

# **Support to the Microfinance Sector in Bolivia**

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**Department for Infrastructure  
and Economic Cooperation**



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**Sida Evaluation 99/30**

**Department for  
Infrastructure and Economic  
Cooperation**

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## Appendices

1. Terms of Reference (included)
2. Agreement IDB-Sida (not included)
3. Report on FIE (only first page)
4. Report on Caja Los Andes (only first page)
5. Report on FADES (only first page)
6. Report on CISC (only first page)
7. Report on PDAI (only first page)
8. Report on Colonia Pirai (only first page)
9. Bibliography (not included)
10. Interviews (not included)
11. Abbreviations (included)

All appendices can be obtained from Sida/INEC.





# 1 Background

## 1.1 General

Sida has supported the micro-enterprise sector in Bolivia since 1993. The Swedish support has been channelled to six different organisations through a Swedish trust fund in the Inter-American Development Bank (IDB).

As the Swedish funding is now coming to a close, the Global Consulting Group was assigned to evaluate Sida's collaboration with IDB, its contribution to the individual beneficiaries and to the sector as such.

The funds have been almost entirely disbursed and Sida needs to evaluate how the funds have been handled in view of considering further support through the IDB as one of various options for further support to the mf-sector.

## 1.2 Global Consulting Group – The Team

Global Consulting Group is a global network of consultants with its administrative base in Sweden.

The team in this study are:

- Mr Lars-Olof Hellgren – main consultant for the study.
- Ms Lena Furberg – in charge of the co-ordination of the different parts of the study and for the Swedish input in the field studies in Bolivia.
- Mr Leonel Roland – in charge of the field studies and conclusions in Bolivia.
- Mr Gustavo Birbuet – partner of Mr Leonel Roland for the field studies in Bolivia.

## 1.3 Terms of Reference

The purpose of the study was, according to the Terms of reference, to evaluate the efficiency and effectiveness of the Swedish support through the IDB to selected Bolivian MFIs and other organisations and to assess the contribution of the support to the microfinance sector at large since its start in 1993.

According to the ToR the program should be evaluated in light of the two main objectives stated in the assessment memorandum:

1. To increase access to credit for poor, underserved groups and to support the development of a new type of financial institutions which offer services to micro-entrepreneurs previously excluded from the formal financial system.
2. To enter into a closer collaboration with IDB in order to benefit from IDB's long experience of the sector while reducing Sida's own administration to a minimum.

In addition to the two objectives above, the ToR also state that the agreement concluded between IDB and Sida should be taken into account since it clarifies issues such as the definition of eligible

activities and intermediaries, the use of funds and the role of IDB as an administrator of the funds (charges, reporting, consultation with Sida, etc.). Any additional objectives formulated to support individual MFIs should also be taken into account.

The *scope* of the evaluation comprises an assessment of all organisations receiving Swedish support. Their achievements have been put in the context of the general evolution of the mf-sector and the presence and policy of other actors and donors.

The evaluation also includes an assessment of the effectiveness of IDB policies and the efficiency of IDB as a trustee of Swedish support.

ToR in full are attached as appendix 1.

## **1.4 Methods**

### **1.4.1 Summary**

Information in Sweden and Washington:

- written material
- interviews with Sida-staff in Stockholm
- interviews with IDB-staff in Washington

Information in Bolivia

- written material
- interviews with management in the 6 MFIs
- interviews with the clientele of the 6 MFIs
- interviews with other important actors in Bolivia, such as Sida, the IDB-office, the World Bank and other major donors, relevant Government agencies and other financial institutions.

### **1.4.2 Division of tasks**

Interviews in Sweden were carried out by Mr Lars-Olof Hellgren, assisted by Ms Lena Furberg.

Mr Lars-Olof Hellgren carried out interviews in Washington.

The interviews directly related to the 6 MFIs and some interviews in Bolivia were carried out by Mr Leonel Roland assisted by Mr Gustavo Birbuet.

Mr Leonel Roland, Mr Gustavo Birbuet and Ms Lena Furberg carried out the discussions with actors in Bolivia, based on the findings in Washington and the field assessments and interviews.

### **1.4.3 The field study in Bolivia**

The field study in Bolivia was divided into two stages:

*The first stage* – a field assessment.

*The second stage* – an analysis of the information collected and institutional contacts.

The first stage included the following aspects:

- 1) study of clients (to evaluate their opinions and characteristics, based on statistical samples),
- 2) study of competition with other micro lending institutions (i.e. qualitative and quantitative, “over-indebted” clients, risks controls involved, etc.),
- 3) analysis of the quality of the services and financial products,

- 4) geographical study (the competitive study differs in the La Paz region from the Santa Cruz region, and even from secondary cities or villages)
- 5) study of their approach to rural credit (which is the area of expansion of most of the actors in MF sector now).

The second stage concentrated primarily on the financial analysis, the integrated evaluation of all available information, contacts and the analysis of institutional policies.

The CGAP format for appraising MFIs has been used as far as it has been practically possible within the scope of this study. As the institutions are very different a comprehensive overall analysis is not possible. The format has been used individually.

## **1.5 Desk study, Bolivia**

A desk study carried out by Helena Lindemark and Annika Westberg was submitted to Sida in March 1999. It gives a general overview of the Microfinance sector in Bolivia.

## 2 Sida-IDB agreement

### 2.1 The agreement

In 1993 Sida and IDB signed an agreement whereby the Swedish Trust Fund for the Financing of Micro and Small Enterprise Activities in Bolivia was established.

The purpose of the Trust Fund according to Article 1 is “to provide financing, on a non-reimbursable basis, to intermediary organisations which support activities of micro and small enterprises”.

Eligible activities according to Article 2 include:

- Financing of credit facilities
- Seed capital
- Start-up activities
- Direct investments
- Technical assistance development of appropriate technologies for the provision of financial services to micro and small entrepreneurs
- All such other activities agreed upon by Sida and the Bank.

Eligible organisations according to Article 2 include:

- Departmental banks
- Non traditional financing entities such as co-operatives, savings and loan institutions
- Banking institutions
- Non-governmental organisations

According to Annex A to the agreement the following three institutions should get support (chosen by Sida):

- ProCredito (Caja Los Andes)
- FIE
- FADES

Three more institutions should according to the same Annex A be selected by IDB.

According to Article 7 of the agreement “the Bank (IDB) shall be responsible for the programming, appraisal, selection, processing, approval, monitoring, supervision and evaluation of the operations, in accordance with its policies and as provided for in the Agreement”.

Article 9 states that “Sida and the Bank shall consult with each other and meet at least once a year in a suitable location to both parties to review the progress of the operations financed with resources of this Fund and generally to discuss all other matters arising out of this Agreement”.

The Agreement is attached as Appendix 2.

## 2.2 Sida contribution to the fund

Total disbursements from Sida to IDB amounts to 35.026.250 SEK. 30.000.000 SEK was approved and allocated for Bolivia fund and 5.026.250 SEK transferred from other funds.

The disbursements were made as follows

	SEK	USD
July 1994	12.312.500	1.250.000
August 1994	12.312.500	1.250.000
February 1995	5.510.625	750.000
December 1997	4.891.000	627.000
<b>Total</b>	<b>35.026.500</b>	<b>3.877.000</b>

The total amount available for support to Bolivia is USD 4.329.020 including interests.

## 2.3 Contracts with Institutions

Contracts were signed with the following Bolivian institutions:

Name of the Institution	Date of the agreement
FIE	June 1995
ProCredito/Caja Los Andes	November 1994
FADES	November 1997
CISC	April 1995
PDAI	April 1995
Colonia Pirai	June 1995

## 3 IDB Washington

### 3.1 Background, organisation and main activities

IDB was created in 1959 to help accelerate the economic and social development of its member countries in Latin America and the Caribbean. Its cumulative lending and technical co-operation amounted to almost \$96 billion by the end of 1998. The annual lending amounts to \$7–10 billion.

Its 46 member countries own the bank. 28 are regional members from the Western Hemisphere and 18 (non regional) from Europe, Asia and the Middle East. Sweden is one of the members.

The financial resources of the Bank consist of subscribed capital (\$105 billion), reserves, funds raised through borrowings and trust funds established by member countries.

The main activities of the bank relate to big loans mainly to governments or governmental institutions in order to support sustainable human development.

The total number of employees at year-end 1998 was 1.686, of whom 1.164 were in professional grades and 522 administrative staff. Of this total, 501 staff were assigned to Country Offices.

In 1994 the Bank went through a restructuring process which affected all areas of the banks operations.

### 3.2 IDB and the Small Projects Program

Since 1978 the Bank has been operating a Small Projects Program. This program, which was started on an experimental basis, has become more and more important and is today considered to be an indispensable part of the Banks operations. Over the years the programs profile has moved from micro credit in general to focus on micro enterprise.

Since the time that the SPP was launched the IDB is considered to be a leading agent within the areas of micro enterprise and micro finance in the region.

The objective of the SPP is “to afford access to credit or such persons or groups of persons who wish to execute projects that will enable them to improve their living conditions and who most often lack access to commercial credit or development credit on customary terms and conditions.”

The SPP provides small loans and technical assistance to non-governmental organisations (NGOs) that support the economic activities of the poor. The ceiling amount for loan funds was recently increased from 500.000 USD to 1.000.000 USD.

Among the lessons learned – thus affecting the future policies – the following two could be noted:

- \* the institutions serving low-income people and micro entrepreneurs must be economically viable if they are to succeed in the long run, which for example means charging interest rates that fully cover the costs and risks.
- \* providing funds to NGOs on terms nearly equivalent to donations has created disincentives for the institutions involved to maintain the value of their loan funds or to access funds from local resources.

The SPP will for the coming years be promoting a new kind of entrepreneurship, where social goals and business effectiveness meet: social entrepreneurship.

The resources for the SPP are decreasing and the funding of the program is not secured.

The SPP has received Sida-support through the Swedish Trust Fund for the financing of Small projects:

Total contribution:	5.000.000 USD
Accrued Interest as of December 1998:	3.450.000 USD
<b>Total</b>	<b>8.450.000 USD</b>

Total amount allocated incl. 2% adm. fee	7.017.831 USD
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<b>Total amount available for allocation as of February 1999</b>	<b>1.432.169 USD</b>
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One project in Nicaragua (500.000 USD) is under study, but not yet approved.

The funds have so far been allocated to projects in 10 countries:

	Number of projects	Total amount
Bahamas	1	610.166 USD
Peru	4	2.124.460 USD
Honduras	1	630.000 USD
Uruguay	1	598.600 USD
Belize	1	650.000 USD
Ecuador	3	2.007.000 USD
Surinam	2	70.000 USD
Guyana	1	100.000 USD
Jamaica	1	30.000 USD
Barbados	1	60.000 USD
<i>Total</i>	<i>16</i>	<i>6.880.226 USD</i>
2% adm. fees		137.605 USD
<b>Total incl. 2% adm. fee</b>	<b>16</b>	<b>7.017.831 USD</b>

### 3.3 IDB and the Swedish Trust Fund for Bolivia

#### 3.3.1 Summary

The Swedish Trust Fund for Bolivia was set up as a second Swedish Trust Fund under the Small Projects Program and has been operated under the policies set up for SPP.

All funds are non-reimbursable to the IDB.

Sida-contribution to the fund:	3.877.020 USD
Accrued Interest as of Dec 1998:	452.000 USD
<b>Total amount available:</b>	<b>4.329.020 USD</b>

Approved	for loan funds	3.000.000 USD
	for technical co-operation	820.000 USD
<b>Total amount approved:</b>		<b>3.820.000 USD</b>

<b>Administrative fee 2% of the Approved amount</b>	<b>90.400 USD</b>
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<b>Balance not yet utilised</b>	<b>418.620 USD</b>
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**Out of the approved amounts, the following are not yet disbursed as of  
March 16 1999:**

CISC	27.724 USD
PDAI	204.090 USD
FIE	45.813 USD
FADES	331.000 USD
<b>Total amount not yet disbursed</b>	<b>608.627 USD</b>

<b>Balance with IDB:</b>	
Balance not utilised	418.620 USD
Not yet disbursed	609.627 USD
<b>Total balance with IDB</b>	<b>1.028.247 USD</b>

<b>Estimated interest:</b>	<b>4% p.a. (4-5% on time deposits and a little less on the bank a/c)</b>
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Six projects have been approved under this scheme, with the following status as of March 16 1999:

### **3.3.2 ProCredito/Caja Los Andes**

Approved on November 23, 1994 (non-reimbursable to IDB):

500.000 USD for a loan fund.

The full amount is disbursed.

### **3.3.3 CISC**

Approved on April 11, 1995 (non-reimbursable to IDB):

500.000 USD for loan fund, and

180.000 USD for technical co-operation

500.000 USD for loan fund disbursed in full.

For technical co-operation there is a balance of 27.724 USD not yet disbursed.

### **3.3.4 PDAI**

Approved on April 11, 1995 (non-reimbursable to IDB):

500.000 USD for loan fund, and

180.000 USD for technical co-operation

For the loan fund 300.000 USD has been disbursed.

Balance not yet disbursed: 200.000 USD.

For technical co-operation there is a balance of 4.090 USD not yet disbursed.

### **3.3.5 FIE**

Approved on June 12, 1995 (non-reimbursable to IDB):

500.000 USD for loan fund, and

180.000 USD for technical co-operation.

The loan fund is disbursed in full.

For technical co-operation there is a balance of 45.813 USD not yet disbursed.



### **3.3.6 Colonia Pirai**

Approved on June 12, 1995 (non-reimbursable to IDB):

500.000 USD for loan fund, and

180.000 USD for technical co-operation.

The funds are disbursed in full.

### **3.3.7 FADES**

Approved on November 26, 1997 (non-reimbursable to IDB):

500.000 USD for loan fund, and

100.000 USD for technical co-operation.

For the loan fund 250.000 USD has been disbursed.

Balance not yet disbursed: 250.000 USD

For technical co-operation 19.000 USD has been disbursed, leaving a balance of 81.000 USD not yet disbursed.

### **3.3.8 IDB disbursement procedures**

Funds are disbursed according to actual needs.

Loan funds are normally disbursed in 20% trenches. The MFI has to account for how the funds have been used before the next disbursement will be made.

Disbursements for technical co-operation are made when actual payments for consultative services, investments, etc. are due.

Staff at IDB HQ estimate that the remaining balances not yet disbursed (see 3.3.1) will be needed.

### **3.3.9 The balance in the Trust fund**

There is a remaining balance of approximately 420.000 USD (+ interest) in the Trust fund.

IDB staff is assessing one additional MFI in Santa Cruz for which the remaining balance will be used.

## **3.4 IDB Policy**

The Bank has over the years since 1978 been very active in developing the policies governing the Small Projects Program. Experiences made and lessons learned have continuously been translated into revised policies.

### **3.4.1 Micro Enterprise Strategy**

In 1995 the Bank presented MICRO 2001 based on a revised strategy for Micro enterprise development.

The overall goal of the Banks Micro enterprise Development strategy is to expand economic opportunities in Latin America and the Caribbean through sustainable, dynamic micro enterprise development.

