country strategy, particularly in its support for poverty reduction. Among the priority focuses for Bank action identified in the country strategy (document GN-2036 approved in June 1999) are the creation of employment opportunities in the private sector, improving labor productivity, and development of competitive advantages. An important activity along these lines is the fostering of rural and microenterprise development services, to broaden access to credit and nonfinancial services and support rural development and environmental protection.

One of the four proposed strategy focuses of the new Bolivia Poverty Reduction Strategy approved by the Bank in June 2001 (and on which the Bank is now drawing to update its country strategy) is *expanding employment and income opportunities*. This is to be achieved by fostering productive capacity; spurring rural development by boosting investment in productive and marketing infrastructure; helping businesses obtain technology assistance; supporting microenterprises and small businesses, and developing microfinance.

Rationale:

The program is justified because it will help low-income rural small producers become part of production and marketing chains that are crucial for enhancing their productivity and competitiveness and raising their household income.

Special contractual conditions:

Prior to the first disbursement of the Financing PRODEM must submit the following to the Bank to secure its non-objection: (i) the Operating and Credit Regulations and evidence that they are in effect, and (ii) the PRODEM-Fundación Bolivia Exporta interagency agreement on support for the program's administration, spelling out each party's rights and responsibilities in coordinating the program activities.

As a condition precedent to the first disbursement of the Financing corresponding to any subloan approved under the program, PRODEM will present the following to the Bank's satisfaction: the financing proposal for the subproject, according to procedures set out in the Operating and Credit Regulations and including the respective business and investment plan, and the plan of operations for technical cooperation activities associated with the subloan, including all available baseline data on the SME and information on its suppliers.

Conditions precedent to disbursement of the technical cooperation funds will be submittal to the Bank's satisfaction of: (i) procedures and formats to be used to approve and monitor the technical cooperation provided to small producers, and (ii) a work plan for the technical cooperation activities, including the following information at a minimum: (a) annual targets for each activity; (b) timetable for year 1 activities, and (c) appointment of the program coordinator.

As a condition precedent to the first disbursement of each technical cooperation allocation associated with an individual subloan, PRODEM must submit to the Bank for approval, using the previously agreed formats, the plans and budgets for each allotment. PRODEM also must demonstrate to the Bank that it has funds available or formally committed to begin executing each technical cooperation operation.

Since the plan is to execute, in parallel, more than one technical cooperation operation for subprojects, a revolving fund of 20% of the component total will need to be established to meet the program's liquidity needs.

**Exceptions to
Bank policy:**

None.

I. FRAME OF REFERENCE

A. Rural poverty in Bolivia¹

- 1.1 One of the stiffest challenges facing Bolivia over the long term is to improve the living conditions of the poorest. The latest national census (2001), which used unmet basic needs (UBNs) as a poverty measure, points up the severity of poverty in the country, particularly in rural areas in which 95% of the population is poor and 69% are living in extreme poverty.
- 1.2 Bolivia has the largest share of rural dwellers of any South American country (38% of its total population in 2001). Smallholdings account for 87% of the roughly 660,000 campesino economic units, giving sustenance to 2.7 million people. These small units occupy only 14% of Bolivia's arable land—a telling indicator of the scale of the country's *minifundio* (dwarf holding) and land distribution pattern. In 1999, rural households' annual cash income was less than US\$280 per capita. According to estimates, over 85% of this income comes from *sales of farm products*, which rural dwellers supplement through wage earnings, government transfers, and the value of on-farm consumption. Farmers' income depends mainly on their output and the prices their products command in the marketplace. Low yields and low productivity—significantly below the regional norm—are serious problems in Bolivia generally. The prime causes of low yields are a rudimentary production infrastructure, poor seed and input quality, capital investment constraints, and low productivity associated with an underskilled workforce.
- 1.3 Rural dwellers and periurban residents (the latter having migrated in from the countryside) have very limited income-earning prospects. One fundamental reason for this situation is that smallholding campesino and marginal urban producers *are not part of production chains*. Problems on the supply and demand sides converge to create a vicious circle of weaker demand and weaker sales, lower earnings and lower output. Bolivian history shows that despite concerted efforts made to spur the supply of products—by way of credit, grants, technical cooperation, and training—the new offerings have failed to find markets or have ended up creating oversupplies, driving down prices and, hence, the earnings of the most vulnerable segments in the chain.

B. Tackling poverty: urban and rural microfinance

- 1.4 To address the above state of affairs, government institutions, nongovernmental organizations (NGOs) and international cooperation agencies have pursued a series of strategies and activities aimed at reducing poverty and giving the poor alternative avenues for job creation, boosting their earnings, and strengthening existing employment sources. One highlight of these efforts in Bolivia has been the

¹ Much of this information is taken from the paper "Bolivia Poverty Reduction Strategy" published in June 2001.

development of a microfinance industry which has become very important in the last decade. The microlending sector has flourished thanks to the sound, profitable, private-sector institutions that have taken shape, constant innovation, generous financial support from the international cooperation community, and an enabling regulatory framework. By late 2001 the aggregate loan portfolio of the country's regulated and unregulated microfinance institutions topped US\$386 million. Today Bolivia's microfinance industry is meeting a hefty share of the demand for this kind of funding, primarily in urban areas, and is leading the way in the region.

- 1.5 This marked improvement in facilities available to small businesses in cities has not been matched in the Bolivian countryside: *there has been slower progress on initiatives to assist rural microenterprises, small businesses and small producers.* Though Bolivia's microfinance industry is one of the most advanced (benefiting urban clients particularly), productive and commercial initiatives with the rural poor are lagging behind. Largely owing to the risks inherent in rural economic activity, many donors and other potential funders and investors are reluctant to put money into rural productive or commercial ventures. *The consequences of a shortage of rural investment are stalled production levels, uncompetitive products, low production value-added, and very weak—if any—linkages between rural production and domestic and international markets.*
- 1.6 Even government support programs and international cooperation for rural sectors have tended to focus on *supply side* improvements, frequently sidelining considerations about market requirements and marketing channels for rural producers' output. Very few of the hundreds of programs essayed to support community-based organizations and producer cooperatives have achieved the sustainable impacts they were seeking. Because such projects did not focus on: (i) the correct incentives for investment of the funding, (ii) effective demand for the products, and (iii) marketplace quality and quantity requirements, only a small percentage of them had any significant or lasting impact.

C. Rural small producers' most pressing needs and most promising opportunities

- 1.7 Rural productive and commercial activities offer great potential as sources of income and other benefits for thousands of poor households but these families have to contend with a whole gamut of financial, technical and market constraints. Limited access to production credit is often only *one* of a series of barriers to their economic advancement. Other obstacles to fast growth in the small-producer sector include: (i) the outdated, unsophisticated production technologies in use; (ii) weak market information flows; (iii) production not geared to market requirements, and (iv) scant access to markets and marketing channels.
- 1.8 The surge in export trade in today's rapidly globalizing economy and import substitution particularly in agribusiness and the food industries have opened up new

income-earning opportunities. If rural producers are to tackle the above-mentioned obstacles and seize the new opportunities they will have to modernize and diversify their production systems and tap into concrete markets, especially for nontraditional export crops, including organic products. For this they need supplementary support in the form of productive investments (bulking centers, processing plants, irrigation systems), seed capital and production or product marketing advances for agricultural operations, active involvement in the development of new value-added chains, transfer of modern technology, and development of sustainable marketing channels geared to demand.

- 1.9 Private enterprise, and more specifically private investment, can play a cardinal role in spurring rural growth and development. Though smallholding producers do not have money of their own to invest in production infrastructure and develop value-added chains, they do have land and labor, and using those factors of production they can satisfy market demands. *To ensure a sustained income stream to small producers, private-sector investment is needed for market prospecting and penetration, production chain development, a supply of working capital for small producing units, and transfer of the technology necessary to satisfy market requirements.* Bolivia's experience shows that the businesses most inclined to make investments of this type are small and mid-sized enterprises (SMEs) in the agroindustry sector which are part of production-processing-marketing chains that sell the final product on the home market and abroad.

D. The dearth of financing for SMEs operating in the rural sector

- 1.10 To be able to invest in their productive or commercial operations SMEs need access to financing in the form of loans and equity investments. They are unable to borrow from banks to fund their operations and growth for the following reasons:
- a. Some SMEs began life as cooperatives, associations, NGOs, etc., and have **only recently become established as commercial enterprises**. Commercial banks thus are not particularly keen on having them as clients.
 - b. They are **early-stage companies** with hefty funding needs but limited means of generating enough cashflow to pay back market-rate loans. During this growth phase they need to plow their earnings back into the business.
 - c. Bank loans have no grace period and require larger payments at the start and smaller ones as time goes on. Because of their particular features and cashflow situation, these SMEs are **able to pay back less at the beginning and more in the future**, once they have solid market outlets, have finished with needed capital investments and are well along their growth path.
 - d. Because of the state of the economy, Bolivia's **commercial banks are being more conservative and demanding**; they want a larger comfort margin as far as

cashflow is concerned and more solid guarantees. The security that these SMEs can offer typically involves rural assets and is not very attractive to banks.

- e. The SMEs also **need patient equity capital** that does not constitute a liability and thus entails no fixed outlay. As a plus, equity capital does not require large dividend distributions in the early years of the investment. There are virtually no sources of equity capital in Bolivia for this kind of company.