The five year plan, MICRO 2001, will

- \* promote policy and regulatory reform to create an enabling environment.
- \* support the creation and strengthening of formal and non-formal institutions that provide business development and financial services to micro enterprises on a sustainable basis.

The Bank's main operational instruments for supporting micro enterprise development are

- \* the Small Projects Program and
- \* global loans for micro enterprise.

Technical co-operation within these operations, and as separate operations, will directly support institution building and policy reform.

### **3.4.2 Specific issues**

There are a number of micro finance issues under debate, such as

- \* loans versus grants
- \* guarantees
- \* interest rates
- \* sustainable institutions versus non-sustainable
- \* graduation of institutions
- \* savings

### **3.4.3 The Bank work with established NGOs**

To start up a new institution would take too much effort and would not be possible for the IDB-structure to handle. IDB strategy is to choose among existing NGOs and in that selection find those that have a potential to develop the capacity needed for the project.

### **3.4.4 The Bank believes that sustainable institutions will best serve the poor**

Poor people need access to credit. Not only for a first loan, but for a second and third too. It is in the interest of the poor that their institution survives. In order to survive, the institution must protect the value of its capital and avoid decapitalization. This is done through effective management, discipline, repayments when due, interest rates that cover the costs etc.

If the terms are soft and people start realising that the institution will not survive, they may stop paying there dues which will accelerated the disruption of the institution.

To enforce discipline and more or less market conditions in the activities of an institution is according to this thinking in the interest of the poor.

### **3.4.5 The Bank believes that the best way to develop sustainable institutions is to work through loans rather than grants**

IDB is a bank and is also perceived in that way. A loan on terms close to market rates is a clear signal to all actors on what the expectations are.

A loan agreement must of course be complemented by other agreements regarding clear and meaningful targets. The repayment capacity as such is not enough (could be handled through a new loan for example). It is argued that a loan constitutes a higher pressure on management of an institution to maintain discipline compared to a grant, even if the grant would be accompanied by agreement on targets and control.

### **3.4.6 Guarantees not feasible in relation to individual institutions**

It is argued that there is little or no leverage in a guarantee solution related to one institution, as there probably is no interest from other partners for a joint venture or for sharing risk. That means that the guarantee needed is of the same amount as the loan to be given.

There are a number of guarantee schemes developed but not yet any scheme of interest for less or medium developed NGOs.

### **3.4.7 Graduation of institutions**

Whereas it is very clear that NGOs should get support to develop into a sustainable institution it is far from evident that NGOs should graduate into formal institutions. This has to be judged on a case by case basis. The market could not absorb all NGOs becoming formal institutions. At the same time there is a need for some of the best developed NGOs to graduate.

There is also a question whether or not the formalised institutions will be able to continue to serve the poor.

The answer must be found case by case. The most important factor is whether the institution will be able to develop efficient tools and methods for its micro-lending activities.

### **3.4.8 A new policy for Social Entrepreneurship Program**

A new policy for a Social Entrepreneurship Program has been approved to replace the previous Small Project policy. The new policy differs from the previous policy in some significant ways:

- \* It emphasises social entrepreneurship – the merger of social goals with business-like practices. Its goal is to promote social equity and poverty reduction in an effective and sustainable manner.
- \* It expands the type of activities eligible for support by including social and community development activities, such as the support of day care centres, clinics markets, training, housing and other activities that help the poor carry out their productive ventures.
- \* It expands the type of institutions eligible for support by including private for-profit companies and local public development institutions that support economic activities of the poor.
- \* It raises the limit on loans to intermediaries from \$500.000 to \$ 1 million, and the limit on technical co-operation from \$150.000 to \$250.000. At the same time, it tightens up certain financing conditions by reducing the maximum amortisation period from 40 to 20 years and the maximum grace period from 10 to 5 years. It also establishes that loans made under the program should normally incorporate maintenance of value in the interest rate charged to borrowing institutions.
- \* It emphasises institutional sustainability and ownership by encouraging counterpart contributions by intermediaries and the ultimate beneficiaries.
- \* It formalises the use of umbrella facilities, both for loans and technical co-operation. This will permit the bank to combine multiple operations and streamline its support to the sector. It will also facilitate the management of the Program at the local level by the field offices.
- \* Finally, the policy for the Social Entrepreneurship Program expands the use of technical co-operation so that the Bank may support the preparation of proposals by intermediary institutions, as well as the subsequent project design.

### **3.4.9 Small Projects Program Characteristics and Eligibility**

Program resources are channelled through intermediary institutions. In order to be eligible under the program an intermediary must meet the following requirements:

- \* Be registered in the host country as a: i) public or quasi-governmental development organisation; or ii) private non-profit institution.
- \* Respond to the needs of low-income individuals or groups.
- \* Have the legal authority to enter into loan and Technical Co-operation contracts with the Bank and have the legal authority to grant sub loans under the financial conditions established by the Program if credit is a part of the proposed program.
- \* Have proven administrative, accounting, technical, marketing, and training capability, or present a project operational plan incorporating Technical Co-operation and/or contracting of certain functions to meet any shortcomings.

The final beneficiaries of all projects under the Program must come from the low-income strata of the economy, be engaged in productive activities, and lack access to conventional sources of credit.

Detailed information is found in Handbook 1 “How to Participate in the Small projects Program of the Inter-American Development Bank”.

## **3.5 IDB Administration**

### **3.5.1 The Bank’s internal administrative structure**

The country office has the main responsibility for the relation with the individual projects, including

- \* receiving applications
- \* prepare institutional and project profiles
- \* disbursements
- \* monitoring
- \* reporting
- \* evaluation

At the head office several departments/units are involved in supporting the country office:

- the Micro enterprise unit in the Sustainable Development Department – policy, assessment, funding, approval, evaluation, reporting
- the Technical co-operation unit (TEC) within the Regional Operations department 1 – internal control and reporting
- the finance department – payments and accounting
- the legal department – contracts
- and others

The administration and management of loans and grants is supported by an advanced computer based Loan Monitoring System (LMS) used for all lending activities in the Bank.

Evaluation is an integral part of project-administration and is carried out within two years after the final disbursement.

More details about Project administration and evaluations can be found in Handbook II “Project Administration and Evaluation of the Small Projects Program of the Inter-American bank”, and Handbook III “Orientation for the preparation of ex-post evaluation reports.”

### **3.5.2 The Swedish Trust Fund for Bolivia**

The organisational unit responsible for the trust fund in 1993, when the contract was signed ceased to exist when the Bank was restructured in 1994.

As of 1995 the responsibility for the fund is shared by several departments/units at the head quarter and the country office in Bolivia.

Region 1 – tech

Region 1 – disbursements

Finance department

Micro enterprise unit

Country office.

The country office has the main responsibility for the operations and the micro enterprise unit for the co-ordination.

The division of responsibility has not been clear thus causing delays and lack of clarity in the process. As of February 1999 IDB seems to have overcome the difficulties.

The system with team leaders, including the responsibilities of the team leader, has to be further clarified – not least in relation to donors.

At present the team leader does not consider herself responsible for follow up and control.

The team leader has however a clear picture of the individual projects and what she expect to happen in the near future.

### **3.5.3 Procedures for reporting.**

The system (LMS) requires from Country offices to record all information of relevance. All reporting is done from one joint database which is accessed by every country office through the Banks intranet.

Reports have been sent to Sida – financial and progress reports compiled by tec.  
Can be accessed also from the IDB office in Bolivia.

### **3.5.4 Quality of the operations of the Swedish Trust Fund**

The procedures and administrative policies of the Bank have been applied. During the period 1994-1998 the Bank has developed new procedures which have reduced the time spent on internal administration at Headquarters to a minimum. The administration ( and the decision making) now is handled by the country offices.

From the Washington perspective the Bank seems to have handled the fund with care and in accordance with the agreement from November 1993. The restructuring did however cause unnecessary delays. Probably the delays were also caused partially by the MFIs concerned.

### **3.5.5 Time from application to disbursement**

It seems as if the time from application to actual disbursement is very long.

The reason is mainly that applicants have difficulties in meeting the formal requirements of the Bank and therefore the disbursement is delayed.

A normal process would take about 9 months from application to disbursement:  
6 months assessment and approval  
3 months to prepare for disbursement after contract is signed.

In the Bolivia fund case the time between approval and disbursement is more than one year.

### **3.5.6 Quality of reporting**

The quality of the reporting is poor compared to the information available within the Bank.

Tech do not have the insights to enable them to further develop the reporting. They can only draw from the LMS system.

MIC and the Country office do however have all the knowledge about the programs and would be able to prepare reports that are more comprehensive.

### **3.5.7 Evaluations and audit**

There is one evaluation from 1991 in English covering Small Projects. At present an evaluation of the so called global loan program is carried out.

No audit has been carried out specifically for the Bolivia Trust fund. There is no audit clause in the agreement. Sida could ask for an audit. The cost for such an audit will be charged to the fund.

### **3.5.8 The relevance of a 2% administration fee**

IDB is according to the agreement charging a 2% administration fee on approved projects.

According to internal studies made the actual cost to the IDB for handling small projects is 15–20%.

World Bank is said to charge a 10% administration fee on similar activities.

There is no doubt that IDB operations cost a lot more than the 2% charged.

The 15–20% should however not be taken as an indication on what actually would be needed for a program such as the Swedish Trust Fund.

The systems applied are designed for big operations and cost a lot more than the corresponding systems for small activities.

It is however clear that the actual cost of handling microfinance projects in a responsible way could never be as low as 2 %.

## 4 The Bolivian context

### 4.1 The Swedish embassy

The representation of Sida in Bolivia at the Swedish embassy has, in the case of the Swedish Trust Fund, the responsibility to follow the development of the fund and to share the information received with the Latin American department at the head office in Stockholm.

The Trust Fund is a co-operation with a multilateral institution whose responsibility is to administer, execute, monitor and report on the progress. The main role of the Sida representative is to have regular consultations with the IDB country officers, to discuss the progress with the regional department in Stockholm and take any action that is required by the head office. It is the Sida head office who has the responsibility for the following up of the agreement between IDB and Sida as well as for the relations between the two institutions.

The understanding of the agreement by the Sida representative is that Sida wanted to support the micro and small enterprise sector in Bolivia. This was to be done through the providing of non-reimbursable funds to the capitalisation of institutions, specialised on financial services, in order for them to graduate into regulated FFPs (Fondos Financieros Privados). Another component in the agreement was to support those institutions with technical assistance. The agreement was elaborated between the head offices of IDB and Sida, but the previous representative in Bolivia was part of the process around the agreement.

In the annex to the agreement Sida had selected three institutions subject to support. Two of these organisations had previously been supported by the Swedish agency, Diakonia. When the agreement had been signed, the IDB came with a proposal to change the suggested amount for one of the institutions, FIE. Their opinion was that FIE was a stable institution that would not need more grants, but rather credits. According to the Sida representative, there was no reason to question the analysis based on the IDB experience. This change was reported to the regional department in Stockholm.

In the case of the institutions then selected by IDB, information on the projects was sent to the embassy. The first one was CAIM, a comprehensive support centre for women, which was approved by IDB. Since the Sida representative received information on internal conflicts within CAIM and questionable relations with the IDB local officer, the IDB was asked to do a thorough investigation before disbursing any funds. As a result of that study the co-operation with CAIM was stopped.

Three other institutions, CISC, PDAI and Colonia Pirai, were then selected by IDB. When discovering that none of them were specialised in micro credits, it became obvious to the Sida representative that the agreement was difficult to interpret and, consequently, of little use as a point of reference for discussions with IDB. They found themselves in a situation where there were two sets of criteria ruling the Trust Fund – one based on the representative's understanding of Sida's policy for micro credits and another based on the IDB country officer's understanding of the IDB policy for small projects. Sida was also in the middle of a major reorganisation and there was no one at the head office, with relevant knowledge on micro finance, with whom the issue could be discussed.

Since IDB, when the co-operation started, did not have a proper policy for micro credit Sida supported the hiring of a consultant, Mr Pablo Cotret, on whose document the present IDB policy for micro credits in Bolivia is based. According to the Sida representative, the Swedish Trust Fund has

for the Swedish representation been an instrument to participate in a network of institutions dealing with micro finance in Bolivia. This has been very valuable as a means of learning and exchange of experiences.

## **4.2 IDB country office**

The country office has the main responsibility for the relations with the projects and, according to the representatives, their role is mainly to execute the decisions made at the IDB head office in Washington. When asked for a more specified list of their responsibilities they include:

To receive applications

To prepare preliminary analysis on the institutions and projects, on the basis of the country strategy and the strategy of the Small Projects Program.

To send project profiles and recommendations to the micro enterprise unit in Washington

To execute the decisions made at the head office, which implies disbursements of funds, monitoring, reporting and evaluations.

The representative, the sub-representative and the officer in charge of the small projects program form the group who prepares the analysis, the profiles and recommendations. The practical part of the execution and the contact with the institutions lies mainly in the hands of the officer for the small projects program. A finance officer whose function is advisory on the figures also assists them.

The IDB monitoring system is well developed and integrated with on-line information which means that the Washington headquarters easily have access to it. The only monitoring documents that are not always shared with Washington are evaluations and reports with components of technical assistance generated through different consultants. The cost and effort required for the monitoring of the Small Projects Program is regarded as much greater than those required by the IDB for its normal operations.

The relation with the Swedish embassy is by the IDB country officers regarded as purely informative. Reports and up-dates on the projects, but not all the monitoring documents, have been shared on a regular basis. Only on a few occasions have the local Sida staff actually asked for more information and/or entered into a discussion with officials in the country.

The understanding at the IDB country office is clear in that the Swedish Trust Fund forms part of the Small Projects Program and the indicators and criteria used for selection of clients and projects are the IDB standard criteria for small projects. The agreement between IDB and Sida is well known at the country office, but it does not constitute a point of reference in their work. The annex, as such, was not considered an obligation within the agreement, but a reference to the same.

With reference to the allocations that were made from the Swedish Trust Fund, three cases (Pro-Credito, FIE and FADES) were approved as a result of the annex to the agreement between Sida and BID. Although in the case of FIE the original allotment of one million dollars was reduced to half due to the policies that IDB had at that time with reference to the amounts for Small Projects. FADES did not receive the allotment on time because of a delay in obtaining the no-objection requisite from the Vice Ministry for Public Investments and External Financing, VIPFE.

According to the representatives at the country office, the decisions on the other three projects were taken in Washington, considering the number of Small Projects that were in the pipeline at the time,



waiting to be approved. One of the cases, CAIM, was reverted due to corruption problems detected within the beneficiary institution, even reaching the responsible official for the Small Projects Program in Bolivia, who was separated from his responsibilities.

IDB indicates satisfaction with the results obtained with FIE and ProCredito/Los Andes and of the progress made by FADES. They recognise that the PDAI and the CISC require adjustments and in relation to the PDAI they demand institutional adjustments to finalise the payments.

From the moment the resources have been used to the satisfaction of the IDB in Bolivia, there are no objections to the funds being entered as equity and transferred as share participation to another micro credit organisation that operates for the beneficiary, within the regulating framework existing at present for this type of organisation in the country. This was precisely one of the basic objectives – to facilitate the transit from non-regulated to regulated organisations. That is why there is no objection if these funds are placed as shares of ProCredito in Caja Los Andes, or of the FIE Foundation in the FFP FIE S.A., and of FADES in EcoFuturo but only if all of the funds has been paid. IDB would consider it very reasonable for PDAI and CISC to do likewise.

With reference to the remaining balance in the Trust Fund, the country office is now considering applications from two more institutions, for the financing of a loan fund and monitoring system in Sucre and a commercialisation project for export of beans in Santa Cruz.

There has been no specific dissemination of information in Bolivia on the Swedish Trust Fund since the understanding at the country office is that the Trust Fund forms part of the Small Projects Program.

There are no restrictions for the IDB to continue financing in this way, although its present policy is to finance the regulated financial system through NAFIBO. This includes the FFPs and other regulated enterprises which grant micro credit (banks, co-operatives). It is done within the framework through which the IDB backs the Bolivian government to strengthen the financial system.

The IDB country officers mean that the Small Projects Program will not be affected by the new roles of FONDESIF and NAFIBO, D.S. 25338 of March 29th, 1999 inasmuch as these resources do not form part of the public debt of the Bolivian state and so do not require guarantees from the same. While a no-objection statement from the Vice-Ministry of Public Investment and External Financing is required, these resources are the result of a direct relationship between the IDB and the projects.

They have no obligation with the government to finance the FONDESIF Micro credit Program.

IDB in Bolivia is not promoting savings in particular, but is strongly in favour of more institutions developing into FFPs, thus becoming entitled to capture savings and deposits.

### **4.3 The micro finance sector**

In the following chapter references are made to some important institutions for the micro finance sector in Bolivia. For more information on those institutions, please see the desk study Microfinance in Bolivia, 1999.

The Superintendency of Banks and Financial Institutions, SBEF, sets the norms and rules and has the responsibility of insuring the fitness and solvency (moral and financial) of the organisations that enter the micro finance sector. It is governed by the Ministry of Finance and the Bolivian Central Bank (BCB).

The Fund for Financial System Development and Support for Production, FONDESIF, was founded in 1995 by the BCB, IDB and CAF (Corporación Andina de Fomento). From March 1999 the role is to give integral institutional backing to financial enterprises that offer micro credit, whether they have permit to function from the SBEF or not, and public interest associations or foundations of financial character that work with micro credit activities.

The Foundation for Production, FUNDAPRO, is a second-level private non-profit financial institution that promotes social and economic development in Bolivia. It was founded by the support of USAID and the Bolivian government and FUNDAPRO is a channel for funds to the micro finance market through banks, FFPs, NGOs and Co-operatives. FUNDAPRO is also supporting education and training for young people in productive areas.

The Bolivian National Finance Joint Venture, NAFIBO, was founded 1996 as a limited company where the state has a stake of 80% and CAF has 20%. NAFIBO administer credit lines provided by multilateral institutions to the industrial and agricultural sector.

#### 4.3.1 Key data on the sector

*Portfolio of regulated microcredit institutions, ffps,*

*According to credit destination (up to 12.31.98 in thousands of Bs)*

ACTIVITY	BANCO SOL	LOS ANDES	Fondo de la Comunidad	FASSIL	FIE	TOTAL
Agriculture	0	9.215	19	0	0	9.234
Cattle raising	0	365	1.303	0	0	1.668
Hunting, forestry...	0	14	0	0	0	14
Exploit. Mining ..	0	31	56	0	0	87
Manufacturing	0	46.649	10.156	10	35.643	92.458
Electricity	0	0	0	0	0	0
Building	0	0	29.199	0	124	29.323
Trade	417.744	82.638	34.730	122.503	24.746	682.361
Hotels and restaurants..	0	4.019	1.013	0	2.833	7.865
Transport, ...	0	10.606	7.591	20	4.900	23.117
Financial Interm.	0	2.060	690	0	0	2.750
Real state	0	636	687	0	252	1.575
Government	0	0	17	0	0	17
Education	0	0	81	0	0	81
Health	0	514	192	0	260	966
Other	0	4.635	4.710	0	10.692	20.037
<b>TOTAL</b>	<b>417.744</b>	<b>161.382</b>	<b>90.444</b>	<b>122.533</b>	<b>79.450</b>	<b>871.553</b>

SOURCE: SBEF Informative Bulletin NO. 125

*Portfolio of regulated micro credit institutions, ffps, According to credit destination (up to 12.31.98 in %)*

ACTIVITY	BANCO SOL	LOS ANDES	Fondo de la Comunidad	FASSIL	FIE	TOTAL
Agriculture	0,00%	5,71%	0,02%	0,00%	0,00%	1,06%
Cattle raising	0,00%	0,23%	1,44%	0,00%	0,00%	0,19%
Hunting, forestry...	0,00%	0,01%	0,00%	0,00%	0,00%	0,00%
Exploit. Mining ..	0,00%	0,02%	0,06%	0,00%	0,00%	0,01%
Manufacturing	0,00%	28,91%	11,23%	0,01%	44,86%	10,61%
Electricity	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
Building	0,00%	0,00%	32,28%	0,00%	0,16%	3,36%
Trade	100,00%	51,21%	38,40%	99,98%	31,15%	78,29%
Hotels and restaurants	0,00%	2,49%	1,12%	0,00%	3,57%	0,90%
Transport, ...	0,00%	6,57%	8,39%	0,02%	6,17%	2,65%
Financial Interm.	0,00%	1,28%	0,76%	0,00%	0,00%	0,32%
Real state	0,00%	0,39%	0,76%	0,00%	0,32%	0,18%
Government	0,00%	0,00%	0,02%	0,00%	0,00%	0,00%
Education	0,00%	0,00%	0,09%	0,00%	0,00%	0,01%
Health	0,00%	0,32%	0,21%	0,00%	0,33%	0,11%
Other	0,00%	2,87%	5,21%	0,00%	13,46%	2,30%
<b>TOTAL</b>	<b>100,00%</b>	<b>100,00%</b>	<b>100,00%</b>	<b>100,00%</b>	<b>100,00%</b>	<b>100,00%</b>

SOURCE: SBEF Informative Bulletin No. 125

*Estimated number of micro enterprises in Bolivia*  
*Economic units according to field of activity*

(Capital cities) 1995

Field of activity	1995		
	TOTAL	Sectors	
		Familiar	Semi-Entrepreneurs
<b>TOTAL COUNTRY</b>	<b>500.887</b>	<b>366.953</b>	<b>133.934</b>
Manufacturing	95.422	62.283	33.139
Trade	252.465	210.877	41.588
Services	42.746	24.065	18.681
Other	110.235	69.728	40.527

SOURCE: Micro-enterprises vs. Poverty. CEDLA based on INE II National Census of Economic Establishments. 1992

*Estimated number of economic activities in Bolivia in the rural area according to activity and sex*

Frame (1)	1995		
	TOTAL	Sectors	
		Second level Cities (2)	Rural areas
<b>TOTAL COUNTRY</b>	<b>679.125</b>	<b>47.988</b>	<b>631.137</b>
Women	231.767	22.212	209.555
Men	447.358	25.776	421.582
Rural			
Producer	585.519		585.519
Women	184.928		184.928
Men	400.928		400.928
Manufacturing	53.655	23.323	30.332
Women	15.861	6.520	9.341
Men	37.795	16.804	20.991
Trade & Services	39.951	24.665	15.286
Women	26.027	15.692	10.335
Men	13.925	8.973	4.952

SOURCE: Estimation is based on the INE, National Census of Population and Housing, 1992.

(1) Independent workers in sector

(2) Includes centres of population with more than 2.000 inhabitants, except capitals of departments (provinces).

Assuming that each independent worker is potentially a micro credit petitioner, the economic units which could potentially request micro credit add up to 1.180.012, of which 58% are in the rural area. The rural micro enterprise and those working in secondary cities represent 19% of those found in capital cities. Assuming that 50% of the total of the urban and rural units demand micro credit for an average sum of USD 500.- the potential demand would reach USD 295 million.

## 4.3.2 Summary of interviews with important actors in the micro finance sector

### 4.3.2.1 *The market*

It is very difficult to enter the micro finance sector, according to Mr Javier Fernández, the supervisor in SBEF. He means that in Bolivia there are many banks, and many weak banks, of which the less cautious have been intervened and, likewise, others have been encouraged to merge or obtain further capitalisation. At present there are eight private banks in the process of liquidation, 11 private national banks functioning, of which 2 are in the process of merging, aside from four foreign private banks (one resulting from the capitalisation of a private national bank). The financial banking market at present has very big enterprises that could not be served by very small banks. The market, however, has other needs that must be served by non-banking but regulated institutions. That is why the A&P for Housing Mutuals, the A&C Co-operatives and the micro credit organisations which constitute the FFPs, have been placed under the control of the SBEF.

With reference to the FFPs in Bolivia, the SBEFs point of view is that there are two specialised in micro credit (FIE and Los Andes), one that has a more diversified market (Fondo de la Comunidad) and two specialised in consumer credit (Acceso and FASSIL), although one of them (FASSIL) will probably turn to micro credit. EcoFuturo, also specialised in micro credit, will receive authorisation the first fortnight in May. Another one is going through the necessary formalities (PRODEM) and there are two more in perspective (SARTAWI and AGROCAPITAL) although not in the near future.

SBEF has received 61 requests from A&C Co-operatives for working permits as open co-operatives, but it estimates that 20 will enter the regulated system (15 already report to the SBEF). To solve this great demand for permits, small co-operatives are being urged either to merge or to join middle-sized or big co-operatives. They remark that there are some very interesting rural co-operatives that could help solve the lack of services in the rural area.

The regulated financial organisations, whatever their nature, are prohibited by law (LBEF) from offering their portfolio and other assets as guarantee.

The self-sustainability of all the institutions is a constant preoccupation of SBEF, since the collapse of one of them could place the whole micro finance system in crisis.

The administrative quality of these organisations is also an area of permanent concern, that is why the SBEF is planning training programs with the backing of the international co-operation.

### 4.3.2.2 *Differences in norms and legislation between organisations operating with micro credit and other financial organisations*

The supervisor in SBEF argues that the norms issued in the last months of 1998 is an attempt to clear up the existing differences in the financial operations at present in the market, i.e., commercial credit operations performed by banks, the housing credit, and, mainly consumer credit and micro-credit. These new rules place special emphasis on the criteria the organisations of the system must follow, so that each operation is adequately guaranteed according to the specific characteristics of each financial product. Portfolio qualification will indicate the risk degree and thus help determine what precautions are necessary. These measures were becoming absolutely necessary to avoid excesses and to induce greater moderation in the organisations.

The new norms permit all organisations to perform micro credit operations as long as they demonstrate they have the specific technology required. SBEF will check to see if this technology is appropriate and if it is applied adequately; otherwise it will qualify the portfolio as insufficiently guaranteed. This has stopped the excesses of some programs specialised in consumer credit which had entered the micro-enterprise sector. Savings Mutuals and Housing Loans Mutuals do not seem to be particularly interested in working with micro credit operations even though they are now authorised to do so.

Those organisations now specialised in micro credit, regulated by the SBEF, are protected by DS 24000 that authorises the creation of the FFPs. This decree establishes some cautious norms for these operations. The FFPs can not lend more than 1% of their net equity with a personal guarantee (banks can lend up to 3%); neither can they lend more than 3% of their equity to individual borrowers or group borrowers connected to the organisation (banks can lend up to 20%). These are the basic norms that differentiate the micro credit enterprises from the others, although there are now a series of specific norms for the micro credit operations within themselves.

#### *4.3.2.3 Differences in financial products and clients among FFPs, Co-operatives and Banks*

According to SBEF the normative now establishes clear differences between the operations of these enterprises, although all of them can work with micro credit provided they have the adequate technology and procedures. Between the co-operatives and the FFPs there are differences. The FFPs are much more technically advanced and professional. The co-operatives have a more rudimentary technology, but it has proved to be efficient; although the co-operatives' clientele is principally middle class, their procedures tend to be like those of the micro credit institutions.

#### *4.3.2.4 Possible existing gaps in the legislation and regulations*

FUNDAPRO is not particularly in favour of the Micro Credit Program encouraged by FONDESIF, insofar as it contradicts governmental policies by creating a state entity which performs financing operations thus refuting a previous commitment by which the State would no longer run direct risks in the financial system. Neither do these new centralising attempts seem sound. They maintain that this function should be left in private hands and the state should limit its functions to regulating the co-operation, controlling the micro-financial institutions and promoting the sector.

The SBEFs view is that D.S. 24000 for the FFPs, D.S. 24439 for Co-operatives, the Property and Popular Credit Law, the new norms and regulations approved in the CONFIP, have all introduced a series of changes in the national financial system that must be incorporated to the Banks and Financial Enterprises Law, a process that will be executed within the next two years.

There is already important progress in the creation of a Guarantee of Deposits Fund, which will introduce a system of implicit guarantee for savings under USD 10.000. This system will include the regulated non-banking organisations.

To overcome the indebtedness problems of the micro credit system clients, the SBEF is interested in extending the Risk Centre to non-regulated organisations.

The SBEF is drawing a Financial Systems Map to determine which geographic areas are not adequately covered. There are a great many conjectures about the inexistence of financial services in certain municipalities, but it should be borne in mind that many have an extremely low population which can be taken care of from nearby towns or through mobile services.

The present norms for micro credit in the rural area are being evaluated. Although some changes are foreseen, it is not possible to foretell which.

#### *4.3.2.5 Saturation of the credit demand*

The executive director of FUNDAPRO, maintains that there is no saturation in the micro-credit market, but that the character of these services must continue developing in several areas. The micro credit institutions should surpass the stage where expansion is based on the backing of the international co-operation and enter the commercial financing field more aggressively. The institutions must become stronger in their market by offering a wider range of financial products including risk centres, savings, drafts, transfers etc., which means the institutions would enter the regulated system. He means that the institutions must extend the boundaries of their services and enter the rural markets.

The integration of regulated and non-regulated institutions in a risk centre system would enable the control of problems due to indebtedness.

He does not support subsidies that are transferred to the interest rate. Inasmuch as an organisation has a realistic interest rate policy and has clear possibilities of sustainability (operative self-sufficiency), subsidies can be useful to promote the incorporation of new financial products and to expand markets. FUNDAPRO also provides this type of financing and does not discard the possibility of working with organisations offering integrated financial and non-financial services, especially at the rural level, which they estimate could have an important impact at the production level.

FONDESIF representatives underline the need for carrying the benefits that the micro credit services have given at the urban level to the rural area, where there still exists a great deficit. They even anticipate subsidising the enterprises that will establish themselves in unattended centres, through technical assistance and including non-reimbursable financing investments as well as starting expenses. The idea, however, is to facilitate the transit of non-regulated to regulated organisations (NGOs and co-operatives).