E. The Bank's experience and strategy in microenterprise and small-producer support programs

1. Bank strategy for the microenterprise and small-producer sector

- 1.11 One of the four proposed strategy focuses of the new Bolivia Poverty Reduction Strategy (BPRS) approved by the Bank in June 2001 (and on which the Bank is drawing to update its country strategy) is *expanding employment and income opportunities*. This is to be achieved by fostering productive capacity; spurring rural development through stepped-up investment in productive and marketing infrastructure; helping businesses obtain technology assistance; supporting microenterprises and small businesses, and developing the microfinance industry.
- 1.12 The BPRS action plan proposes various strategy approaches to enhance employment and income prospects for the poor. **Actions targeted to rural areas** include: (i) *production infrastructure* expansion; (ii) *realignment and commercialization* of small agricultural operations; (iii) strengthening of specialized public and private organizations to support the sector and fostering of *strategic partnerships* between those organizations and international cooperation agencies; (iv) development of *financial services* for a rural clientele, and (v) implementation of *technology transfer* services.
- 1.13 Among the facilities the Bank deploys in pursuit of its microenterprise and small-producer support strategy objectives are Multilateral Investment Fund (MIF) technical cooperation and equity investments, larger loan operations, and the Social Entrepreneurship Program (formerly the Small Projects Program). Using MIF resources the Bank is continuing its support for NGO graduation to regulated-institution status, strengthening of microfinance institutions (MFIs) and support for their regulation and oversight, and a small and medium-sized enterprise investment fund project. Thanks to a loan approved in 1998 (BO-0171, "Comprehensive Support for Small Business and Microenterprise") the Bank has been able to channel US\$15 million to regulated MFIs to increase their lending, and is helping to spur the business development services market in urban areas.

2. Social Entrepreneurship Program experience in Bolivia

- 1.14 Since the 1982 creation of the Bank's Small Projects Program (SPP), over 40 projects in Bolivia have received a total of US\$22 million in financing and

technical cooperation. Between 1982 and 1998 the bulk of this support went to institutions (NGOs and cooperatives) that were launching urban microcredit programs. The SPP showed itself to be an effective, timely, decisive tool for fostering the massification of microfinance in Bolivia and can take a good share of the credit for these institutions' impressive reach and sustainability today. Several of the SPP financing recipients are now regulated MFIs and industry leaders in Bolivia and the region.

3. Current Social Entrepreneurship Program strategy in Bolivia

- 1.15 Since it took the place of the Small Projects Program in 1998 the Social Entrepreneurship Program (SEP) has shifted its strategy toward a different market niche, for two main reasons. First, owing to the mounting demand for microcredit in recent years and the success of the microfinance industry there is considerably more funding available for urban microfinance from other technical cooperation sources. Second, SEP policy changes have brought with them a shift in the strategy for use of SEP resources in Bolivia, to address a broader menu of initiatives that may differ from those funded in the past.
- 1.16 Accordingly, in the current strategy for use of limited SEP resources in Bolivia priority is being given to projects that: (i) propose some form of *innovation and added value* to benefit the target group, *even though such projects may entail greater risk*; (ii) support financially sustainable *production, marketing, realignment or investment activities* that will enable businesses receiving such assistance to honor their financial obligations; (iii) are located, preferably, in *rural areas outside the country's central corridor* (La Paz, Cochabamba, Santa Cruz), and (iv) have a *very clear business approach* and gear operations to market demands. Under the new SEP policies, executing agencies can run the gamut from nonprofit organizations operating with a business or commercial approach to profit-seeking enterprises that pursue a social mission and improve the welfare of low-income groups.

F. Proposed Bank support

- 1.17 The convergence of a number of factors makes this a propitious time to propose alternative ways of channeling SEP resources to Bolivian small and mid-sized enterprises (SMEs) that have the potential to considerably improve the lives of the country's rural and periurban poor. These factors are: (i) the need to support poverty reduction efforts, particularly to tackle rural poverty, by providing funding for productive-commercial SMEs that purchase goods and services from low-income small producers; (ii) the difficulties such SMEs currently face when they need loans or other investment finance, and (iii) the Bank's and the Bolivian government's strategy to promote rural development, production infrastructure and microenterprise.

- 1.18 In light of the above, it is proposed that a *Rural Credit and Investment Fund for Productive and Commercial SMEs* (hereinafter the “Fund”) be created within the executing agency Foundation for Microenterprise Promotion and Development (PRODEM). To supply the unmet demand for such resources, the Bank would provide via this Fund a nimble, reliable second-tier facility to channel funding that would benefit low-income groups. The financial support envisaged in the proposed program will take the form of loans, equity capital and technical cooperation for SMEs that buy goods and services from small producers, preferably based in rural areas. The planned arrangement would spur production and the development of chains that take in low-income suppliers of raw materials and other inputs (small producers). The end result will be a bolstered production chain and a larger market. At the start of the chain, small producers of modest means will see their income rise and their employment and socioeconomic welfare prospects improve.

G. Statement of non-objection

- 1.19 On 14 August 2002 the Office of the Deputy Minister for Public Investment and External Finance affirmed that the government had no objection to the financing of the proposed program.
- 1.20 Under the terms of its by-laws, PRODEM is legally empowered to borrow and to receive technical cooperation resources from Bolivian and international agencies and to lend to other Bolivian institutions.

**II. THE PROGRAM: RURAL CREDIT AND INVESTMENT FUND
FOR PRODUCTIVE AND COMMERCIAL SMEs**

A. Objectives

- 2.1 The program’s **general objective** is to help enhance the economic and earning prospects of about 800 low-income rural households by means of viable productive and commercial activities.
- 2.2 Its **specific objectives** are to: (i) facilitate access to funding for at least seven SMEs so they can expand their productive-commercial activities that benefit low-income small producers, and (ii) help the benefiting small producers and microentrepreneurs to better absorb production technologies and know-how by providing complementary technical assistance, training and other services.

B. Strategy

- 2.3 The conceptual underpinning of the program’s **strategy**, to address the needs of rural small producers, is the idea that growth is driven by demand, not supply. When there is a real demand for an item, small producers have an incentive to upgrade or rework their product offerings. Any such improvement on the supply

side will be to little avail if there is no effective demand. Accordingly, the proposed program would identify production chains whereby numerous raw-materials suppliers (small producers) can be linked with an SME that will buy their output and process it, then sell the finished products on the home and international markets. At the same time the program will help the producers upgrade production quality, bring in modern production techniques, organize production, etc. Providing the SMEs with capital via the Fund and propelling their growth will invigorate the production chain. The SME will sell more products and thus buy more raw materials, creating an income stream to the small producers, whose productivity will be enhanced.

C. Beneficiaries

- 2.4 The program will have two types of beneficiaries. The ultimate beneficiaries will be 800 low-income rural and periurban microentrepreneurs and small producers whose income will rise as they sell more of their output to the SMEs receiving support under the program. Under the program's nonreimbursable financing component they also will be the direct recipients of technical assistance, training and small infrastructure. The following table summarizes the main features of these end-beneficiaries:

PROFILE OF SMALL SUPPLIERS IN THE TARGET GROUP

Location	Rural areas removed from capitals, or periurban areas
Economic activity	Agriculture is their primary income source.
Market linkages	They sell their output primarily on local markets.
Income level	Average annual income in the region where the SME's suppliers are based is below the departmental per capita average.
Poverty level	Poverty index in the region where the SME's suppliers are based is below the poverty line.
Workforce	Primarily family members; occasionally, mutual exchanges with other units.
Technology in use	Labor-intensive, low capital intensity, few purchased inputs per workday.

The second set of beneficiaries will be the seven SMEs that receive a loan and equity investment from the Fund over the course of the project. These will fundamentally be businesses engaged in productive-commercial activities that offer sustainable markets and/or services for processing the raw-materials output of the small producers and microenterprises. The program's Operating and Credit Regulations provide more details on these SMEs.

D. Components

- 2.5 The program consists of two components: (i) reimbursable financing and (ii) nonreimbursable technical-cooperation funding.

1. Reimbursable financing component (Bank US\$1 million, PRODEM US\$1 million)

- 2.6 Using the proceeds of the Bank's financing (hereinafter the "Financing") and the cash counterpart contribution, PRODEM will create a Rural Credit and Investment Fund for Productive and Commercial SMEs, which will provide financing for at least seven SMEs over the life of the program, adhering to the strategies and procedures established therein. Using the Bank's funding PRODEM will provide medium- and long-term loans to the SMEs, which will have been selected on the basis of social, financial, business, and environmental criteria and other specific eligibility requirements set out in the Operating and Credit Regulations.
- 2.7 With this funding the SMEs will expand their productive-commercial operations, the aim being to increase the flow of money from these businesses to the small producers who supply their raw materials. The Bank-sourced reimbursable funding may be used exclusively to increase the working capital or operations of the subborrower SMEs such as will directly impact their input purchases from the small producers.
- 2.8 To complement the above-described activity, PRODEM will use its cash counterpart resources to capitalize the SMEs that are receiving subloans, by way of venture capital, convertible debt, or other vehicles. The SMEs are to use these funds for capital investments such as: (i) new machinery or equipment to expand their productive or operating capacity and (ii) plant expansion or other business needs.
- 2.9 Accordingly, it is anticipated that the financing portion of each subproject will consist of: (i) a repayable loan (from the Bank's funds) for working or operating capital and (ii) supplementary PRODEM funding in the form of equity contributions.

2. Technical cooperation component (Bank US\$380,000, PRODEM US\$425,000)

- 2.10 The aim of the nonreimbursable technical cooperation is to fund *complementary activities*, associated with approved subloans, to benefit small producers by hiring consultants to help these end-beneficiaries with the facilitation and coordination of supplier clusters, training and technical assistance in production, commercial, social and environmental matters, and acquisition of equipment and small infrastructure. Also slated for financing are some specific activities required by the Bank of the executing agency to *support the program's implementation and monitoring*, including: (i) design of a computerized impact monitoring system for the program,

(ii) program evaluations and audits, and (iii) environmental monitoring of the program.