The SBEF is worried by the fact that the micro finance market is finite, a fact that is proven to a certain degree by the recent problems of over-indebtedness. However, it adds that this situation is due, up to a certain point, to the caution of the organisations and is being overcome by greater co-ordination and interchange of information among them. Anyway, other enterprises in the system, such as banks, can start offering these services, thus limiting the expansion of the present organisations specialised in this sector.

A greater relaxation in the procedures as well as a slackening in the precautions taken by certain organisations can be noticed, especially in those that offer consumer credit, according to SBEF.

The great rotation of clients among the organisations is a preoccupying factor because of the very characteristics of the micro credit operations, and it could result in over-indebtedness.

#### *4.3.2.6 Savings*

According to FUNDAPRO, the FFPs must diversify their risks so as to appeal to more clients also with reference to savings. Savings proceeding from their own clients are very relative; if a client has an activity with growing benefits, he will invest all surplus back into his own activity; and only, if at any time, profits are smaller than those obtained in a savings service, will he think of depositing them in a savings account.

#### *4.3.2.7 Security for deposits in FFPs, Co-operatives etc*

SBEF states that all enterprises in the system are authorised to market fixed-term deposits (FTDs), as long as the organisation is not in process of liquidation, so FTDs in the organisation or in the stock market are guaranteed. In case the enterprise is liquidated, the Bolivian state implicitly guarantees those deposits. However, on the basis of the evaluation of the organisation, the Bolivian Central Bank (BCB) will establish the maximum amount that can be returned in cash (US\$5.000 in the most recent liquidation) and the balance will be cancelled in CDDs in the terms the BCB establishes, depending on the process of liquidation of the organisation, interests agreed upon on those deposits are lost in all instances.

The present government is trying to eliminate this system of implicit guarantee by creating a Deposit Guarantee Fund for amounts up to US\$10.000. For amounts exceeding this maximum, the deposits would be returned according to the quality of the corresponding credit within the process of liquidation of the organisation. This measure tends to restore the public's trust on the system.

#### *4.3.2.8 Controls provided for the financial NGOs specialised in micro credit*

No supervision of the NGOs specialised in micro credit by the SBEF is foreseen. It will not control its activities and the institutions will be able to perform their operations with full liberty as long as they are financed with private resources. They cannot, however, receive savings deposits.

The integration of these organisations in the SBEF Risk Centre is being considered and this would mean they will have an instrument to manage on their own with greater caution. Their presence in unattended rural areas is considered important as a mechanism which will open markets for the regulated enterprises.

#### *4.3.2.9 FONDESIF's role in the development of microfinance organisations*

D.S. 25338, of the 29th of March, 1999, regulates the activities of NAFIBO, SAM and FONDESIF. As of that date the objective of FONDESIF is to give integral institutional backing to financial enterprises that offer micro-credit, whether they have permit to function from the SBEF or not, and public interest associations or foundations of financial character that work with micro credit activities, according to the following categories:

- a) Financial backing to increase the portfolio of non-regulated institutions,
- b) Technical assistance for regulated and non-regulated institutions,
- c) Backing for the development of the micro finance sector.

Financial support for increasing the portfolio cannot be over 50% of the social fund of the organisation and will be granted only once, to be paid within five years, which includes one year of grace for the capital, and a financial cost equal to the passive rate (effective weighted average) of the banking system in American dollars plus 1%.

FONDESIF has a USD 12 million fund for the Micro Credit Program received from: the Spanish international co-operation, the financing of the GTZ for Technical Assistance, the returns and remaining funds of the PMP (Popular Micro-credit Program) financed by the Swiss international co-operation. The D.S. 25338 determines furthermore that any international co-operation fund which is within the interest scope of the State must be administered by FONDESIF.



#### *4.3.2.10 The future of a similar Trust Fund arrangement to support to micro-finance activities*

According to FONDESIF the D.S. 25338 does not affect previous agreements of the co-operation with micro credit organisations, only the new ones. Neither does it affect the direct agreements of bilateral, multilateral and private co-operation with the micro financial organisations, insofar as they do not interfere with the interests of the State.

FONDESIF consider that donations for equity and credit capital are no longer necessary for the financial NGOs, but it is still important for the rural co-operatives. FONDESIF therefore has a program with the co-operatives to strengthen their equity.

Regarding the need for equity support it is worth mentioning that the data for the different micro finance organisations provided in the document “Financial Self-Support in Microfinance Institutions in Bolivia” by Tania Rodríguez should be studied with some precaution. At least in one case the equity is highly overestimated. The consideration that equity support is no longer necessary for the transition to regulated enterprises is not the opinion of several of the micro financial organisations, some of which show evident equity weaknesses for the process of transit from non-regulated to regulated organisations.

According to FONDESIF the new decree does not affect the Small Projects Program of the IDB inasmuch as the only requirement is that the government have no objection. They hope, however, to have a minimum co-ordination with the IDB and other organisations that back the Bolivian state.

FONDESIF could not finance the growth of the FIE and Los Andes portfolio, but it could give them technical assistance. FADES, PDAI and CISC would qualify for the Micro Credit Program, but all assistance will depend on the plans of integral aid that will be established with them, as well as on their plans for becoming regulated enterprises.

Asked about the limited time that the FONDESIF Micro credit Program has, they acknowledge it is limited but the hope is that eventually all institutions will be regulated and thus will be in the NAFIBO sphere. The money which FONDESIF will eventually recuperate will be given a different destination taking into account the new priorities which the government and the donors will establish.

## 5 Institutions receiving support from the Swedish Trust Fund

### 5.1 General information and categorisation of the institutions

The important differences among the organisations selected for financing from the Swedish Trust Fund for Bolivia limited the use of the C-GAP model, basically conceived for evaluation of MFIs.

The organisations selected could be divided into 4 categories according to the way they utilised the financing:

- i. Regulated urban micro finance institutions: FIE and Los Andes.
- ii. Non-regulated rural micro finance institution: FADES.
- iii. Combined institutions that utilise financing for rural credit and agro-industrial investments: PDAI and CISC.
- iv. Financing exclusively used for investments in agro-industry: Colonia Pirai.

Therefore, three of them base their strategy in the specialisation in the rural credit (PDAI, CISC, and FADES), one of them is completely urban oriented (FIE), another is minority involved with rural areas (Los Andes) and the last one is an agro-industrial educational project (Colonia Pirai).

In order to arrive at significant conclusions in all the main areas of the methodology and due to the volume of information collected, it became non practical to obtain statistical samples of the clientele. Furthermore, from a global point of view, the study of the clients by statistical samples would have no sense due to the huge differences among the involved institutions. Nevertheless, taking into account the importance of counting with the clients' opinion with reference to the quality of the service and possible over-indebtedness problems, those aspects were investigated among clients of the institutions fully dedicated to urban micro-credit.

Besides, the only two institutions that count with the necessary information for the Superintendency of Banks and Financial Institutions (SBEF) in order to investigate that issue are FIE and Los Andes. A study on over-indebtedness must be done through the SBEF, which would probably oppose it as it forces the principle of banking secrecy. That analysis, in order to achieve significant results, can not be done with the selected institutions as they represent only a small part of all the database of the SBEF.

The following is a short description of each institution; its legal form, localisation, operative structure and mission according to information provided by each organisation and later findings, plus an up-dated status of the financing obtained through the Swedish Trust Fund for Bolivia. Further complementary information in each case is to be found in the enclosures.

### 5.2 FIE

The Centre for Promotion of Economic Activities, FIE, was originally created as a non profit civil association in 1985. Its operations was transferred to a private financial fund (FIE FFP) on March 16<sup>th</sup> 1998, in which the former NGO is the main shareholder with 59,5% of the total shares. Second important shareholder is the Johnson Foundation with 15,5% of the share capital, being the other 4 shareholders minority ones with a participation of 10% or less. It is fully specialised in urban micro

credit and count with 14 branches distributed in 8 regions of the country. These include the cities of Santa Cruz and Oruro as well as the agencies and offices in La Paz, Cochabamba, Potosí, Tarija and Chuquisaca.

Being a regulated institution, its organisational structure is that of a specialised financial organisation. It counts with a board of directors, general manager, internal auditor and risk centre. There are also a financial and commercial management as well as an administrative office and advisory offices (legal, IT and secretariats). Each one of the seven regional branches counts with a local manager who responds to the general manager. Operations are decentralised and standardised at the branch and agency level, except the cash liquidity control that is centralised by the main office in La Paz.

FIE's mission is to reach the micro and small enterprises with the best possible service aimed at the promotion of the country productive base and the economic strength of its clientele. Its portfolio amounts to USD 14 million at the end of 1998, 68% of it utilised in the productive area. Past due ratio was only 0,65% of the portfolio (criteria: more than 30 days delay).

In June 1995 IDB approved USD 500.000 for credits and USD 180.000 for technical assistance. There is a remaining balance of this last item of USD 46.000 not yet disbursed. Last disbursement, under both subjects, were done in January 1999.

A report on FIE is found in Appendix 3 (the appendix can be obtained from Sida/INEC).

### **5.3 Caja Los Andes (ProCredito)**

Founded with the participation of the NGO ProCredito, the Savings and Credit Fund Los Andes is organised under the form of a private financial fund since June 1995. ProCredito is Los Andes main shareholder with a participation of 38,9% of the total share stock. Second important shareholder is IDB-Fomin with 22,6% and CAF with 12,98%, being the other 4 shareholders minority ones with lower participation.

Los Andes is fully specialised in micro credit and counts with 15 regional branches. It is a regulated institution with a board of directors and a central manager which also temporarily acts as the finance manager due to a recent restructure aimed at more flexibility and the need for a fluid decision making process, according to the corresponding interview. Procedures are decentralised according to the level of standardisation of each office. Chiefs of agencies and regional managers depend from the regional manager.

The mission of Los Andes was defined as to reinforce the financial services destined to its target group of micro and small enterprises, geographically expanding their service offer to urban as well as rural areas. Its urban portfolio as of December 1998 was USD 26.07 million and its rural portfolio, USD 2.55 million. Past due ratio at the same date was 1,9% (more than 30 days delay).

IDB's agreement, approved in November 1994, granted USD 500.000 for the credit fund. This is completely disbursed with the last disbursement done in March 1996.

A report on Caja Los Andes is found in Appendix 4 (the appendix can be obtained from Sida/INEC).

## 5.4 FADES

The Foundation for Alternative Development, FADES, is an NGO founded in 1986 under the legal forms of a non-profit foundation. Since 1990 it is specialised in micro credit, mainly rural lending. It does not have non-financial services at present, though they will be part of the institutional strategic plans after the start up of the operations of EcoFuturo FFP of which FADES is shareholder. FADES is formed by 6 organisations (CEDLA, CERES, CIPCA, FIE, QHANA and Unitas) who form the “founders board” in charge of the control and support of the foundation’s operational structure. It also counts with a board of directors formed by selected professionals invited from other institutions different from the founder ones. It has agencies in 6 of the 9 districts of the country through 23 local offices most of them in rural zones. It also operates in 3 other districts (Santa Cruz, Beni and Pando) but without established local offices.

The operational structure is of a specialised financial institution with an internal auditing department that depends from the executive director of the board of directors. It has 4 national manager offices in the following functional areas:

Credits, financing /investment and IT. There are also 4 regional offices and four branches in charge of all the agencies. There is certain level of decentralisation in the decision making process according to the size of the credits, and standardised procedures in all the offices.

The mission of FADES has been defined as the support for the development of lowest income sectors of rural and peri-urban areas of the country. Its total portfolio in December 1998 was 9.05 million dollars and the delayed credits (more than 30 days) reached 4,25% (the lowest in FADES history).

The IDB agreement, signed in November 1997, granted USD 500.000 for the credit fund and USD 100.000 for technical assistance. From those funds only USD 250.000 and USD 19.000 have been disbursed respectively, as IDB required an midterm evaluation before a second disbursement. This is only the second year for this specific project.

A report on FADES is found in Appendix 5 (the appendix can be obtained from Sida/INEC).

## 5.5 CISC, Cooperativa Integral de Servicios Cochabamba

The Co-operative for Integrated Services, CISC, is a co-operative based organisation of peasants of Valle Alto, of the Cochabamba region. Founded in September 1977, it has 2500 members of which 1200 are considered active ones even though the rest also utilise the services offered by the institution. Co-operative members are organised in groups which meet monthly and form the basic grass root input for the co-operative structure. A board of directors meet once a year and administrative and credit committees meet on a weekly basis.

The organisational mission is to integrate the small producer to the co-operative through the basic groups in order to promote technical and economical co-operation among its members, as well as to strengthen the basic grass root groups and their communities through production improvements and agro-extension services. The institution provides rural and agro-industrial services and counts with a non-regulated credit facility for its co-operative members.

The agreement with the IDB was signed in April 1995, granting USD 500.000 with the criteria of the Small Projects Program and USD 180.000 for technical assistance. USD 250.000 was utilised for investments in a dairy plant and USD 250.000 for a credit fund. There is still a balance of USD 28.000 for technical assistance.

There are important non-financial services provided by this co-operative to its members such as rural extension services and its own savings system, which has been an important source of capital for the co-operative's investment policy.

A report on CISC is found in Appendix 6 (the appendix can be obtained from Sida/INEC).

## **5.6 PDAI, Programa de Desarrollo Agropecuario Integrado**

The Program for Integrated Agricultural Development, PDAI, was created in February 1981 as an executive unit from an inter-institutional agreement among government and some non-governmental organisations (MACA, UMSS, IBTA, Cordeco, Centro Fitotecnico de Pairumani and the Inter American Institute of co-operation for agriculture). Cordeco (the development corporation of Cochabamba) endorsed the agreement through which IDB granted the original financing for PDAI's program in 1982, renovated in 1985 and 1994.

The objective of the program was to co-ordinate and execute the promotion and financing of the agricultural sector, formed by small producers who have no access to the traditional financial system of the Pocona district of Cochabamba.

In July 1993 the founder institutions confirmed the recession of the original constitution agreement of PDAI and approved its substitution to a NGO, the PDAI association, which became a legal persona on May 6th 1994. The new organisation took over the financing granted by IDB in 1987 (SP/SF-87-09-BO and ATN/SF-2846-BO) signed between Cordeco and IDB.

PDAI counts with a board of directors of five, selected by the member institutions that meets monthly. Its actions are concentrated in the high valleys of Cochabamba and involve approximately 3000 peasant families. The organisation counts with a credit department, which directly depend from the general manager as well as the technical planning and administrative departments. Originally oriented to technical assistance and agro-extensional services it has reduced its activities to non-regulated rural credit at present.

IDB's agreement was signed in April 1995 granting USD 500.000 with the criteria of the Small Projects Program and another USD 180.000 was granted for technical assistance. USD 150.000 were destined for an agro-industrial plant, USD 100.000 for a commercialisation unit and USD 250.000 for the credit fund. The credit fund has been fully disbursed. USD 50.000 of the funds for the commercialisation unit has been disbursed and was invested in a vehicle. Thus, there is a balance of USD 200.000 for the operations and a balance of USD 4.000 in the fund for technical assistance.

An institutional evaluation of the PDAI, performed in 1998 by the external consulting firm HACER, proposes a strict process of adjustment in which the organisation should specialise as a micro credit association, develop the services into the urban areas and establish clear objectives for its activities.

IDB has asked PDAI to present a strategy and a plan for adjustment, according to the recommendations made in the evaluation. IDB has also demanded that the vehicle shall be sold and the money returned.

A report on PDAI is found in Appendix 7 (the appendix can be obtained from Sida/INEC).

## **5.7 Colonia Pirai**

Colonia Pirai is an educational community program which develop a variety of agro-industrial activities. The activities do not include a micro credit component. Its target groups are homeless children and youngsters who live in the street.

The organisation was recognised as a non-profit civil association in 1986, and in January 1999 it was transformed into a foundation for specific state controls. 16 people, designated as founders of the institution by the former association compose the main authority. They are persons related to the institution's work, former beneficiaries and involved professionals. There is also a board of directors of 5 members including the executive director.

Colonia Pirai is located in the outskirts of Santa Cruz, at La Guardia's district, and it counts with an educational institute, IBA Sapucaí, down town Santa Cruz.

Its operational structure is based on 6 departments accountable to the executive director: Education, Production, Marketing, Finance, Personnel, and IT. The institution has capacity for 100 students who live in the community. The department for production is composed by one productive unit for balanced animal food, a sausage production plant, units for the production of chickens, pigs and cows, and agriculture and service units, such as carpentry and metal mechanics.

The mission of Colonia Pirai was defined as the development of an alternative educational model destined to the young people successful insertion in the labour market.

IDB's agreement was signed in June 1995, granting USD 500.000 for investments and USD 180.000 for technical assistance. These resources have been disbursed in full. The funds have been used for building a grain silo for balanced animal food, a sausage factory and the perforation of a deep-water well. The other funds were utilised for the hiring of consultants, computer equipment, external evaluations and experience exchange.

A report on Colonia Pirai is found in Appendix 8 (the appendix can be obtained from Sida/INEC).

## 6 Analysis of the selected institutions

### 6.1 FIE, Los Andes and FADES

#### 6.1.1 Differences among the institutions

FIE, Los Andes and FADES are the institutions in which it is possible to compare the information obtained due to their specialisation in micro lending activities.

Nevertheless, there are different characteristics between them. The main difference between FADES and the others consists in its specialisation in rural credit. It is interesting to underline that in spite of past studies of the IDB, which granted very limited possibilities to the rural credit in the Bolivian high plateau, FADES' experience has demonstrated interesting different results. Its approach is to facilitate the democratisation of the credit through the access to credits with no conditions on the utilisation of the funds.

The choice for rural areas also generates some other differences with FIE and Los Andes, urban oriented micro credit institutions, as the need to expand to new regions as a consequence of the geographical dispersion of the clients, and a clearer need for different complementary financial services to the credit. Another key subject for FADES is the balance between the professionalism of the activities and the respect for the peasants culture, aspects covered by clear contractual relationships, a permanent training of the staff and the training of credit officers who belong to the same region where the credit is given.

Finally, the evaluation of rural credit provisions is also different from that of urban institutions due to the evident differences of the rural and agricultural cycles (for this reason, for instance, differences when comparing past due ratios should be found).

With reference to FIE at this point is only important to underline that it is a regulated financial institution fully dedicated to urban areas, therefore, more easy to compare with Los Andes which has the same basic characteristics. Nevertheless, FIE's regulated operations have been very recently initiated compared with Los Andes and also their respective operational structure at managerial levels are different due to recent changes in Los Andes (please refer to the annexes).

#### 6.1.2 Non financial services

Basically, FIE and Los Andes share with FADES the concern to provide their respective clientele with non-financial services as well though none of them offer such a service at present. The three institutions consider that once having specialised in micro credit the main objective is to reach self-sustainability and then a different entity should carry out with the non-financial services.

In the case of FADES the gradual transference of its portfolio to EcoFuturo S.A., in which the new FFP FADES is participating, will generate enough space that will allow to devote energies for new regions without access to credit at present as well as for offering non financial services.

In the case of FIE, the FIE FFP will be the institution specialised in credit and FIE NGO, its main shareholder, will concentrate in non financial services such as training and specialised micro finance courses, whose income will grant financial stability to the NGO. At present FIE NGO could not surpass the stage of dependency on grants to that purpose, but this is also due to the temporary involvement in previous financial commitments for that part of the portfolio still being gradually transferred to FIE FFP.

In the case of Los Andes, it is ProCredito the NGO exploring the non-financial-services field. Being an FFP, Los Andes is also a regulated financial institution dedicated to urban areas, with the exception that it also has started with rural credits.

Therefore, there is a clear and logical specialisation of regulated MFIs in standardised credit procedures to reach scale economies, when the NGOs (the originals MFIs) foresee their future role of non-financial services suppliers.

### **6.1.3 Rural Credit**

For FIE and Los Andes there is no specific strategy to go to rural areas. In the case of Los Andes, which does count with a rural portfolio, it is not said to be a new field for expansion, but only a possible complementary area for portfolio diversification of those branches with possible rural demand (due to the specific geographical location such is the case of the office of Punata, that is immerse in an active rural town). Los Andes recognises that rural credit costs are higher than those related to urban credit. Therefore, the urban ones actually subsidy the rural credits which cost should be higher due to more follow up and delinquency related costs.

The cost aspect also explains some differences between the interest rates of FADES and the other two organisations.

### **6.1.4 Regulated specialisation**

As already mentioned, another basic difference between these three institutions is the fact that FADES is not regulated by the SBEF yet. Its portfolio will be regulated through its transference to Ecofuturo. Even though it would be difficult to evaluate under which rules a particular existing organisation is more efficient, the example of Los Andes illustrates how effective it has been as regulated FFP in comparison to its previous status of NGO. Although, in this case, historical external factors such as the development degree of the competitors and the green-field characteristics of the demand at certain moment of time, could influence the comparison, Los Andes is the only old enough experienced FFP which have arrived to the conclusion that, as a specialised regulated organisation, it has achieved enough scale economies to lower its interest rates. As the NGO ProCredito had the commitment of not lower its interests rates, but as FFP those scale economies allowed a rate reduction that is being utilised as an incentive for good clients. In any case, according to Los Andes General Manager, lower rates are not used to attract poorer or smaller new clients, as for them access is still more important than the actual interest rate. It is still too soon in FIE FFP's life to arrive to the same conclusions though everything indicates the same tendency.

### **6.1.5 Geographical location**

FADES has operations in 6 of the 9 districts of the country through 23 local agencies, with a clear commitment to continue expanding. Plans to open 13 new agencies in the northern zone of the country (Beni and Pando) in the next 3 years have been formulated.

Neither FIE nor Los Andes have so aggressive geographical expansion goals, other than reaching the estimated potential demand, as their clients concentration is related to accessible urban limits.

According to the present geographical expansion, FIE and Los Andes are competitors in most of the urban areas where they operate. It is considered by both organisations that the potential demand would be of approximately 400.000 micro enterprises in all Bolivia. Even though there are no market studies at national level that quantify or qualify the potential demand, certain level of over-indebtedness could exist at present. For instance, in the La Paz city it starts to be evident that there is no sector of profitable activity, subject of micro credit, which would not be covered by the present offer, from which FIE FFP and Los Andes FFP cover only a minority percentage.



### *Equity and Portfolio comparative chart*

<b>Institution</b>	<b>Equity (U\$S)</b>	<b>Portfolio (U\$S)</b>
<b>Urbans</b>		
Banco Sol (R, 1998)	13.370.567	74.068.085
Los Andes (R, 1998)	3.685.827	28.613.915
FIE (R, 1998)	2.192.174	14.227.121
Fondo de la Comunidad (R, 1998)	4.402.466	15.906.005
FASSIL (R, 1998)	2.793.983	21.725.822
IDEPRO (NR, 1997)	3.009.797	5.003.431
PROMUJER (NR, 1997)	1.884.048	2.336.307
FUNBODEM (NR, 1997)	927.595	1.413.877
CIDRE (NR, 1997)	659.888	919.148
<b>Rurals</b>		
AGROCAPITAL (NR, 97)	7.383.281	10.614.746
ANED (NR, 1997)	578.812	5.808.517
CRECER (NR, 1997)	1.168.470	1.333.870
FADES (NR, 1998)	3.428.803	9.047.387
FONDECO (NR, 1997)	2.068.890	3.016.691
PRODEM (NR, 1997)	10.992.732	18.237.021
SARTAWI (NR, 1997)	847.281	2.560.389

Source: Boletín Informativo N° 125, SBEF. Boletín Financiero N° 2 CIPAME / FINRURAL.

#### **6.1.6 Saturation of the credit demand**

According to an estimation based on the last available publications of Cipame and Finrural (Two Bolivian NGOs that yearly present their collected information on the main MFIs), during 1998 the unsatisfied micro credit demand should have been lower than 40% and 70%, in the urban and rural areas respectively. Therefore, according to such a projection the market seems to be far from the saturation point. However, some institutions have started paying attention to possible over-indebtedness of their urban clientele, especially for consumption credits which are very well spread. This, forces to offer better service for new segments of the market but also forces the institutions to be more efficient. The constraint to the analysis consist on the availability of the information, as the only way to adequately investigate the level of over-indebtedness would be to have open access to the Superintendency's (SBEFs) database. Any effort to utilise data of part of the universe represented by a few institutions would not be complete enough at this stage, nor a procedure involving a significant number of clients would arrive to serious results at this respect. Some sort of agreement to grant the necessary access should be worked out, taking into account the delicate issue of the banking secrecy, in order to produce future relevant strategies in this area.

According to the opinion of Fundapro's executive director, Mr. Miguel Hoyos, the micro credit market is not saturated yet but the present financial services must continue developing in several areas (risk centres, savings, etc).

#### **6.1.7 Expansion and human resources**

The following is the comparison of geographical expansion and statistical summary of human resources administration for the three institutions (historical information for each institution is in the respective annex).

*Comparative geographical expansion/human resource chart*

<b>December 1998</b>	<b>FADES</b>	<b>FIE</b>	<b>Los Andes</b>
Regional offices	5	5	3
Branch offices	23	19	6
Posts (non permanent units or sub-agencies)	3	2	0
Communal banks	0	0	0
Average no. of employees per branch	3	2	2
Average no. of loan officers per branch	1-3	1-2	1-2
No. of total staff, end of period (a)	100	162	213
Nº of staff hired during period (b)	34	185*	75
Nº of staff who left during period ©	37	23	20
Turnover rate [(b)/(a)%]	37%	14.20%	9.4%
% : loan officers / total staff	49%	45.58%	32%
Nº of administrative staff end of period	21	88	145
Average monthly loan officer salary (\$US)	246	445	730**
Average loan officer salary as multiple of per capita GDP	0.26	0.47	1.5
Average loan officer salary as multiple of avg. outstanding balance per loan.	0.73	0.66	573

\* FIE's information includes staff's transfer from FIE NGO to FIE FFP.

\*\* Difference in salaries are related to incentives, which in the case of Los Andes are shown included in the salary. The organisations have not reported enough information in order to make possible a clearer comparison with reference to incentives. However, there were signs of competition for qualified credit officer during the interviews.

Human resources management is a priority factor in the three organisations. All of them consider that training, capacitation and selection of credit officers is reflected in the portfolio growth. Formal training programs are considered key subjects. Rotation of personnel is considered normal in all cases.

In none of the cases there is a significant dependency on external consultants, though the three institutions utilise them as a tool for specific strategic needs not adequately covered within the internal human resources.

#### **6.1.8 Information technology systems**

The three entities count with specialised software and hardware which allow the on-line information updating on portfolio, delays, guarantees, clients, accounting, etc. The information output corresponds to the user needs and requests and it is utilised by the respective responsible of each operative area through LAN systems. There are security procedures and restricted access to the systems depending on personnel task and hierarchy. FADES counts with its own technology development department. Nevertheless, according to FADES' general manager opinion the present technology must be upgraded, opinion shared and backed up by the board of directors.

FIE is confident on its present level of IT innovation and actual possibilities of its systems and Los Andes is in the way to gradually upgrade its software as new products are developed.

#### **6.1.9 Internal control, auditing and supervision**

All the three institutions have a trustee which directly responds to the shareholders, an internal auditor (or auditing department in the case of Los Andes) and an operational controller (FADES) or portfolio risk control centre (FIE and Los Andes).

Under the new norms of the SBEF a portfolio quality control unit must be incorporated to take care of the portfolio risk qualification, usually under the responsibility of the internal auditor.

All these organisations have external auditors. For FADES it is “Moreno Muñoz” (related to Price Waterhouse), which was also the external auditing firm for FIE up to 1998. For 1999 the new FIE FFP has chosen “KPMG”. Los Andes auditing has been performed by Coopers & Lybrand for the last 4 years.

#### **6.1.10 Strategic financial planning**

FADES and FIE FFP have developed strategic business plans up to year 2000 and, as well as Los Andes, they prepare yearly operative strategic plans with the participation of the officers and the budgets prepared by each operative department. The respective board of directors is in charge of the final approval of the plans and participates through guidelines which feedback the process.

#### **6.1.11 Market, services, clientele**

With a market defined by the poor rural population, mainly peasant families and micro- and small low income generating enterprises, FADES have three basic financial products.

- 1) Associative credit destined to associated groups and small entities of up to 30 persons (co-operative societies and associations of rural producers),
- 2) Individual credit (for small producers, divided into those who produce for their family subsistence only and those who generate some profits) and
- 3) Solidarity credit, for groups up to 5 members (usually families who utilise the rural or sub-urban self-employment as survival strategy).

Low-income urban population, specially micro- and small enterprises, are the market for FIE, which grants credits to individuals or groups. Its products are differentiated by amount, term and interest rate, being its portfolio basically divided in two products at present: 1) production and 2) commerce (in the past as FIE NGO also had a specific product for associations and leasing which are not continued by FIE FFP).

As in the case of FIE, Los Andes clients are those micro enterprises, groups or individuals, which do have access to normal banking services but do not have the capacity and will to repay the loans, irrespective of their small size activity. However, Los Andes is also entering sectors of small size entrepreneurs which have access to commercial banks at present, thus starting competing with them. Los Andes offers credits to:

- 1) Micro enterprises (total assets below USD 20.000 and monthly gross sales up to USD 6.000)
- 2) Small enterprises (total assets from USD 20.000 on and monthly gross sales over USD 6.000)
- 3) Rural credit (for micro and small rural producers), and pledged credit (pledged asset remains under Los Andes control up to the total repayment of the credit).

Los Andes also offer complementary financial products for good clients, such as short-term seasonal loans, and credits for housing improvement.

Specific information on interest rates, terms and other conditions including definitions on the respective market are detailed in annexes.