- 2.11 As for activities to directly strengthen the end-beneficiaries (small suppliers), the plan is for PRODEM to leverage the technical cooperation resources to secure additional funds from other sources. This kind of activity normally requires sizable grants. In this case PRODEM will structure Supplier Development Programs tailored to the current state and needs of the production chain, put in the initial contribution using the Bank's technical cooperation funds, and look to other international cooperation donors to leverage these resources.
- 2.12 Paragraphs 4.8 to 4.10 of this proposal summarize the planned activities. Implementation details for this component are in the plan of operations in Annex I.

E. Cost and financing

- 2.13 The total program budget comes to US\$2,805,000. The Bank's share would consist of US\$1 million in reimbursable funding and US\$380,000 in nonreimbursable technical cooperation. PRODEM will contribute US\$1 million in cash to the reimbursable component (as equity investments) and the equivalent of US\$425,000 to the technical cooperation component, as shown in the following table.

COST TABLE (US\$)

Component	IDB	PRODEM	Total
Financing	1,000,000	1,000,000	2,000,000
a. Loans	1,000,000		
b. Equity investments		1,000,000	
Technical cooperation	380,000	425,000	805,000
TOTAL	1,380,000	1,425,000	2,805,000

- 2.14 The Bank will draw its funding from the net income of the Fund for Special Operations. Its US\$1 million loan will have a 20-year amortization period with 5 years' grace (the grace period applying solely to repayment of principal, not to interest). The loan will be denominated and repaid in U.S. dollars, at an interest rate of 2.5% per annum. PRODEM will be responsible for contributing the entire counterpart commitment. It will furnish the counterpart share of the financing component in cash, but may account for 45% of the technical cooperation counterpart as in-kind contributions. The itemized financing and technical cooperation budget is available in the program technical files.

F. Proposed innovations

- 2.15 This program offers a number of innovative features. From the standpoint of Bank **operations**, the innovation lies in the priority given to subloans for productive

and/or commercial operations in rural parts of Bolivia or that strongly impact those areas. From a **strategic** viewpoint the innovative element is the Bank-PRODEM partnership that will: (i) give both parties an incentive to ensure that program funds are invested in sustainable initiatives that will have a lasting impact on the targeted small producers and (ii) considerably leverage the Bank's funding, thereby broadening the program's impact. The program also is expected to yield benefits and otherwise impact small producers and microentrepreneurs via SMEs, as those modest-scale producers become part of production chains that offer them sustainable marketing channels, technology and know-how transfer, and technical assistance and training in commercial and production matters. From a **financial** standpoint the program will promote simultaneous loans and capital injections for SMEs, enabling them to balance their financial structure and solidify operations during their growth phase.

III. EXECUTING AGENCY

- 3.1 The program's executing agency will be Fundación para la Promoción y Desarrollo de la Microempresa [Foundation for Microenterprise Promotion and Development] (PRODEM). The Bank selected PRODEM for this purpose because it offers various value-added features both for the Bank and for the end-beneficiaries. These include: (i) PRODEM's intention to acquire equity in the chosen SMEs using funds of its own, thereby assuring a rigorous SME selection process; (ii) its focus on income generation in poor parts of the country, based on commercial, market-driven business activities; (iii) its proposed marketing, research, and business prospecting support for the subborrowers; (iv) its plan to form a strategic alliance with Fundación Bolivia Exporta to draw on that organization's comparative advantages (see paragraphs 4.3 to 4.5) and thereby strengthen its own capacity to execute the program, and (v) its proposal to assemble an administrative-accounting support team to handle Fund monies, including the hiring of a full-time program coordinator to ensure a steady flow of information and communications with the Bank.

A. Corporate form, origins and objectives of PRODEM

- 3.2 PRODEM was established in April 1986 as a not-for-profit foundation (NGO). Its founding mission is to: (i) provide general, administrative and technology assistance and material support needed to improve and streamline the productive operations of microenterprises, and (ii) promote activities that can enhance Bolivians' quality of life in the health, education, sustainable development, environmental conservation, ecology, and similar spheres.
- 3.3 As it pursued that mission PRODEM built up a solid institutional apparatus specializing in microfinance (see paragraph 3.9). It now has set a new objective for itself: to "further the modernization of Bolivian small businesses and

microenterprises, predominantly those based in rural areas, to achieve quantitative and qualitative improvements in their institutional consolidation, competitiveness, and access to growth markets so that, overall, they can contribute significantly more to the nation's advancement.”

B. Institutional structure

- 3.4 PRODEM is headed by a 15-member Board of Trustees which meets at least once a year to review, approve, and resolve on: (i) reports from designated officers, work plans, balance sheets and other financial statements; (ii) appointments of external auditors; (iii) elections of directors and officers, and (iv) other business pertaining to the foundation's operation and performance during the year under review. Special meetings may be convened when needed to amend the by-laws, dissolve and liquidate the foundation, elect new Trustees, create reserves, fix compensation, etc.
- 3.5 The Board of Trustees discharges its operational tasks through an Investment Committee and an Executive Committee, both of them chaired by the Board of Trustees chair with the Board vice-chair and three other Trustees as members. PRODEM's Executive Director participates in Board meetings without a vote. The two committees' terms of reference are set out in the respective sets of regulations appended to PRODEM's by-laws.
- 3.6 PRODEM will entrust the program's general coordination to its Social Investment Department, whose primary function is to identify and develop investment opportunities and secure external funding. This department will be the direct contact with the Bank and serve as liaison with Fundación Bolivia Exporta (FBE) (see paragraphs 4.3 to 4.5) which will be providing advisory support for the program's operation. The Social Investment Department also will assist FBE in subproject identification and appraisal and subloan negotiations. It will be strengthened if needed to equip it for the additional tasks that will fall to it as program coordinator.
- 3.7 PRODEM's computer system runs the following modules: (i) an accounting module for control of the organization's accounting activity and the accounts of active projects and to track anticipated revenues and due dates for outgoings; (ii) an administrative module with several submodules for human resources administration (personnel and payroll control, per diems etc.), procurement (purchasing, suppliers, quotations and orders), fixed assets (control of corporate assets, asset value restatements, depreciation), and stores (inventory control and equipment tracking). The system produces funds-flow reports daily, reports on payroll, taxes, travel and per diems every 15 days, and payroll, stores, and fixed-assets reports monthly. A balance sheet, operating statement and funds-flow statement are prepared at each fiscal year-end.

- 3.8 PRODEM's operational activities are governed by rules and regulations for operations selection, processing and monitoring. These set out clear social, business and financial guidelines as well as specific requirements by investment group. The Investment Committee has approval authority for operations up to US\$500,000. An operation above that threshold requires approval of the Board of Trustees.

C. PRODEM activities

- 3.9 To deliver its services and exercise the requisite controls, PRODEM has a modern, sustainable microenterprise finance system. An early highlight of its support was the 1992 establishment of BancoSol in which PRODEM acquired an equity interest.² The bulk of BancoSol's clients are based in cities. PRODEM has continued to make credit available also in rural areas, culminating in the creation of the PRODEM Private Financing Facility (PPF)³ in which PRODEM holds a 70% share. This PPF has close to 60 rural offices, a client base of around 23,000, and US\$34 million in loans outstanding. PRODEM gained experience with credit fund administration under its agreements with the Calmeadow Foundation of Canada and a US\$500,000 IDB small project (SP/SF-9123-BO) and ATN/SF-3767-BO for US\$170,000, both of which were approved in July 1991.
- 3.10 PRODEM's model projects exemplify its current performance in the sphere of investing in productive-commercial SMEs. Llamactiva S.A. is the leading force in llama fiber production in Uyuni, one of Bolivia's poorest regions. It buys llama wool from more than 1,000 campesinos, hires local women to de-hair the fleeces (creating formal employment) and ships the fiber to Arequipa, Peru. There it is spun into industrial yarn which then is shipped back to Bolivia to manufacture wool garments for export. Another exemplar is Irupana S.A., a producer of organic agroindustrial products, which purchases raw materials from campesinos (e.g. Andean grains and oilseeds grown in the poorest parts of the country). PRODEM also develops Supplier Development Programs, for example a program to assist small-scale llama wool suppliers in Uyuni by financing capital investments to improve their shearing floors, bulking centers and other production assets. These ventures are funded with grants and/or soft financing, with PRODEM acting as promoter.

² At this writing, BancoSol's portfolio stands at roughly US\$80 million in loans to about 70,000 clients, handled through its 41 branches.

³ In December 1999 the MIF approved operation EQU/MS-6678-BO for US\$2 million, the primary objective being to promote private investment for microfinance development by way of a sale of bonds. Two years later the MIF decided to cancel the operation since the conditions as to portfolio returns and quality that had been agreed on at the outset had not been fulfilled.