### 6.1.12 Key scale and outreach indicators

1998: historical 1999: projected	FADES		FIE		Los Andes	
	1998	1999	1998	1999	1998	1999
1. Total balance of out-standing loans (*)	9,047,000	11,176,000	14,086,742	24,269,612	28,613,915	41,674,209
2. N° of currently active loan clients	26,962	29,061	20,848	40,794	34,838	42,449
3. Average current loan balance (1./ 2.)	336	385	675,69	594,93	821	982
4. Total balance of voluntary savings				1,005,000	551,751	2,000,000
5. N° of current voluntary savings customers					2,714	10,034
6. Average of voluntary savings balance (4. / 5.)					203	199
7. Total balance of CDs (time deposits) in US\$			8,398,748	6,822,600	10,681,755	
8. N° of current CD holders			121		151	
9. N° of staff	100	115	162	191	213	273
10. N° of branch offices	23	29	14	15	15	16

(\*) Including provisioned portfolio still to collect.

### 6.1.13 Comparative Profit and Loss account

1998 in USD

Account	FADES	FIE	Los Andes
<b>OPERATING INCOME</b>			
Interest and fee income from Loans			7,399,882
1. 1. Interest on loans	1,975,015	1,836,849	7,043,417
1.2. Fees on loans	203,191		356,465
2. Incomes from other financial- related services			
from collectable accounts	1,162		
Recoup. Of financial assets	37,629	1,162,704	
Other operative incomes		552,845	
Inflation adjustments (+)	10,650		
3. Income from investments	86,484		73,097
<b>4. Total operating income</b>	<b>2,314,131</b>	<b>3,552,398</b>	<b>7,472,979</b>
<b>OPERATING EXPENSE</b>			
5. Interest and fee expense	86,961	556,290	2,232,298
6. Loan loss provision expense	73,933	132,229	896,014
7. Personnel expense	926,627	1,008,813	2,230,903
8. Other administrative expense:			1,281,127
8.1. Adjustment expense	203,082	585,668	
8.2. Other operating expense	25,113	697,966	
8.3. Hired services	58,669		112,953
8.4. Insurance	14,834		21,395
8.5. Communications and Transport			184,173
8.6. Taxes	138,689		
8.7. Maintenance	87,378	137,858	310,959
8.8. Depreciation	31,474		80,497
8.9. Other administrative exp.	96,318	2,149	151,897
	157,647		419,253
<b>9. Total operating expense</b>	<b>1,900,762</b>	<b>3,120,973</b>	<b>6,640,342</b>
<b>10. Net operating profit (loss)</b>	<b>413,405</b>	<b>431,425</b>	<b>832,638</b>
<b>NON OPERATIONAL INCOME</b>			
11. Cash Donations	29,763		
1. Other non-operational income			1,302,331
13.1. Extraordinary income		29,579	
13.2. Previous years incomes	20,000		
	7,926		
2. NON OPERATIONAL EXPENSE			
1. Inflation adjustment			
2. Services' fees			(1,205,233)
.1 Extraordinary expenses			(52,490)
.2 Previous years expenses		111,110	
	43,772		
<b>14. TOTAL CONSOLIDATED PROFIT (LOSS)</b>	<b>427,322</b>	<b>349,894</b>	<b>877,245</b>

#### 6.1.14 Comparative Balance Sheet:

1998 In US\$

ACCOUNT	FADES	FIE	Los Andes
<b>ASSETS</b>			
15. Cash and Banks	49.848	380.168.07	186,087
16. Reserves in Central Bank			109,690
17. Short term Investments	1.345.642	1.398.523.17	2,713,542
18. Total loan portfolio	9.047.387	14.227.120.94	28,613,915
19. Loan loss reserve	(64.989)	(131.104.37)	(1,197,374)
20. Other short term assets		111.462.85	347,810
Collectable accounts	270.839	47.698.00	
Other accounts	40.621		
Other assets	5.758		
21. Long term investments	993.237	25.263.92	21,977
22. Fixed assets	643.866	293.095.78	936,393
22A. Other assets			25,721
<b>23. TOTAL ASSETS</b>	<b>12.472.213</b>	<b>16.352.228.37</b>	<b>31,757,761</b>
<b>LIABILITIES</b>			
24. Savings accounts: Forced			–
25. S.accounts: voluntary			551,752
26. Time deposits		7.487.944.30	9,504,810
27. Loans commercial	1.117.337	5.183.621.90	14,517,737
28. Loans Central Bank			–
29. Subordinated and subsidised loans	7.590.886	1.075.000.00	1,710,327
30. Other short term liabilities	156.021	413.188.64	650,002
31. Other long term liabilities	179.166		1,137,306
	<b>9.043.410</b>	<b>14.160.054.85</b>	<b>28,071,933</b>
<b>TOTAL PASSIVES</b>			
<b>EQUITY</b>			
33. Paid-in equity		936.170.21	2,555,758
(Included: IDB-SIDA USD 500.000)			
Other paid-in contributions		836.879.43	
34. Donated equity (accumulative up to previous year, included: IDB-SIDA USD 500.000)	2.257.168		
35. Donated equity current year			
36. Retained earnings (prior years)	738.062	(14.184.40)	877,293
37. Current year profit	427.322	349.894.84	
38. Other capital accounts	6.251	83.413.43	252,776
<b>39. TOTAL EQUITY</b>	<b>3.428.803</b>	<b>2.192.173.52</b>	<b>3,685,827</b>
<b>40. TOTAL LIABILITIES AND EQUITY</b>	<b>12.472.213</b>	<b>16.352.228.37</b>	<b>31,757,761</b>

#### 6.1.15 Grants

Only FADES and FIE have reported grants and therefore a calculation and adjustment on the profit and loss account, considering the shadow price, have been presented. In the case of FADES it was considered that 100% of the subsidised liabilities is granted money (although they include IDB loans for 40 years term at 2% interest rate in local currency, that was taken as granted money due to the very soft conditions).

The commercial interest rate for deposits has been utilised as the yardstick rate for the subsidised cost of funds adjustment in both cases. This is the rate the institutions could eventually obtain from clients' money in case it would be allowed to receive deposits (no estimations on involved costs of such an activity have been added).

In 1998 this rate was 8,3%. According to the utilised procedure, this is the cost by which the subsidised resources have been multiplied in order to get the adjusted costs.

In the case of FADES the adjusted net result is negative and consequently the profitability ratios are affected. Nevertheless, from an operative point of view, FADES maintains an operational self-sufficiency and its financial self-sufficiency is pretty close to 100% of the adjustment.

For FIE the relative low amount of subsidised funds makes that, in spite of the adjustment, the net result keeps being positive as well as the corresponding ratios.

#### **6.1.16 Portfolio analysis**

According to the following detail the three institutions have an on time portfolio of more than 94% of the total (taking into account a definition of delayed credit when it is not paid on the exact due date). When considering for the past due ratio a delay of more than 30 days FIE has the lowest percentage, 0.65% of the portfolio, Los Andes 1.9% and FADES 4.5%.

Loan loss provision for FADES depend on a quarterly internal qualification of the portfolio, but they are gradually adjusting to the new Superintendency's requirements. In the case of FIE and FADES provisions surpass the central bank minimum requirements.

#### **6.1.17 Voluntary savings**

FADES as non regulated institution is not allowed to receive resources from its clients, but FIE and Los Andes do count with this possibility.

For FIE it is a subject of offering another service to its clients, for the time being, as it does not expect a great volume of resources from this source in the short term.

Los Andes situation is similar to this last one. Both organisations do not have a detailed calculation (as a percentage of the saved amount) of the administrative cost involved yet.

### 6.1.18 Time deposits

The following are comparative charts of the stratification of time deposits for Private Financial Funds of Bolivia as of 31.12.98 (in local currency 000' and percentages respectively).

Time deposit amount (in USD)	LOS ANDES	Fondo de la Comunidad	FIE	TOTAL FFPs
Over 2.000.000	0	0	0	0
Between 1.000.001 y 2.000.000	0	7.513	7.969	24.506
Between 500.001 y 1.000.000	6.912	0	0	21.882
" 200.001 y 500.000	27.034	10.591	8.664	113.898
" 100.001 y 200.000	8.302	7.939	12.680	102.789
" 50.001 y 100.000	12.636	11.209	12.523	161.218
" 30.001 y 50.000	4.350	10.302	2.037	104.587
" 20.001 y 30.000	0	4.195	967	50.585
" 15.001 y 20.000	96	1.691	604	33.015
" 10.001 y 15.000	63	1.185	440	28.377
" 5.001 y 10.000	234	1.512	1.058	48.660
" 1.001 y 5.000	475	881	411	38.365
" 501 y 1.000	103	54	9	2.308
Lower than 500	39	3	6	714
<b>TOTAL</b>	<b>60.245</b>	<b>57.075</b>	<b>47.369</b>	<b>730.905</b>
<b>%</b>	<b>8.24%</b>	<b>7.81%</b>	<b>6.48%</b>	<b>100.00%</b>

Source: Bulletin N° 125, SBEF, January 1999.

Time deposit amounts (en USD)	LOS ANDES	Fondo de la Comunidad	FIE	TOTAL FFPs
Over a 2.000.000	0	0	0	0
Between 1.000.001 y 2.000.000	0	13.15	16.82	3.35
Between 500.001 y 1.000.000	11.47	0	0	2.99
" 200.001 y 500.000	44.87	18.85	18.29	15.58
" 100.001 y 200.000	13.78	13.91	26.77	14.06
" 50.001 y 100.000	20.97	19.64	26.44	22.06
" 30.001 y 50.000	7.22	18.05	4.30	14.31
" 20.001 y 30.000	0	7.35	2.04	6.92
" 15.001 y 20.000	0.16	2.96	1.27	4.52
" 10.001 y 15.000	0.11	2.08	0.94	3.88
" 5.001 y 10.000	0.39	2.65	2.23	6.66
" 1.001 y 5.000	0.79	1.54	0.87	5.25
" 501 y 1.000	0.17	0.09	0.02	0.32
Lower than 500	0.6	0.01	0.01	0.10
<b>TOTAL</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

### 6.1.19 Non financial services

None of the institutions reported non-financial services at present.

### 6.1.20 Interest rates

Interest rates vary depending on the institution and financial product.

The basic policy for all the institutions is the costs' full coverage in order to achieve a financial self-sufficiency. The influence of market competitors also has an incidence in all cases. The following is a comparative list of interest rates for rural as well as urban MFIs.



INSTITUTION			
	ASOCIATIVE	INDIVIDUAL	SOLIDARITY
<b>RURAL</b>			
FADES (1999)	USD=12%,16%,18%	USD=16%,18%,22%	USD=16%,24% Bs=36%
ANED (1999)	USD=13%,14%,16%	USD=14%,16%,18%	USD=18%,24% Bs=30%,36%
FONDECO (1997)	USD=10%-15%		Bs=24%
CRECER (1997)			USD=42%
PRODEM (1997)			USD=42% Bs=48%
SARTAWI (1997)		USD=36% Bs=42%	USD=36% Bs=42%
AGROCAPITAL (1997)		USD=27%-34% Bs=33%-42%	
<b>URBAN</b>			
BANCO SOL (1997)		USD=27% Bs=45%	USD=30% Bs=48%
FIE (1999)	USD=24% (ONG)	USD=30%	
IDEPRO (1997)	USD=25%	USD=25%	USD=25%
PROA (1997)		USD=18%	USD=18%
CIDRE (1997)		USD=18%	
FUNBODEM (1997)		USD=24%	
PROMUJER (1997)			Bs=48%
LOS ANDES (1999)		USD=16%,24%,30% Bs=24%,36%,42%	
FASSIL (1997)	USD=30%	USD=30%	USD=30% Bs=48%

### 6.1.21 Financial Costs

According to the information provided by the institutions, Los Andes has the highest financial costs (8.49%), followed by FIE (4.41%) and FADES (3.29%). The ratios were calculated as percentage of paid commissions and interests on total non-subsidised liabilities.

### 6.1.22 Assets vs. equity ratios

Assets represent 3.64 times the total equity of FADES, 7.47 in the case of FIE, and 8.62 in case of Los Andes, which therefore has the highest leverage.

### 6.1.23 Assets composition

In the Bolivian banking system, an average 11% of total assets are represented by cash and banks, a reasonable proportion in order to be able to adequately respond to the eventual withdrawal of deposits from clients. In the case of FADES, which does not receive deposits, cash and short term investments are 0.4% of total assets. In the case of Los Andes the percentage is 13.7% and for FIE 10.88%.

## 6.2 Conclusions on FADES, FIE and Caja Los Andes

- a) Taking into consideration the differences and characteristics of the respective market, for the case of FIE and Los Andes, the micro finance activities are developed into institutions which could expand independently of further donor resources, reaching large numbers of poor clients with funding originated in alternative banking sources (long term loans not available in the local financial circuits) and commercial banking as well. FIE and Los Andes are remarkable cases of specialised NGO evolution, as both are now Private Financial Funds (FFPs). According to the projections received, FADES future expansion requires of further subsidised resources mainly due to the market characteristics. Nevertheless, the institution is mature enough for trying alternative funding experiences. Time to reach a total independence stage from grants depends on

FADES success on its investment in EcoFuturo and future development of rural development financing.

- b) Although with different level of achievement, in all cases the IDB-SIDA support strengthen the institutional capacity, increased the service coverage and supported the organisations in their process toward regulated operations, including the possibility to capture savings.
- c) The three institutions develop relevant support to large informal sectors, which could eventually transform into formal enterprises. However, it is considered that the conditions for an extended transformation into that direction are not given at present. Rural micro-enterprises could be divided into peasants-without possibilities to become formal productive units at present (as even the government exonerates them from any formality)-, or “enterprise units”, which could eventually become formal. Besides, urban micro-enterprises could divide into trade or production; only these last need to be formal at present, in order to integrate their production to the formal sector.
- d) In all cases, the IDB-SIDA fund logically granted a better leverage to the institutions as compared to loans or guarantees. Nevertheless, due to the selected institutions ripeness, the analysis of alternative channels to the IDB (such as other possible international agents) is suggested.
- e) In all the cases, ownership structure, strategic alliances and leadership seems to ensure adequate quality control of the operations, even in the case of adverse conditions.
- f) Staff training seems to be adequate, especially at the credit officers’ level. This is considered to be a vital tool within the three institutions in order to ensure their capability to sustain the expected levels of growth.
- g) Management style and organisational structure appear to promote accountability and efficiency at an operational level.
- h) Even though FADES is requiring an IT upgrade (as it is considered a weak area) and permanent adjustments are needed as new products are developed in Los Andes and FIE, their information systems appear to be adequate for the current operations. The information systems are effectively utilised by staff as an integral tool for the day to day operations.
- i) The internal control systems seem to be adequate in all cases. The three institutions work with nation-wide recognised external auditing firms, which follow up their respective systems and elaborate the necessary recommendations.
- j) Taking into account the customer profile their financial services appear adequate and of good quality both in terms of clients relations and appropriateness of conditions. However there is no market study available about the quality of the demand in order to present a complete evaluation.
- k) Even though desertion rates are estimated in all cases, the information provided by the institutions is not sufficient to arrive at comparative conclusions on the monitoring of desertion rates.
- l) Within the definition of the market, and in the cases of Los Andes and FIE, there are also small enterprises, which have access to commercial banks. Thus, those two MFI started competing for that sector.
- m) In spite of the previous point, the vision, mission and objectives of the management and staff are coherent with the MFI’s possibilities to reach poor clients with sustainable financial services.