D. PRODEM finances

- 3.11 PRODEM's finances are sound enough to assure that it will be able to repay its debt to the Bank. Its financial condition is healthy, with close to US\$15 million in equity at 31 December 2001, funding 86.6% of its assets. It has a cumulative surplus of US\$7.2 million and a low debt-equity ratio of around 15%.
- 3.12 The foundation's balance sheets for the past three years (at the 31 December fiscal year-end), which are in the program technical files, show a decline in total assets between 1999 and 2000 ensuing from the transfer of the lending portfolio to Fondo Financiero Privado PRODEM, which had been created in August 1998 to finance the activities of small and mid-sized businesses and microenterprises.
- 3.13 The bulk of PRODEM's assets at 31 December 2001 were made up of: (a) long-term investments (74% of total assets) consisting of all investments with maturities longer than three months from their date of issue or acquisition; these include PRODEM's participations in BancoSol and the Fondo Financiero, its equity purchases in Aguactiva and Llamactiva and its share in Irupana's capitalization; (b) fixed assets (8.5%), which dropped between 1999 and 2000 when 55 branches were transferred to the PRODEM Fund but were back up at year-end 2001 following the purchase of a building in La Paz; and (c) short-term investments (5%) with under-90-day maturities, in term deposits, mutual funds and others. Cash/banks and sundry assets made up the balance. The largest item on the liabilities side was deferred income, accounting for 75.6% of total liabilities but only 11.7% of equity. This item has to do with Canadian fund and USAID receipts for which definitive capitalization arrangements are still being worked out with the authorities.
- 3.14 PRODEM's compared operating statements for the period 1 January 1999 to 31 December 2001, in the program technical files, reveal a major change in its revenues and expenditures as a result of the transfer of activities to the recently created PRODEM Private Financing Facility, which now receives the bulk of financial revenues and shoulders most of the administrative expenses. In 2001 PRODEM's administrative costs took up all its revenues and left it with a small deficit at year-end after charge-offs of unrecoverables, devaluation of financial assets, other operating costs and inflation adjustments.
- 3.15 PRODEM's efforts to balance its finances in order to avert deficits are evident in its fund-flow projections for 2002, which forecast revenues and expenditures equivalent to just over US\$4.1 million. To achieve those figures this year PRODEM expects to redeem liquid investments that, including interest earnings thereon, will fund virtually all its annual requirements. The projections call for a reduction of just over 35% in the organization's administrative costs.

IV. PROGRAM IMPLEMENTATION

A. Implementation responsibility

- 4.1 PRODEM will be responsible for the program's execution, throughout the stages of identifying and selecting subprojects and subsequent supervision to ensure the subloans are duly executed. The procedures to be followed at each stage are spelled out in the program's Operating and Credit Regulations.
- 4.2 PRODEM will sign a financing and technical cooperation agreement with the Bank and will carry out the project in accordance with this document and annexes thereto. PRODEM will assume the entire credit risk of the Financing. Though PRODEM will execute subloan agreements with the subborrowers (SMEs), responsibility for repaying the Bank's loan will rest entirely with PRODEM.

B. PRODEM-Fundación Bolivia Exporta strategic alliance

- 4.3 PRODEM has a lengthy track record in credit programs for rural microenterprises and small businesses, but its experience with SME venture capital management is limited to fewer than five operations over the past two to three years. In order to bolster its capacity to manage the proposed Fund and profit from past experience and lessons learned in Bolivia regarding investment funds for productive-commercial SMEs, PRODEM will form a strategic alliance with Fundación Bolivia Exporta (FBE). Drawing on its proven track record in investment prospecting, analysis and execution and monitoring of SME productive-commercial projects in Bolivia, FBE will provide advisory support and work as subcontractor for selected subloan identification, appraisal and monitoring activities. To that end, PRODEM will sign an interagency agreement with FBE for administrative support for the program, stipulating each party's responsibilities and obligations in the various program activities. Signature of that agreement will be a condition precedent to the first disbursement from the Financing (see paragraph 4.42).
- 4.4 Fundación Bolivia Exporta⁴ is a private, not-for-profit organization whose core mandate is to further the development of Bolivian agroindustrial exports. Its governing body is the Board of Directors, made up of businesspeople serving in a personal capacity and Bolivian government representatives. Its senior executive is the General Manager. Offices headed by the Manager of Administration and Finance and by the Investment Manager are in charge, respectively, of administrative management and internal auditing and of investment appraisal, portfolio monitoring, divestments and nonfinancial and consulting services.

⁴ A description of FBE and its project processing and monitoring system is available in the project technical files.

- 4.5 FBE follows clearly defined procedures and rules for project processing and operations monitoring. Typical stages in a project's processing are initial inquiry, profile submittal, project appraisal, review by the Management Committee and a Board committee, and approval by the full Board with a mandate to negotiate. The focuses of the operations monitoring phase are accounting, economic-financial and budget tracking, and physical progress.

C. Program execution and administration

1. Funding of subloans

- 4.6 PRODEM will design a Model Project Profile for subloans, which will be part of the Operating and Credit Regulations to be approved as a condition precedent to the first disbursement of the Financing. Information to be supplied in this document will address the following requirements for subloans:
- Offer strong additionality at the small-producer level.
 - Sustainability prospects of the services offered.
 - Preferably a minimum of 115 beneficiaries.
 - Priority target area outside the central corridor (departments of La Paz, Santa Cruz and Cochabamba) for rural projects with a heavy social impact. However, the program could fund subloans in the aforementioned departments if PRODEM demonstrates that there are no other viable initiatives in the priority areas.
 - Subprojects must be financially, environmentally and socially viable.
 - Funding must not duplicate or substitute previously approved Bank or MIF financing nor can it crowd out other sources of finance or support services.
 - Subloans must fund productive, commercial or investment activities.
- 4.7 **Financing terms** will be tailored to each subloan operation, but the following conditions will apply to the total portfolio on average:
- a. **Subloan amount:** minimum US\$100,000, ceiling US\$200,000, anticipated average US\$150,000.
 - b. **Grace period:** 0 to 3 years.
 - c. **Maximum repayment term:** 5 years
 - d. **Currency:** Subloans will be denominated and repaid in U.S. dollars. The end-borrowers may make payments in local currency calculated at the dollar equivalent on the payment date. The exchange rate to be used for that purpose is the rate representing the real market cost of securing dollars.
 - e. **Interest rate:** A subloan's interest rate will be negotiated between PRODEM/FBE and the end-borrower based on the latter's characteristics, activities funded, end-clients' characteristics, the operation's anticipated returns, risks, and other considerations, adhering to the Bank's Social Entrepreneurship Program policies. The rate may not be below the rate agreed upon by the IDB and PRODEM for the global financing and, once agreed upon, the rate will be

fixed for the life of the subloan. Factors limiting the rate are market conditions and the need for competitive funding access. It is expected that the program's average interest rate on outstanding balances will be 12% per annum, in dollars.⁵

- f. **Disbursement fee:** A disbursement fee of 2.5% will be charged to end-borrowers.

- 4.8 The conditions and operating details of the investments that PRODEM will make using its own resources by means of venture capital or convertible debt are presented in the Operating Regulations and the Credit Regulations, which are found in the technical file of the program.

2. Complementary technical cooperation benefiting small producers

- 4.9 The ceiling for subloan-associated nonreimbursable technical-cooperation allotments will be US\$60,000 in Bank funding per subproject, to a total of US\$250,000 for the program overall. PRODEM will furnish additional resources for these supplier development activities to complement the Bank's funding. An illustrative itemized budget is found in the technical files.
- 4.10 The following conditions will apply for individual technical cooperation allotments associated with subloans: (i) the subborrower may not use this technical cooperation funding to defray recurrent expenditures such as payroll, rent, or related costs, and (ii) the fixed-asset budget line for any single operation (for procurement of machinery, equipment and small infrastructure) may not exceed 30% of the operation's total budget.

3. Other uses of the technical cooperation resources

- 4.11 It is anticipated that up to US\$130,000 of the technical cooperation funding will be used for: (i) design of a computerized system to develop a supplier network and for indicator monitoring, and training for SMEs in its use (US\$20,000); (ii) midterm and final evaluations (US\$20,000); (iii) environmental monitoring of the program (US\$30,000); (iv) annual audits of the program and of the executing agency (US\$75,000), and (v) contingencies (US\$10,000).

4. Subborrower (SME) eligibility criteria

- 4.12 To qualify for a subloan the applicant must be a productive or commercial venture formally established as a small or mid-sized enterprise that may legally accept a PRODEM equity participation. These companies will become engines of commerce in production chains that include small producer-suppliers of raw materials, with preference to suppliers based in the poorest rural or periurban areas of Bolivia.

⁵ No ceiling is being set since this rate will mainly have to cover loan-loss provisioning, which is unpredictable given the economic climate.

- 4.13 The beneficiary SMEs will be selected following the strategy outlined in paragraph 2.3. They are to be small private, for-profit enterprises doing business in a variety of productive sectors and capable of penetrating new markets and developing new products.⁶ Theirs will be the kind of business that relies on multiple suppliers of goods and services based in rural and periurban low-income parts of Bolivia. Hence, their growth will instantly trigger heavier flows of money to poor producers, who will become part of a sustainable commercial production chain with prospects for expansion.
- 4.14 To qualify for a subloan an SME must fulfill all the following requirements:
- a. It must be a local, regional, or national private for-profit enterprise operating in Bolivia, legally established as a corporation, limited company or sole proprietorship.
 - b. Its principal line of business must be the processing or marketing/sale of products supplied by small producers in the program's target group.
 - c. It must have been in business for at least three years.
 - d. Its capital cannot exceed US\$600,000.
 - e. Its average annual sales over the last three years cannot exceed US\$1.5 million.
 - f. It must have no direct or indirect liabilities to a multilateral organization.
 - g. It must be legally empowered to borrow money and incur debt and financial obligations.
 - h. It must demonstrate that its accounting records clearly reveal, inter alia, its revenue sources and expenditures for the last three years.
- 4.15 Due diligence will be performed of the beneficiary SMEs at the outset to gauge their capacity to increase production and sales and how this would boost their demand for inputs, thereby benefiting the target group over time. On the financial side, the SMEs must be equipped to manage the loan funds and repay the loan to PRODEM. Criteria for the SME capacity assessment are listed in the Operating and Credit Regulations.

⁶ Development of these SMEs and an increase in commercial demand for inputs will result in improvements in the small producers' operations and output quality. A key consideration here is the interdependence of these producers and the market outlets for their raw-materials output and the reliance upon small enterprises not just for input volumes but also input quality. The net result is higher earnings, better employment and socioeconomic improvements all along the production chain.

- 4.16 Subloan applicants in parts of Bolivia that are home to high concentrations of indigenous people will have to demonstrate their experience and/or ability to work with these populations using socioculturally appropriate working methods and staff who can work effectively in these areas.

5. Program implementation procedures

- 4.17 The procedures for identifying subprojects for funding must be transparent and ensure a satisfactory selection process, avoiding potential conflicts of interest and related-party lending situations.
- 4.18 With that in mind, Fundación Bolivia Exporta (FBE) will help PRODEM administer the program under the terms of their strategic alliance. FBE will independently identify and appraise projects and propose selected operations for funding. Nevertheless, there will be mechanisms in place to make sure that neither PRODEM nor FBE nor any of their directors or officers have (ex ante) any interest in or ties to the subloan applicant. Obviously once the operation is approved such a relationship will exist by virtue of the respective capital contribution. In order to control this process PRODEM proposes to abide by the related-party lending rules of the Superintendency of Banks and Financial Institutions.⁷
- 4.19 As a Bank prerequisite for subproject development work to begin, the project profile must be submitted to the Country Office. Profiles must provide complete information on the subborrower's and subproject's eligibility and a needs assessment that could be funded under the technical cooperation component. The profiles will go through an internal approval process (review committee made up of the specialist in charge of the operation with the Representative's clearance).
- 4.20 Once an SME applicant has been selected for a subloan, PRODEM, working with that end-borrower, will write the financing proposal (basing it on a business plan describing the business and providing forecasts, particularly projections regarding the SME's suppliers, which will subsequently be tracked using the computerized system planned for that purpose) and a technical cooperation plan of operations, then negotiate the proposal and send it through PRODEM's internal approval process. Once PRODEM gives its approval the financing agreements will be signed, technical cooperation funds will be allocated, and execution of the subloan will begin.

D. Funding of PRODEM operating costs

- 4.21 PRODEM will not charge for executing and administering the program. The spread it charges on the Bank funds it onlends will defray its program administration costs.

⁷ This refers to restrictions as to the agencies' investments in companies that have a direct or indirect relationship with a PRODEM or FBE director or officer within the third degree of consanguinity or affinity, or in companies in which any of those parties has held shares.

It also will furnish an estimated US\$225,000 for the technical cooperation component with which to cover that component's administrative costs. To ensure that the program is efficiently administered PRODEM will appoint a general coordinator for the program and another coordinator specifically for the technical cooperation portion.

E. Arrangements for assuring the program's impact and additionality at the small-producer level

- 4.22 To make certain that the targeted small producers capture a substantial share of the program's benefits, agreements have been reached with PRODEM on: (a) a clearly defined, acceptable definition of the form the SME-small producer relationship will take, and (b) criteria and incentives for use of the Bank's funds so as to directly benefit the small producers.
- 4.23 The following are agreed features of the SME-small producer relationship: (i) the prices the SMEs will pay small producers for the inputs or raw materials they supply will be worked out by reference to market conditions at the time and quality and product differentiation considerations; (ii) contracts between SMEs and small producers will state terms and conditions as to volume, quality, and price of products to be supplied; (iii) no action in any of the program's components will have the effect of binding producers to sell inputs to enterprises that are participating in the program, i.e., these enterprises will have to compete in the market for the inputs their suppliers produce, and (iv) using the computerized supplier development system that PRODEM will be providing to them, the SMEs can obtain the data they need to implement a supplier policy and identify their needs.
- 4.24 The criteria adopted and incentives built in to ensure the program has the desired impact on small producers include: (i) a clear definition of the target group characteristics, which match up with the SME selection criteria; (ii) priorities for technical cooperation will be subprojects that, as demonstrated clearly and objectively by the applicant SMEs, will increase input purchase volumes or improve prices; (iii) the Bank's funding is to be used in its entirety for working and/or operating capital, i.e., to purchase raw materials or other inputs from the small producers; and (iv) if the funds are put to any other use, the entire sum thus diverted will be declared to be immediately due and payable to PRODEM.
- 4.25 To help systematize and measure the program's additionality it has been decided with PRODEM to design a computerized system to equip that organization to develop a supplier database for two purposes: generate a supplier roster containing all the data needed to evaluate the program's socioeconomic impact, and obtain detailed information to help an SME analyze key indicators of purchase volumes, prices, suppliers, and other facets of its business.

- 4.26 The core of the system design will be the variables comprising the subproject indicators (see paragraph 4.37), so as to construct a database for the program that can measure its impact as it proceeds.

F. Implementation period and disbursement timetable

- 4.27 The program's first implementation round will last 60 months, with a 66-month disbursement period. The proceeds of the financing are expected to be: (i) *committed* within two years, by way of agreements signed between PRODEM and subborrowers and (ii) *executed* within three years thereafter.
- 4.28 Recoveries of program-funded loans will go back into the Fund. Throughout the life of the financing agreement these recoveries may be used only for the granting of new loans on terms and conditions similar to the provisions in the financing agreement and in the program's Credit Regulations.

G. IDB disbursements to the intermediary agency

- 4.29 The Bank will disburse the program funds in accordance with the financial and operational needs of approved subloans as reflected in semiannual budgets of the use of funds which PRODEM is to submit to the Bank along with its disbursement requests. The Bank will release subsequent disbursements to PRODEM as that agency accounts for its disbursements to subborrowers.
- 4.30 The Bank will release its funds *pari passu* to PRODEM's capital contributions to SMEs in cash, adhering to the prescribed percentage totals for each component. For the financing component the disbursement rate will be 50% IDB/50% PRODEM. PRODEM has informed the Bank that it plans to furnish its contribution out of cash availabilities per its financial statements, which the Bank will verify upon receipt of each disbursement request.

H. Monitoring and supervision

- 4.31 During the execution of a subloan PRODEM undertakes to:
- a. Verify that the subloan's objectives and targets are being achieved and include this information, for each subloan, in the semiannual progress reports to be submitted to the Bank.
 - b. Satisfy itself that the funds are being used exclusively for the approved subloan and for the agreed activities.
 - c. Satisfy itself that only Bank member countries are providing the goods and consulting services used in the subproject.

d. Satisfy itself that the subloan is in compliance with the financing agreement covenants.

4.32 The agreements that PRODEM signs with beneficiary SMEs must state that the Bank is authorized to supervise subloans and subborrowers through its Country Office or other authorized divisions.

I. Reports

4.33 PRODEM will provide the Bank with semiannual narrative and financial reports within 60 days after the end of each six-month period, starting with the six-month period in which disbursements begin. At a minimum these reports must contain: (i) information on subloan selection procedures and results; (ii) narrative and financial information on fulfillment of the agreed objectives and targets of active subloans; (iii) information on the subloan portfolio's quality and recoveries; (iv) a status report on achievement of the program's indicators (applicable indicators in paragraph 4.37 of this proposal), and (v) narrative and financial information regarding the valuation of equity participations PRODEM has acquired in SMEs using its own funds, the methodology used and the value of the shares purchased. The last of these reports, constituting the final report, must summarize program outcomes referencing the original objectives.

4.34 The Bank will review the findings and recommendations of these reports. If it ascertains that there are significant problems in the program's execution the Bank will authorize no further disbursements until PRODEM has taken satisfactory corrective action.

4.35 Over the course of the program, within 120 days after each fiscal year-end during the execution period of the Financing, PRODEM will provide the Bank with its own audited financial statements and those of the program. In addition, within 90 days after the end of the nonreimbursable technical-cooperation disbursement period, PRODEM will submit a financial report audited by independent auditors showing how the Bank's contribution was used.

J. Performance indicators

4.36 As a key facet of its monitoring work the Bank will measure achievement of the program's performance indicators, which have to do with *administration of the program* itself and *individual subprojects*.

4.37 The Bank and PRODEM have agreed on the following program administration indicators:

Indicator	Year 1	Year 2	Year 3	Year 4	Year 5
1. No. of subloans approved (*)	3	4	1	1	1
2. Cumulative disbursements (US\$000) (IDB funds)	450	1,000	1,090	1,290	1,490
3. PRODEM/FBE field monitoring visits	3	7	8	9	10
4. Subloans evaluated and completed	0	0	0	3	4
5. Loan portfolio quality: Arrears rate on disbursed loans	0%	2%	3%	4%	5%

(*) Subloans approved in years 3, 4 and 5 will be funded from recoveries and will not form part of the analysis in the midterm and final evaluations.

- 4.38 Indicators for individual subprojects will be agreed on for each subloan and technical cooperation allocation, and will include the following at a minimum (details in Annex III):

Indicator	Calculation formula
1. Total incremental impact of IDB funding	$\frac{\text{Total value raw-materials purchases}}{\text{Average liability PRODEM}}$
2. Incremental impact of funds lent to SMEs	$\frac{\text{Total value raw-materials purchases}}{\text{Amount owed for IDB funding}}$
3. Average value of purchases from small producers	$\frac{\text{Total value of purchases}}{\text{Number of suppliers}}$
4. Number of suppliers	Number of input suppliers
5. Value of purchases from suppliers	Value of purchases
6. Expansion of supplier network	$\frac{\text{Number of new suppliers}}{\text{Total suppliers}}$
7. Suppliers' productivity gain	$\frac{\text{Increase in output}}{\text{Productive resources}}$
8. Small producer pass-on factor	$\frac{\text{Total cost of products sold}}{\text{Value of sales}}$
9. Supplier loyalty	$\frac{\text{Number of active suppliers}}{\text{Total suppliers}}$

- 4.39 PRODEM's semiannual reports to the Bank (see paragraph 4.32) and the program's midterm evaluation (see paragraph 4.40) will include information needed to be able to compare the program's performance against these indicators and the Logical Framework indicators (Annex II).
- 4.40 Achievement of the performance indicators referred to in paragraph 4.37 will constitute a contractual obligation of PRODEM's in order for program disbursements to continue. If the Bank observes more than a 20% deviation in the case of two or more indicators it will decide with PRODEM on the corrective measures needed, and may suspend disbursements of funds.