- n) Even though the financial projections were built on assumptions based on past experience (own and from others) the dynamic of a context influenced by external factors (such as very recent international and regional economic crisis) could significantly affect the projections.
- o) Future challenges for the institutions are: further geographical coverage; incorporation of new financial products; further quality for their services; better use of the installed capacity; strengthen of their savings market by further diversification of the clientele; further penetration to the rural market; integration to a unified risk centre to control possible over indebtedness problems.
- p) The three institutions obtained positive net profits, though only Los Andes and FIE are profitable institutions irrespective the subsidies adjustment. Nevertheless, FADES also reached the operative self-sufficiency and its financial self-sufficiency ratio (operative income divided by adjusted operating expenses) is over 91% in 1998. Management's attitude recognises the importance to achieve operative and financial self-sufficiency.
- q) Provisioning and write-off policy seems conservative in all cases, as it is the case of liquidity management.
- r) Interest rates seem adequate and responsive both to their financial requirements and external factors such as inflation.
- s) FIE has reached self-sufficiency in its overall operations through the SIDA-IDB fund, though it has not arrived on time in order to strengthen the transition period. It was also an essential back up for the ProCredito capitalisation. In the case of FADES, (with the longest delay in the transfers from IDB) it increased the access to credit for the rural poor, as it certainly increased the offer of rural credit in areas where 90% of the population is poor (further assessment would require a specific target group evaluation).

### **6.3 CISC, PDAI and Colonia Pirai**

These institutions can not be classified as MFIs although two of them have a credit facility.

An MFI-analysis is therefore not meaningful.

### **6.4 Conclusions on CISC, PDAI and Colonia Pirai**

- a) Only PDAI and CISC develop micro finance activities. Due to the present characteristics of both institutions none could expand independently of further non-commercial resources in order to reach a massive number of poor clients. PDAI is in the midst of a restructure based on severe adjustments. In the case of CISC the institution is not mature enough at the present stage of its development, strongly conditioned by the characteristics of its rural related membership. They are both examples of different organisations, which provide financial services to micro-entrepreneurs previously excluded from the formal financial system.  
It is not foreseeable that Colonia Pirai could develop micro finance activities in the future.
- b) The original structure of PDAI did not correspond to the later intention to specialise in micro credit. For CISC, being a multipurpose institution, the micro finance aspects are immerse in the agro-industrial and rural extension activities. With reference to Colonia Pirai, the structure seems to be adequate for its organisational purpose.

- c) CISC staff belongs to the same co-operative family, being the credit officers and young professionals (usually agronomists) who know the small peasant condition and problems as they were born in the same area. PDAI is redefining personnel profiles which, in the past, was of agronomists too. There are no training programs reported by neither CISC nor PDAI. Staff and staff related procedures of Colonia Pirai appear to be adequate for its specific field of activities.
- d) Except in the case of Colonia Pirai the institutions analysed did not report decisive investments in human resources.
- e) For CISC and Colonia Pirai the respective organisational structure appear to promote accountability and efficiency at an operational level. PDAI's restructure also involves these subjects.
- f) CISC seems to have adequate information system according to their needs. PDAI is implementing new software this year, as the previous system was not adequate. Colonia Pirai requires further improvements for the complex integration of the production, sales and accounting systems but the institution has already taken the necessary actions.
- g) The three institutions have external auditors. None of these institutions have a specialised internal auditing department.
- h) The field of action of CISC involves 2.500 co-operative members. PDAI defines a potential market of 3000 rural producers, though the last evaluation recommended expanding its geographical area in order to reach a micro enterprise market.
- i) Neither CISC nor PDAI do investigate possible overindebtedness or desertion rates of their respective clients.
- j) In the case of CISC, the exact percentage of delinquency related to the IDB-SIDA fund portfolio is not clear, as compared to the overall past due ratio reported during the interviews.
- k) The institutions did not present financial projections.
- l) Only Colonia Pirai seems to be a profitable institution at present, though not self-sustaining.
- m) Provisioning system seems to be adequate in all cases, according to the recommendations of the external auditors and evaluations. Nevertheless, provisions represent a heavy weight for PDAI and CISC profit and loss accounts (although the effect is lower in the case of CISC).
- n) Even though CISC has some basic criteria for determinations of the interest rate, there is no clear policy in the case of PDAI at this respect.
- o) The institutions have no reported significant information in order to reach further conclusions in other micro financing key areas. This situation is particularly serious in the case of CISC.
- p) In the case of PDAI the SIDA-IDB support did not achieve the planned objectives, as it could not recover yet. For CISC, the support contributed with positive changes though there is a new different operative line. For Colonia Pirai, the support complemented its educational and agro-industrial plan.

## 7 Some reflections

### 7.1 Distortions by grants

The issue of the possible distortions caused by grants in a lending operation is frequently discussed. Some argue that the necessary discipline in a sustainable institution is difficult to maintain. Others argue that the grant as such is no obstacle as long as a long term financial strategy and discipline is in place, which is based on the full coverage of all costs, including the potential cost for capital presently obtained free.

Of the 6 institutions covered in this study only 3 (FIE, Caja Los Andes and FADES) can be measured according to the criteria for MFIs. There is no indication that the grant, used for equity, as such has caused any distortion in their activities or to the institutions financial stability. Actually all three could have been serviced with a loan as well.

In the three other cases it is obvious that the grant was the only way to assist. All three are heavily dependent on grants and there are no real signs of sustainability.

Another aspect is that the donor could possibly utilise its resources serving more poor people if the assistance is offered on reimbursable basis. Not only could the capital repaid be offered as new loans to new partners, but through a market interest the value of the capital would also be protected. In the best of cases the refinancing of such lending operations could be handled through private investment schemes, thus releasing donor capital for other needs.

We did not find any local studies on distortion by grants that offer new and interesting facts to this discussion.

### 7.2 Fungibility of funds

In this study we understand “fungibility of funds” as being an indicator explaining to what extent a new inflow of capital for a specific purpose into an already existing activity actually means a corresponding increase in that specific purpose for which the new capital was meant.

In some cases the new capital is used to release other funds for other important purposes. When funds are totally fungible that could mean that there is no real increase in activity of the specific purpose. It only means that already existing funds – previously used for the specific purpose – now are released for other purposes.

Fungibility can be discussed at all levels

- Sida-IDB
- IDB – institution
- Institution – individuals

Fungibility of funds is a problem only when the partners in a financial co-operation have different goals.

## *Sida-IDB*

Sida wants to increase support to microfinance activities in Bolivia. To Sida this means more small loans to people in Bolivia, especially in rural areas.

IDB wants to support small projects within its Small Projects Program.

In the selection of three of the institutions the support is clearly related to increased lending.

In the selection of the other three there is a very limited relation to increased lending.

There is no indication on the Sida-IDB level that the Swedish Fund has been used to finance microfinance programs where already existing funds have been diverted to other purposes. The problem indicated with the three institutions (CISC, PDAI and Colonia Pirai) is not a one of fungibility but about how the agreement should be interpreted.

## *IDB – Institutions*

The three MFIs (Caja Los Andes, FIE and FADES) have all used the funds to strengthen their lending operations. The support has meant a direct increase in the capacity of these institutions.

Certainly these three institutions would have been able to attract other funds to do the same thing, either as grants or as loans. This is however not a question of fungibility but related to “the market”.

In the three other institutions (CISC, PDAI and Colonia Pirai) there are however clear signs that the funds have been used as fully fungible. The most obvious example is PDAI where the loan portfolio was saved by the grant from Sida allowing the organisation to survive and even invest in new assets. The grant was used to cover an already existing portfolio. No new loans were really given as a consequence of the new support. In the other cases there is either no loan fund at all (COLONIA Pirai) or the lending activities has just started, which means that it is too early to say whether the support will give increased access to credit.

## *Institution – individual*

One interesting issue is the possible fungibility of funds in the relation between a MFI and the individual lender.

Very often a loan is given for a specific purpose. In many cases evaluations have proved that people actually utilise their loans for other purposes than the one indicated in the loan application. This would indicate a high degree of fungibility. Is that bad? Some argue that as long as the loan is repaid the loanee is verifying that the loan served a purpose. Others claim that the loan should be used only for a specific purpose agreed upon – and often decided upon by the lender.

Again, this will only become an issue when the lender and the one taking a loan have very different goals. If the goal is to support the poor in his/her efforts to strengthen the family financial situation for whatever needs they may define, there will not be any problem of “fungibility”. If the lender, however, at the same time wants to assure increased sales of for example machinery for farming the problem is evident. If the loan is granted and received on the condition that it should be used for buying a machine but actually is used for school fees, the lender will not meet his/her goals even if the loanee used the funds for the highest family priority.

We have no indication in the cases covered by the Trust Fund that fungibility on any of the levels constitute a major problem. In any case the lessons learned should result in more clarity in coming agreements regarding support to microfinance.

### 7.3 Tension between financial and non-financial services

Is it possible to combine financial and non-financial services in the same institution/organisation and still be sustainable?

The experience does not give a definite answer to this question. It is not only a question about financial and non-financial services but also on a number of factors related to a specific institution, such as cost structure, geographical situation, target groups etc.

To a rural institution with their target group distributed in vast areas the cost problem is so obvious that the conclusion so far seems to be that it is hardly possible to run a sustainable operation at all. In urban areas this is possible.

One success factor in sustainable institution is their ability to focus on the lending operations and to collect repayments. The important question is whether or not non-financial services will soften the focus on the lending operations.

When we compare the two main groups being supported through the Trust Fund we see that the three MFIs already sustainable (or on the edge to become sustainable) all concentrate on their financial operations and offer very limited non-financial services. On the other hand, the other three concentrate more on other services, which could be one of the explanations to poor performance in their microfinance work.

Especially when going to rural areas there obviously is a challenge to run sustainable MFI-operations. The needs for non-financial services are at least as big in the rural as in the urban areas. One conclusion could be that it is not possible to run sustainable MFI-operations in rural areas. Another conclusion could be that the focus on the savings- and lending operations must be the top, or even only, priority, leaving non-financial services to other actors.

This issue is important as most of the arguments for sustainable MFIs are as relevant in the rural areas as in the urban. Sustainable MFIs are better equipped to support their target groups. There are probably a number of model costs in rural operations that perhaps should be taken care of in other ways and not be the burden of the MFI alone.

## 8 Conclusions

### 8.1 General

#### 8.1.1 Sida expectations

Following the assessment memorandum and interviews made our conclusion is that Sida's expectations with this program was very much focused on increased small scale lending to poor people in Bolivia. These expectations are supported by a number of expressions in the agreement.

#### 8.1.2 IDB expectations

From an IDB point of view the Fund is just one more technical solution within the Small Projects Program. There is no indication that IDB makes a difference between the Swedish Trust Fund for Small Projects and the Trust Fund for Bolivia. The purpose of the new Fund was to support the three institutions selected by Sida and in addition to that finance projects in Bolivia. In practice this meant projects already in the IDB pipeline.

These expectations are supported by a number of formulations in the agreement referring to IDB policies and procedures for the Small Projects Program.

#### 8.1.3 Interpretation of the agreement

The agreement is interpreted differently by Sida and IDB. In our opinion the Agreement and the supporting documentation from the dialogue between Sida and IDB constitute a frame for support to the microfinance sector in Bolivia, with a focus on micro-credit. We also believe that IDB-staff involved in the preparation of this Agreement will support this interpretation. In the implementing process the IDB-staff have related the Fund to the ongoing activities within the Small Projects Program in Bolivia with little or no attention to the specific priorities outlined in the Agreement.

As the Agreement also refers to IDB policies, especially on Small Projects, it is however not possible to say that IDB has violated the Agreement by choosing three institutions that hardly meet the criteria of microfinance institutions, at least as these are understood today.

#### 8.1.4 Delays in the implementation

Taking into account that

- the Agreement was signed in 1993
- most of the agreements with the institutions were signed in 1995
- the disbursements were made 1995–1998
- 25% of the funds made available are still not disbursed
- 10% of the funds are not yet allocated

it has to be stated that the implementation of the program has been very slow. There are a number of explanations given to that but there is no valid reason to justify such a delay.

### 8.2 IDB

#### 8.2.1 Distortions caused by IDB restructuring

One implication of the IDB restructuring during the 90's has been that the responsibilities for microfinance issues have been transferred in the organisation. Even if the new organisation is in place



now, there still seems to be some lack of clarity as to where the responsibilities for the Trust Fund lie.

### **8.2.2 Policy work of the IDB**

As of March 1999 IDB seems to have a well-developed and firm policy on microfinance with a specific focus on micro-enterprise

### **8.2.3 IDB and the Swedish Trust fund for Bolivia**

There is a serious gap between IDB policymakers and support-staff at the Head Quarters in Washington and the implementing staff in the country office. Regarding the Swedish Trust Fund for Bolivia the implementing staff do not seem to have the relevant understanding of the criteria for the fund.

Under the new IDB-policy for support to the micro-enterprise sector, the three institutions selected by IDB would in our understanding not be eligible for support.

### **8.2.4 IDB assessment procedures**

The assessment procedures of IDB seem to be adequate and relevant. The problems indicated in this evaluation relate to criteria and not procedures.

### **8.2.5 IDB monitoring procedures**

The IDB monitoring procedures as applied seem to be adequate and relevant.

### **8.2.6 The selection of institutions**

From a Sida point of view the selection of CISC, PDAI and Colonia Pirai is not in line with the intentions of this program.

Consequently we also question the eligibility of the projects presently being assessed.

### **8.2.7 Administration fee**

When the objectives of the program are reached a 2% administration fee must be considered as very low, especially compared to the actual costs involved in implementing this type of program.

## **8.3 The Microfinance Institutions**

### **8.3.1 General**

The funds have so far been utilised in the following way:

For loans and related technical assistance:	USD 2.067.000 (47,7%)
For investments and related technical assistance:	USD 1.144.000 (26,4%)
Not disbursed:	USD 609.000 (14,1%)
Not allocated:	USD 419.000 ( 9,7%)
Administration fee	USD 90.000 ( 2,1%)
Total	USD 4.329.000

### **8.3.2 FIE**

FIE is a well-functioning MFI on the edge of becoming sustainable. FIE has the potential for further growth.

The Sida support has been significant for the development of the institution.

### **8.3.3 Caja Los Andes**

Caja Los Andes is a well functioning and sustainable MFI with the potential for further growth.

The Sida support has played a significant role in the transition into a regulated MFI.

### **8.3.4 FADES**

FADES is a well-functioning MFI on the edge of becoming sustainable. FADES has the potential for further growth.

The Sida support has been significant for the development of the institution.

### **8.3.5 CISC**

CISC is an interesting social program in the rural area. If made a priority the institution may have a potential to develop significant microfinance activities. Such a development would need a considerable support.