K. Evaluation

- 4.41 **Midterm review.** To make sure that the program is executed as planned the Bank will engage consultants to conduct a midterm evaluation, defraying the costs out of the nonreimbursable technical cooperation funding. This comprehensive midterm review is to be conducted 24 months after execution of the Financing, at which point three subloans are expected to be active. A key focus of the review will be a status and progress report on: (i) demand for the program resources, as evidenced by proposals received and appraised by PRODEM; (ii) PRODEM's adherence to the program's procedures and regulations; (iii) portfolio quality of subloans made to SMEs and progress of this lending; (iv) analysis and outcomes of activities carried out with support from the technical cooperation, including the environmental consulting support; (v) effectiveness of the computerized supplier development system; (vi) monitoring of indicators established in each business plan relating to commercial dealings between the SMEs and suppliers; (vii) reasonableness of the prices paid by PRODEM for shares in the beneficiary SMEs, and (viii) recommendations to improve the program's administration.
- 4.42 **Final evaluation.** The Bank will engage external evaluators for a final evaluation of the program, to be conducted 60 months after execution of the Financing. The evaluation will analyze, inter alia: (i) the impact of the subloans and technical cooperation on the SME end-borrowers and the small producers, referencing the indicators in paragraph 4.37 of this proposal; (ii) how effectively and efficiently PRODEM/FBE administered the Bank's funds; (iii) reasonableness of prices paid by PRODEM for equity stakes in the beneficiary SMEs; (iv) findings and recommendations from the environmental consultants' work; and (v) lessons learned from this program that could be applied to other similar Social Entrepreneurship Program operations.

L. Special contractual conditions

- 4.43 Prior to the first disbursement of the Financing, PRODEM must submit the following to the Bank to secure its no-objection: (i) the Operating and Credit Regulations and evidence that they are in effect, and (ii) the PRODEM-Fundación Bolivia Exporta interagency agreement regarding administrative support for the program, spelling out each party's rights and responsibilities for the coordination of program activities.
- 4.44 As a condition precedent to the first disbursement of the Financing corresponding to a subloan approved under the program, PRODEM will present the following to the Bank's satisfaction: the financing proposal for the subproject, following procedures set out in the Operating and Credit Regulations and including the respective business and investment plan, and the plan of operations for technical cooperation activities associated with the subloan, including all available baseline data on the SME and details of its suppliers.

V. VIABILITY AND RISKS

A. Institutional viability

- 5.1 The crux of the program's institutional viability lies in the selection of an intermediary agency that is equipped to carry out the program following the envisaged parameters. After a comparative analysis of possible intermediary organizations in Bolivia capable of administering a credit and investment fund for productive-commercial SMEs, the project team concluded that PRODEM is the best choice. The selection of this organization, for the reasons listed in paragraph 3.1 of this proposal, provides assurances that both the program's general objectives and the particular subloan objectives will be achieved. Moreover, although PRODEM will assume full responsibility for the program's implementation, its partnership arrangement with Fundación Bolivia Exporta (FBE) affords further assurances that PRODEM will bolster its institutional capacity, drawing on FBE's experience and human resources availability primarily in investment prospecting and analysis areas.

B. Socioeconomic viability

- 5.2 The program is socioeconomically viable because it will support sustainable economic development initiatives in poor and marginalized populations in unserved and underserved parts of Bolivia. These projects are expected to benefit more than 800 rural and periurban small-producer or microentrepreneur households by bolstering the demand and market for their output. With access to productive and commercial investment and activities funded by the program's technical cooperation component these families will be able to expand their economic activity and achieve productivity gains in their businesses, participate in their production value-added and sell their output at fair prices, thereby raising their income.
- 5.3 At the same time the program will strengthen the operations and finances of small enterprises that deliver production, commercial and value-added services in rural areas. This will help ease constraints on economic development in areas of Bolivia that today have a high concentration of poverty, very low productivity and meager employment and earnings prospects.

C. Financial viability

- 5.4 The program has been designed to ensure that the correct incentives are in place to maximize the financial viability of the program itself and of the subloans it will fund. It was concluded from an analysis of projections that the resources allocated for financing are sufficient to cover the intermediation cost and debt service and generate modest surpluses that will be reinvested in the program. The fact that PRODEM will assume the credit and exchange risks of the Bank's financing and

also will be investing funds of its own (as a shareholder) in the same SMEs assures that it will make every effort to ensure a rigorous screening of subborrowers. To be able to repay its debt to the Bank PRODEM will have to make certain that subborrowers pay back their loans on schedule too. Given this payment and liability chain and the fact that PRODEM plans to invest its own funds, thorough due diligence is needed for each enterprise applying for financing under the program, and there are assurances that PRODEM will identify and select only the soundest, most viable companies, demonstrating also the social and environmental viability of their operations.

- 5.5 On the small-producer side, one of PRODEM's selection criteria will be that the activity for which funding is being sought will yield returns right from the start of the chain, where improvements can be evaluated using the indicators devised for the program.
- 5.6 At the SME level, investment funding via the Bank's financing and PRODEM equity participations will enable these companies to improve their competitiveness conditions and grow more quickly.

D. Environmental impact and social considerations

- 5.7 The Bank's Committee on Environment and Social Impact reviewed the program profile on 1 March 2002. The committee's recommendations for implementation of the program generally and the planned subloans in particular have been incorporated into the present proposal.
- 5.8 The program will promote investments in sustainable, environmentally benign economic activities. The subborrower selection criteria will include environmental feasibility criteria. One feature of the subloan analysis will be a review of the subprojects' environmental strategy by reference to the environmental policy that Fundación Bolivia Exporta has pursued for a number of years, in line with Bolivian legislation.
- 5.9 Where necessary the subprojects may include training for the rural beneficiaries on rational natural resources use and management and on monitoring the application of occupational health standards in the benefiting economic units.
- 5.10 Campesino women will make up a sizable share of the beneficiaries since they are very involved in production and commercial activities. The methodologies supported in the subprojects will be designed to use processes and offer services geared to rural women's needs. The training materials developed will have gender-inclusive content and training sessions will be held at readily accessible locations.
- 5.11 One consideration in the comparative institutional analysis for the program which ended in PRODEM's being selected was the institution's capacity to apply environmental eligibility criteria for subborrowers and analyze key elements

pertaining to work with indigenous populations. PRODEM and FBE have the experience and capacity to follow the Bank's recommendations in these matters, and an environmental and social analysis is part of their subloan review process.

E. Risks

- 5.12 The program presents three main risks. The first is that given the state of the economy and social and political unrest in rural Bolivia and the associated uncertainty, productive and commercial SMEs might be unable or reluctant to invest and incur financial obligations. Though the program could not completely dispel this risk, it is anticipated that the planned PRODEM selection process will locate viable SME candidates, elicit workable proposals, and select the SMEs offering the best prospects for success.
- 5.13 A second risk is the possibility that PRODEM lending would be heavily concentrated in rural businesses (farming, agroindustry, etc.) which are vulnerable to weather conditions and economic and social factors, any of which could impair performance of the PRODEM portfolio. To alleviate this risk PRODEM will take care to diversify its lending across different geographic regions and among different agricultural products. Furthermore, in the event of deteriorating portfolio quality it is PRODEM's policy to provision its past-due loans at 100% each fiscal year. Though this will mean lower surpluses for PRODEM it will leave the organization better situated to repay its debt to the Bank on schedule.
- 5.14 The third risk is that PRODEM's limited experience with SME financing could make for less than optimum administration of the Rural Credit and Investment Fund. To attenuate that risk and equip itself to implement the program, PRODEM will form a strategic alliance with Fundación Bolivia Exporta (FBE), an agency with a 10-year track record in venture capital fund management, specializing in agroindustrial export development. Through this arrangement PRODEM will be able to draw on FBE's experience and lessons learned in Bolivia about investment funds for productive-commercial SMEs. FBE will serve as advisor and subcontractor, working closely with PRODEM on selected Fund subloan identification, appraisal and monitoring tasks.

F. Rationale

- 5.15 The program is justified because it will help low-income rural small producers become part of production and marketing chains that are crucial for enhancing their productivity and competitiveness and raising their household income.

PLAN OF OPERATIONS

TECHNICAL COOPERATION FOR A RURAL CREDIT AND INVESTMENT FUND FOR PRODUCTIVE AND COMMERCIAL SMES

PRODEM FOUNDATION

TC-02-02-00-6

SOCIAL ENTREPRENEURSHIP PROGRAM

I. BACKGROUND

- 1.1 In addition to the funds to be used to create a Rural Credit and Investment Fund for Productive and Commercial SMEs, the Foundation for Microenterprise Promotion and Development (PRODEM) will administer a total of US\$805,000 in nonreimbursable technical-cooperation funding furnished by the Bank (US\$380,000) and PRODEM (US\$425,000).

II. OBJECTIVES

- 2.1 The technical cooperation will be executed in parallel with the program's reimbursable financing component. The aim of the nonreimbursable technical cooperation is to fund *complementary activities* associated with approved subloans to benefit the targeted small producers, to hire consultants to help the producers with supplier cluster facilitation and coordination, training and technical assistance in production, commercial, social and environmental matters, and purchases of equipment and small infrastructure for the end-beneficiaries. Also slated for financing are some specific activities the Bank will require of the executing agency to *support the program's implementation and monitoring*, including: (i) design of a computerized impact monitoring system for the program, (ii) program evaluations and audits, and (iii) environmental monitoring of the program.
- 2.2 As for activities to directly strengthen the end-beneficiaries (suppliers), the plan is for PRODEM to leverage the technical cooperation resources to secure additional funds from other sources. Normally this kind of activity requires sizable grants. In this case PRODEM will structure supplier development programs tailored to the current state and needs of the production chain, put in the initial contribution out of the Bank's technical cooperation funds, and look to other international cooperation donors in order to leverage these resources.

III. ACTIVITIES

1. Complementary activities benefiting small producers

- 3.1 A large share of the resources that PRODEM will be furnishing for complementary technical cooperation activities will go toward supplier development activities associated with approved subloans, using the nonreimbursable funds to improve production conditions of small producers at the beginning of production chains. In these cases PRODEM will use the Bank's technical cooperation resources to leverage additional funding for these programs.
- 3.2 In the profile for each subloan PRODEM will outline, to the Bank's satisfaction, the intended use of the funds and the proposed terms and conditions. It will be PRODEM's responsibility to make certain that the funds are put to the agreed use and to show in its semiannual reports how the funds were used and the outcomes achieved with this technical cooperation support to suppliers.
- 3.3 PRODEM will give priority to structuring supplier support activities (Supplier Development Programs) in small-producer clusters linked with SMEs which have clearly and objectively demonstrated an increase in their input purchase volumes or price improvements. These activities (entailing zero cost to the SME) will translate into productivity gains for suppliers and formalization of their operations—which will in turn benefit the SMEs.
- 3.4 The ceiling for subloan-associated allotments from the Bank's nonreimbursable technical cooperation will be US\$60,000 per project, to a total of US\$250,000 for the program overall. PRODEM will contribute additional resources for these supplier development activities to supplement the Bank's funding. Annex III contains an illustrative itemized budget.
- 3.5 Budget lines for capital asset procurement (e.g. machinery, equipment and infrastructure) cannot exceed 30% of the Bank funding allocated to an individual operation. Such assets must be solely the property of the small producers, not of the beneficiary SMEs. Fixed assets and goods required by the SMEs must be financed out of PRODEM's equity investment resources.
- 3.6 Activities slated for funding include: (i) hiring of consultants to assist the operation's end-clients (small producers) with supplier-cluster facilitation and coordination, training and technical assistance in production, commercial, social, environmental etc. matters, and (ii) acquisition of equipment and small infrastructure to improve the small producers' operations and output.

2. Program implementation and monitoring support

- 3.7 Activities to support the program's implementation and monitoring include: (i) design of a computerized system for supplier network development and indicator monitoring and training for SMEs in its use; (ii) midterm and final evaluations; (iii) environmental monitoring of the program, and (iv) annual audits of the program and of the executing agency.
- 3.8 **Design of a computerized system for supplier network development and indicator monitoring:** Consultants will be hired to design this system to be installed in each subborrower SME, enabling it to generate: (i) a supplier roster in which to record complete information needed to evaluate the program's socioeconomic impact, and (ii) detailed data with which the SME can analyze key indicators of its purchase volumes, prices, suppliers, and other facets of its business.
- 3.9 The technical cooperation resources also will be used to train staff in each subborrowing SME to operate and maintain the installed system. Design, installation and training costs, estimated at US\$20,000, will be defrayed with Bank funds.
- 3.10 **Midterm review.** To make sure that the program is proceeding as planned the Bank will engage consultants to perform a midterm evaluation, with costs to be defrayed out of the nonreimbursable technical cooperation funding. This comprehensive midterm review will be conducted 24 months after execution of the Financing, at which point three subloans are expected to be active. A central focus of the review will be status and progress reports on: (i) the demand for program resources as evidenced by proposals received and evaluated by PRODEM; (ii) PRODEM's adherence to the program's procedures and regulations; (iii) portfolio quality of subloans made to SMEs and progress of this lending; (iv) analysis and outcomes of activities supported by the technical cooperation funding, including the environmental consulting support; (v) effectiveness of the computerized supplier development system; (vi) monitoring of indicators established in each business plan relating to commercial dealings between the SMEs and suppliers; (vii) reasonableness of the prices paid by PRODEM for equity participations in the beneficiary SMEs, and (viii) recommendations to improve the program's administration. There is US\$10,000 in the budget for this evaluation.
- 3.11 **Final evaluation.** The Bank will engage external evaluators for a final evaluation of the program, to be conducted 60 months after execution of the Financing. The evaluation will examine, inter alia: (i) the impact of the subloans and the technical cooperation funding on the SME end-borrowers and small producers, referencing the indicators in paragraph 4.37 of this proposal; (ii) how effectively and efficiently PRODEM/FBE administered the Bank's resources; (iii) reasonableness of the prices PRODEM paid for equity stakes in the beneficiary SMEs; (iv) findings of the

environmental consultants' work and their recommendations; and (v) lessons learned from this program that could be applied to similar Social Entrepreneurship Program operations. There is US\$10,000 in the budget for this final evaluation.

- 3.12 **Environmental monitoring of the program.** Using the Bank's technical cooperation funds PRODEM will hire experts to create and launch an environmental monitoring system for the program. Its purpose is to build an environmental dimension into every stage in the project cycle in order to ensure that only environmentally viable projects are approved for funding, i.e., projects that comply with Bolivian and IDB environmental policies and requirements and have the respective environmental briefs prescribed in Bolivian law.
- 3.13 The environmental monitoring system designed by the consultants will identify: (i) environmental quality requisites and indicators; (ii) baselines, and (iii) approaches for responding to and remedying any problems detected in the course of the monitoring work. The environmental criteria developed must be based on good practices the Bank has garnered from similar programs including, if pertinent, a negative list of kinds of projects or items the Bank will not fund. One element of the consultants' work will be a feasibility assessment of having the program support the development and implementation of an environmental certification system for the productive activities being funded. The sum of US\$30,000 is budgeted for these activities.
- 3.14 **Annual program audits.** At the end of each year throughout the execution of the Financing PRODEM will engage, after securing the Bank's no-objection, an auditing firm to audit the program's finances, in accordance with Bank policies. The budget allotment for this audit work is US\$75,000 (US\$15,000 annually for five years), for which the Bank will contribute US\$50,000 and PRODEM US\$25,000.
- 3.15 The Bank and PRODEM will use the audit reports to make certain that the program's procedures and rules are being followed and recommend any adjustments needed to improve PRODEM's administration of the program funds.
- 3.16 **Program administration.** PRODEM will use resources of its own to defray the costs of administering the technical cooperation component, to which end it will provide a coordinator, support staff, funds for travel, per diems, telephone service and office supplies, etc. The value of this contribution over the five years is an estimated US\$200,000.

IV. SPECIAL CONTRACTUAL CONDITIONS

- 4.1 Conditions precedent to the first disbursement of the technical cooperation funds will be submittal to the Bank's satisfaction of: (i) procedures and formats to be used

for approval and monitoring of the technical cooperation delivered to small producers, and (ii) a work plan for these activities, providing inter alia the following information: (a) annual targets for each activity; (b) timetable for year 1 activities, and (c) appointment of the program coordinator.

- 4.2 As a condition precedent to the first disbursement of each technical cooperation allocation associated with an individual subloan, PRODEM must submit the plan and budget for the allotment to the Bank for approval using the previously agreed formats. PRODEM also must demonstrate to the Bank that it has funds available or formally committed to begin executing each technical cooperation operation.

V. COST AND FINANCING

- 5.1 The total cost of the technical cooperation is US\$805,000, broken down as follows.

Cost table (U.S dollars)

Expenditure item	Bank	PRODEM	Total
1. Complementary activities benefiting the targeted small producers	250,000	200,000	450,000
2. Activities to support the program's implementation and monitoring	130,000	25,000	155,000
a. Design of computerized system	20,000		20,000
b. Evaluations (2 x US\$10,000)	20,000		20,000
c. Environmental monitoring	30,000		30,000
d. Annual audits (5 x US\$15,000)	50,000	25,000	75,000
e. Contingencies	10,000		10,000
3. Technical Unit and program administration	0	200,000	200,000
TOTAL	380,000	425,000	805,000

- 5.2 PRODEM will be responsible for furnishing the entire counterpart commitment. To supplement its own funds it may secure a portion of these resources from other international cooperation agencies, as described in paragraph 2.2.

VI. PROJECT IMPLEMENTATION

- 6.1 The proposed technical cooperation will be executed in parallel with the loan program and will be approved at the same time. PRODEM will be accountable to the Bank for execution of the different technical cooperation components and activities.

- 6.2 The technical cooperation project will be implemented over an interval of 60 months, with a 66-month disbursement term. Since parallel execution is planned of more than one technical cooperation operation for subprojects, a revolving fund of 20% of the component total will need to be established to meet the program's liquidity needs.
- 6.3 PRODEM will be in charge of procurement of equipment and other goods provided for in the program. The Bank's procedures, rules and policies must be followed in goods procurement and consulting service contracting.
- 6.4 The Bank will release its funds *pari passu* to PRODEM's capital contributions in cash to the SMEs, adhering to the percentage totals for each component. For the technical cooperation component the disbursement rate will be 47% IDB/53% PRODEM. The proportional allocations corresponding to funding for activities benefiting small producers (expenditure item 1) must be observed as well.

VII. REPORTS

- 7.1 PRODEM will provide the Bank with semiannual progress reports within 60 days after the end of each six-month period, starting the fiscal year of the first disbursement. At a minimum these reports must contain: (i) information on the execution of all the technical cooperation components (procurement, contracts, training delivered, etc.); (ii) accounting reports on total costs of each activity carried out; (iii) a report on the program's progress and achievements, measured as increases in the rural producers' sales and earnings compared to the baseline situation, using the pertinent indicators from paragraph 4.37 of the financing proposal for this operation; and (iv) an updated work plan for the following 12 months with a timetable and budget. The last of these reports, constituting the final report, must summarize the program's achievements compared against its general objectives.
- 7.2 The Bank will review the findings of these reports. If it observes any significant problems in the program's execution the Bank will authorize no further disbursements until PRODEM has taken satisfactory corrective action.
- 7.3 Ninety days after the last disbursement of the technical cooperation funding PRODEM will submit a financial report to the Bank, audited by independent auditors, showing how the Bank's financial contribution to the program was used.

Rural Credit and Investment Fund for Productive and Commercial SMEs
(SP/TC-02-02-00-6-BO)
Logical Framework

BRIEF SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>the economic and earnings of approximately 800 low-income producers and commercial activities.</p>	<ul style="list-style-type: none"> • Employment sources strengthened and/or created; increase in output and earnings of subproject beneficiaries. • Increase in viable productive investments in the priority areas. 	<ul style="list-style-type: none"> • Final evaluation of the program • PRODEM/Fundación Bolivia Exporta annual reports 	<ul style="list-style-type: none"> • The Bolivian economy remains stable. • Social unrest in rural areas does not worsen.
<p>Objectives are to: (i) facilitate access to credit for at least seven SMEs so that they can improve their productive operations that benefit low-income producers, and (ii) help the small producers and microentrepreneurs better absorb production and know-how, through technical assistance, training and services.</p>	<ul style="list-style-type: none"> • By the end of year 5, value of SMEs' raw-materials purchases from the small producers is 5 times the IDB loan amount (5:1). • By year 5, 800 low-income small producers have become part of program-funded production chains. • By the end of year 5, 80% of the 800 small producers benefiting from TC-funded activities have achieved at least a 10% improvement in productivity. • By the end of year 2 of the program, at least 3 SMEs are executing subprojects and another 4 have signed loan agreements. • By the end of year 2, US\$1 million of the Financing has been committed and disbursed. • By the end of year 5, 7 SMEs are executing or have completed subprojects. 	<ul style="list-style-type: none"> • Reports from intermediary agency • Evaluation reports • Financing agreements and technical cooperation operations in execution. 	<ul style="list-style-type: none"> • The demand for program funds remains steady or increases. • Climate, economic and social conditions remain stable. • Mechanisms established in the program (Operating and Credit Regulations) are effective and recurrent throughout the execution period.
<p>able financing</p>	<ul style="list-style-type: none"> • 7 SMEs identified and selected and have received financing from the Fund. • 7 SMEs are executing projects. • At least 7 projects have achieved objectives. • At the end of year 5, PRODEM's loan arrears rate does not exceed 6%. • PRODEM has its past-due portfolio 100% provisioned. 	<ul style="list-style-type: none"> • Reports from intermediary agency • Evaluation reports • Program audits • Bank field visits 	<ul style="list-style-type: none"> • Quality of proposals received is satisfactory. • The selection criteria and procedures work as envisaged.

Rural Credit and Investment Fund for Productive and Commercial SMEs
(SP/TC-02-02-00-6-BO)
Logical Framework

ACTIVE SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<u>Reimbursable technical cooperation</u>	<ul style="list-style-type: none"> • 800 small producers in receipt of technical assistance and training services in production, commercial, environmental, social etc. matters. • The small producers have tools and small infrastructure needed to improve their product quality. • The 7 SMEs are in receipt of environmental advisory and monitoring services. • The 7 SMEs have a computerized system for supplier network development. 	<ul style="list-style-type: none"> • Reports from intermediary agency • Evaluation reports • Program audits • Bank field visits 	
ES			
<p>ment of program's general tor and of the Supplier ment Program coordinator</p> <p><u>Project identification, selection and</u></p> <p><i>Identify and select subprojects Improve profiles Environmental assessment Prepare subproject proposals Negotiate proposals Sign subproject agreements</i></p> <p><u>Execution and monitoring</u></p> <p><i>Launch monitoring systems Delivery of computerized system (SMEs), portfolio monitoring etc. Disburse funds Monitoring visits Environmental monitoring and Advisory support</i></p>	<p>Reimbursable financing: US\$ 1,000,000 PRODEM contribution (equity): US\$1,000,000 Subloan average: US\$150,000 Number of subloans: 7</p> <p>Disbursements: Year 1: US\$450,000 Year 2: US\$550,000</p>	<ul style="list-style-type: none"> • Narrative and financial reports from intermediary agency • Evaluation reports • Subproject profiles • Financing contracts and business plans 	<ul style="list-style-type: none"> • Intermediary agency's subproject identification and selection process is effective and elicits viable proposals from eligible enterprises

Rural Credit and Investment Fund for Productive and Commercial SMEs
(SP/TC-02-02-00-6-BO)
Logical Framework

OBJECTIVE SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p><u>technical cooperation</u></p> <p><i>ds assessment</i></p> <p><i>file and budget preparation</i></p> <p><i>approval of allocation</i></p> <p><u>of individual technical operations</u></p> <p><i>ing of consultants for technical assistance and training</i></p> <p><i>all equipment procurement and all infrastructure construction</i></p> <p><u>evaluations and audits</u></p> <p><i>ing of consultants for Supplier Development System design and E training</i></p> <p><i>ing of environmental consultants</i></p> <p><i>missioning of midterm and l evaluations</i></p> <p><i>missioning of annual audits</i></p>	<p>Counterpart contribution: US\$200.000</p> <p>Technical cooperation: US\$250.000</p> <p>Ceiling for an individual operation: US\$60.000</p> <p>Technical cooperation: US\$130.000</p> <p>Counterpart contribution: US\$ 25.000</p>	<ul style="list-style-type: none"> • Narrative and financial reports from intermediary agency • Evaluation reports • Allocation of individual technical cooperation operations • Technical assistance and consulting contracts • Supplier Development System in operation • Environmental consulting contracts • Final audit 	<ul style="list-style-type: none"> • There are consulting comp available with the requisite for the technical assistance training activities, environ advisory support and comp design.

TABLE OF INDICATORS AND TARGETS

NAME	FORMULA	DESCRIPTION	TARGET
al incremental impact of B funding	<u>Total value raw-material purchases</u> Average liability PRODEM	The numerator refers to the consolidated total value of purchases of raw materials by program companies from the small suppliers. The denominator refers to the average balance of the loan that the IDB would grant to PRODEM. The consolidated indicator would be available for evaluation starting in the third year. This time period is set to allow the projects to mature.	≥ 3 starting in the year. Year 4: ≥ 4 Year 5: ≥ 5
Incremental impact of funds to SMEs	<u>Total value raw-material purchases</u> Amount owed for IDB funding	The numerator is the total value of raw-materials purchases that the company makes from small producers. The denominator is the amount the company owes for IDB funding. This indicator is evaluated with the subborrower throughout the life of the loan.	Greater than 1. evaluated annually
average value of purchases in small producers	<u>Total value of purchases</u> Number of suppliers	The total value of purchases per period, divided by the total number of suppliers that sold to the company during the period. This would serve as an indicator to monitor the company's strategy which may concentrate on a few suppliers or a diversity of suppliers.	Equal to or greater the value committed the business plan.
Number of suppliers	Number of input suppliers	This is the number of suppliers that sell their production to the company per year.	Equal to or greater the value committed the business plan.
Value of purchases from suppliers	Value of purchases	This is the total value of purchases from small suppliers per year. At the least, this indicator should show an increase with respect to the baseline.	Equal to or greater the value committed the business plan.
Expansion of supplier network	<u>Number of new suppliers</u> Total suppliers	This is the number of new suppliers included in the supply network per year. The denominator is the total number of suppliers in the company's network.	
Suppliers' productivity gain	<u>Increase in output</u> Productive resources	The objective of this indicator is to measure the increase in producer productivity, compared to a baseline. The indicator will feature units such as tons/hectare, etc.	

NAME	FORMULA	DESCRIPTION	TARGET
Full producer pass-on factor	$\frac{\text{Total cost of products sold}}{\text{Value of sales}}$	This indicator makes it possible to evaluate the extent to which the company passes on its inflows to its suppliers, either through an increase in the number of suppliers or an increase in the unit value of inputs.	
Supplier loyalty	$\frac{\text{Number of active suppliers}}{\text{Total suppliers}}$	<p>An active supplier is defined as a supplier that has realized a number of sales to the company that is at least equal to half the company's annual productive cycles.</p> <p>The production cycle will be recorded during the first sale that the small supplier makes to the company.</p>	

PROPOSED RESOLUTION

**BOLIVIA. FINANCING AND TECHNICAL COOPERATION TO THE FUNDACIÓN PARA
LA PROMOCIÓN Y DESARROLLO DE LA MICROEMPRESA WITHIN THE
SOCIAL ENTREPRENEURSHIP PROGRAM**

The Board of Executive Directors

RESOLVES:

1. That the President of the Inter-American Development Bank or such representative as he shall designate is authorized, in the name and on behalf of the Bank, to enter into such agreement or agreements as may be necessary with the Fundación para la Promoción y Desarrollo de la Microempresa, of the Republic of Bolivia, to grant it, within the Social Entrepreneurship Program approved by Resolution DE-183/98: (a) reimbursable financing for the execution of the program referred to in Document PR-____; and (b) nonreimbursable technical cooperation for the execution of the program, in accordance with Annex I of said document.

2. That up to the amount of US\$1,000,000, or its equivalent in other convertible currencies, is authorized for the purposes indicated in paragraph 1(a), and up to the amount of US\$380,000, or its equivalent in other convertible currencies, is authorized for the purposes indicated in paragraph 1(b), both chargeable to the net income of the Fund for Special Operations.