### **8.3.6 PDAI**

PDAI is an interesting social program in the rural area. If made a priority the institution may have a potential to develop significant microfinance activities. Such a development would need a considerable support.

### **8.3.7 Colonia Pirai**

Colonia Pirai is an interesting social program in the rural area. If made a priority the institution may have a potential to develop significant microfinance activities. Such a development would need a considerable support.

### **8.3.8 The sector**

The microfinance market in Bolivia is not yet saturated. There is still need for further activities especially in the rural areas.

## **8.4 Sida**

### **8.4.1 Monitoring**

Sida staff has not been actively involved in the monitoring of the Trust Fund for Bolivia. The efforts to follow up on the IDB-Sida agreement seem to have been limited.

### **8.4.2 Learning**

Except for contacts within the local networks in Bolivia there are no signs of a learning process within Sida in relation to this program.

## **8.5 Others**

### **8.5.1 Distortions by grants**

We have not found any significant signs of market distortions due to funds granted from the Trust Fund.

### **8.5.2 Fungibility of funds**

We have no indication that fungibility, in the cases of FIE, Los Andes and FADES, constitutes a problem.

In the other cases funds from the Trust fund have partly been used to release other funds for needs not directly related to micro-credit.

### **8.5.3 Sida-IDB communications**

Due to the restructuring at both ends the communication during the implementation of this program seem to have been limited to a few financial reports and some correspondence.

Annual meetings indicated in the Agreement have not been arranged in an organised way.

## **8.6 Summary**

### **8.6.1 Effectiveness**

Funds for FIE, Los Andes and FADES have been effectively used.

Funds used for CISC, PDAI and Colonia Pirai may have served an important purpose but can not be said to be effective in relation to the microfinance objectives of Sida.

### **8.6.2 Efficiency**

The funds used for the MFIs have been efficiently utilised taking into consideration the low administrative fees charged by IDB and the quality of the work of the MFIs.

The efficiency of the support to CISC, PDAI and Colonia Pirai can not be evaluated, as the support is not related to the original intentions and objectives of Sida.

### **8.6.3 To work with IDB**

The Swedish Trust Fund for Bolivia is a small program in IDB. A small program in a big organisation always runs the risk of being marginalized. In order to reach specific objectives in relatively small programs the donor need to actively follow the implementation process. This active role is also important in relation to the learning process.

## 9 Recommendation

Taking into account

- ◆ that IDB is a very relevant and competent partner in offering support to the microfinance sector,
- ◆ the balance not yet disbursed from the Swedish Trust Fund for Bolivia
- ◆ the balance not yet utilised within the Swedish Trust Fund for Small Projects, and
- ◆ the differences in the interpretation of the Sida-IDB Agreement

we recommend that a project activity be immediately implemented with the following purposes:

1. to optimise the utilisation of the remaining funds available within the two trust funds in IDB
2. to use these funds to support microfinance activities as understood by Sida and as outlined in Sida Policy Documents,
3. to channel the funds specifically to programs in rural areas in Bolivia,
4. to further develop the co-operation between Sida and IDB for support to the microfinance sector, and
5. to introduce a model for internal learning within Sida.

Within this project a continued evaluation of IDB as co-operating partner should be included.

# APPENDIX 1

## Evaluation of the Swedish Trust Fund in IDB and its Support to the Micro-enterprise Sector in Bolivia

### 1 THE CONTEXT

Sida has supported the micro-enterprise sector in Bolivia since 1993 with a total amount of SEK 30 million. The Swedish support has been channelled to six different organisations through a Swedish trust fund in the Inter-American Development Bank (IDB). Whereas the agreement between Sida and IDB speaks about “financing of micro- and small enterprise activities” which includes non-financial services as well, the Swedish assessment memorandum<sup>1</sup> mentions only financial services although in the context of developing the micro-enterprise sector. We will in the following refer to the Bolivian *microfinance (mf) sector*, assuming this to have been the emphasis of the support while keeping in mind that some of projects/organisations receiving support may as well offer non-financial services.

The agreement was signed in 1993 and has no limit in time. As the Swedish funds are now coming to a close, Sida will evaluate its collaboration with IDB, its contribution to the individual beneficiaries and to the sector as such. This will contribute an analysis of options for continued support to the development of the Bolivian microfinance. The process is suggested to take place in three steps:

1. A desk study to collect and summarise recent documentation on microfinance in Bolivia (see separate ToRs attached).
2. An evaluation of the Swedish Trust Fund in IDB (for which ToRs follow).
3. A field study to analyse challenges of the microfinance sector and identify areas and options for further Swedish support to this sector (ToRs to be developed).

The ToRs that follow will specify the work to be carried out under paragraph two.

### 2 BACKGROUND: MICROFINANCE IN BOLIVIA

#### 2.1 *The booming microfinance sector*

Many experts hold Bolivia a pioneer country in the region (and indeed in the whole world) and one which will lead the way for other countries developing their microfinance industry. Micro-enterprise is vital for Bolivia’s economy and constitutes the main source of income and employment for the 70% of the population considered to be poor.

In 1997, the active portfolio of the 14 biggest microfinance institutions (MFIs), grew by 45% and the number of clients by 16%. The sector include specialised financial institutions ranging from NGOs via regulated<sup>2</sup> “Fondos Financieros Privados” (FFPs) to commercial banks. These MFIs serve more than 200 000 clients with a total portfolio of over USD 90 million. The most famous MFI in Bolivia, BancoSol, was rated the number one bank among the country’s seven small banks. BancoSol received higher marks in the areas of risk, liquidity, solvency and profitability than any of the country’s 12 other banks (source: “Nueva Economía”).

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<sup>1</sup> The document upon which Sida’s decision to support the establishment of the Trust Fund in IDB was based.

<sup>2</sup> A law was recently passed allowing the operations of new form of financial institution (FFP) subject to state supervision. FFPs have lower minimum capital requirements and are restricted in their operations compared to regular banks.

Another successful institution is Caja Los Andes (earlier ProCrédito) which was the first MFI to become a regulated FFP three years ago. The second institution to become an FFP was the former NGO Centro de Fomento a Iniciativas Económicas (FIE). Both have received Swedish support via IDB. During the last year, several NGOs have applied to obtain FFP-status. It is estimated that up to ten FFPs will be operating by the end of 1998.

The competition for clients is intensifying, especially in urban areas, leading to lower interest rates and improved services but also a higher degree of client indebtedness and a general decrease in repayment rates. New financial instruments such as housing credit, leasing, savings and consumer credit are introduced in the market and commercial banks have realised the potential of this market segment. The rural areas of the country are still under-served but PRODEM (a Bolivian NGO and the founder of BancoSol) is taking the lead with its 40 offices in rural market areas and secondary towns.

## *2.2 Government policies towards the microfinance sector*

The present Bolivian Government has included the microfinance sector as one key element in its national development plan to struggle against poverty: “Para Vivir Mejor”. The plan has four pillars: Equidad, Institucionalidad, Oportunidad and Dignidad. The Opportunity-pillar considers microfinance a cornerstone. The aim is to strengthen financial institutions (FFPs, NGOs and co-operatives) and promote financial services directed towards the micro-entrepreneurs in order to stimulate the dynamics of the informal sector and increase poor people’s possibilities to support themselves, especially in the rural areas.

To stress the importance attributed to the informal sector, the Government has designated a new Vice-Ministry for Micro-enterprise (within the Ministry of Labour) and has launched a special Micro-credit Fund (Fondo de Microcrédito) to administer and channel external and internal resources to the mf-industry. The aim of the fund is to give financial and technical assistance to initiatives within the sector in order to extend the outreach of microfinance services.

As a result of the negotiations between the donors and the Government during the Consultative Group meeting in Paris in April 1998, the international donor community and the Government agreed on a number of objectives and a set of corresponding indicators, that would be applied in order to measure the microfinance sector’s contribution to the country’s economic development. The objectives established were<sup>3</sup>:

- to strengthen the institutional capacity of the microfinance organisations
- to increase national coverage of microfinance services
- to increase the possibilities of these organisations to capture savings

The idea is that the donor community as well as the Government will monitor the development of the microfinance sector using the same set of indicators. It is believed that this consultative process will make it easier to measure achievements within the sector.

## *2.3 The Swedish support to date*

Sweden has contributed to the sector with a total of 30 million SEK since 1993 through a special trust fund administered by the IDB. Four financial institutions were selected by Sida based on earlier individual application for Swedish support (ProCrédito in La Paz, FIE in Santa Cruz and Oruro

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<sup>3</sup> The minutes from this meeting and full documentation on objectives and indicators agreed upon should be available with the Swedish Embassy in La Paz.

and FADES, working in rural areas) and two institutions by the IDB (CISC and PIRAI). Today, Caja Los Andes and FIE have become formal financial microfinance institutions (FFPs) and FADES has applied for such a licence.

## *2.4 Important challenges for microfinance in Bolivia*

In order for the mf-sector to continue its successful development, most experts on microfinance in Bolivia today agree that the following aspects must be addressed:

- a) Developing profitable, sustainable and independent institutions, working on market terms, generating their own financial resources which allow them to maintain and expand their activities without subsidies from the state or the donor community.
- b) Creating an enabling environment where the state provides the legal and regulatory framework for the mf-sector and private actors operate the financial intermediation.
- c) Supporting the transformation of the large informal sector into productive enterprises acting within an extended formal sector and contributing to the country's economic growth (employment, goods & services, taxes, etc.), especially in the poor rural areas where microenterprises could contribute to diversification and employment generation.

## **3 Purpose and Scope of the Evaluation**

The *purpose* of this study is to evaluate the efficiency<sup>4</sup> and effectiveness<sup>5</sup> of the Swedish support through the IDB to selected Bolivian MFIs and other organisations and to assess the contribution of the support to the microfinance sector<sup>6</sup> at large since its start in 1993. The funds have almost been entirely disbursed and Sida needs to evaluate how the funds have been handled in view of considering further support through the IDB as one of various options for further support to the mf-sector.

The evaluation will be done in light of the two main objectives stated in the assessment memorandum:

1. To increase access to credit for poor, underserved groups and to support the development of a new type of financial institutions which offer services to micro-entrepreneurs previously excluded from the formal financial system.
2. To enter into a closer collaboration with IDB in order to benefit from IDB's long experience of the sector while reducing Sida's own administration to a minimum.

However, in addition to the two objectives above, the agreement concluded between IDB and Sida (see enclosed) should also be taken into account since it clarifies issues such as the definition of eligible activities and intermediaries, the use of funds and the role of IDB as an administrator of the funds (charges, reporting, consultation with Sida, etc.). Any additional objectives formulated to support individual MFIs should also be taken into account.

The *scope* of the evaluation comprises an assessment of all organisations receiving Swedish support. Their achievements should be put in the context of the general evolution of the mf-sector and the presence and policy of other actors and donors. When doing this, the consultants will benefit from a

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<sup>4</sup> "Efficiency" refers to the amount of resources required to achieve an objective with a certain approach or instrument in comparison to other options for reaching that same objective

<sup>5</sup> "Effectiveness" refers to the extent to which stated objectives have been achieved.

<sup>6</sup> Keeping in mind that the agreement between Sida and the IDB defines the "eligible activities" as non-financial services as well, the consultants will have to include and evaluate all types of activities which have received support and put it into the context of the entire micro-enterprise sector as necessary and relevant.

recent desk-study on microfinance in Bolivia commissioned by Sida for this very purpose (ToRs attached).

The evaluation should also make a thorough assessment of the effectiveness of IDB policies and the efficiency of IDB as a trustee of Swedish support which will entail visits both to IDB's micro-enterprise unit and its regional department in Washington as well as its Bolivia office.

#### **4 The Assignment: issues to be covered in the evaluation**

The evaluation consists of the two following tasks:

##### *4.1 How and to what extent has the Swedish/IDB Trust Fund contributed to the development of the supported MFIs?*

The MFIs which have benefited from the Swedish Trust Fund are Caja Los Andes (earlier ProCrédito) FIE, PDAI, FADES, CISC and PIRAI. Specific objectives stated in the Swedish assessment memorandum were:

- to extend access to credit to small and micro-enterprises previously not served by the banking sector with special emphasis on women;
- to support the creation of new types of (regulated) financial institutions;
- to give special attention to improved provision of credit in the regions of Chuquisaca, Potosi and Tarija;
- in the case of FIE (one of the supported MFIs): to reach self-sufficiency in Santa Cruz and start-up new activities in Oruro;
- in the case of Procredito: to contribute to capitalisation (in order to qualify for licensing as an FFP?);
- in the case of FADES: to increase access to credit for the rural poor.

These objectives may have change over time and the consultants shall include any additions or modifications of the objectives as evidenced by the agreement between Sida and the IDB, correspondence or other documentation. The consultants shall also conduct interviews with both Sida and IDB staff to assess their respective understanding of the objectives and expectations of achievements.

In addition to the general objectives of supporting the development of sustainable MFIs and the more specific project objectives listed above, there may have been other objectives and priorities stated in applications to the Trust Fund from individual MFIs (i.e. the purpose and use of the funds applied for). The achievements of such objectives and the fulfilment of any indicated performance targets should be assessed as well.

Hence, the evaluators are to assess the achievements of all the above mentioned objectives, both the ones explicitly stated in this document and other objectives deemed important by the evaluators.

As members of CGAP<sup>7</sup> we recommend CGAP's "Format for appraisal of microfinance institutions"<sup>8</sup> as a tool in this work. A full analysis according to this framework is not possible but the issues covered in this document should be discussed with the MFI-beneficiaries and existing data collected in

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<sup>7</sup> The Consultative Group to Assist the Poorest, a co-ordination group of both bi-lateral and multi-lateral donors for the development and dissemination of best practices in micro-finance. The CGAP secretariat is housed in the World Bank in Washington.

<sup>8</sup> Available from Sida/FINANS or directly from the CGAP-secretariat at e-mail adress: [cproject@worldbank.org](mailto:cproject@worldbank.org)



order to assess the evolution of each organisation receiving support. The issues to be covered include institutional factors, services offered, clientele, vision for the future and financial performance. IDB has a similar format for appraisal of MFIs which may also be used, particularly for the case IDB has applied it in its own assessment and monitoring of the applicants. Another document to be used as a guideline is the brief report: “Micro and small enterprise finance: Guiding principles for selecting and supporting intermediaries” by the Donors’ Working Group on Financial Sector Development<sup>9</sup>.

It may not be possible to single out the impact of Swedish support in the overall development of an MFI (in comparison to other donors or sources of finance) but a discussion on this should nevertheless be included. There should also be a comparison with the overall microfinance sector in Bolivia to put the achievements of individual MFIs in perspective.

#### *4.2 The efficiency and the effectiveness of the support through IDB*

The evaluation should include a profound analysis of IDB’s policy for and experiences in supporting the microfinance sector in Bolivia and its resulting capability in administering the Swedish Trust Fund according to the agreement and the objectives stated in the Swedish assessment memorandum:

- To enter into closer collaboration with the IDB and to benefit from IDB’s experience of the sector;
- To benefit from IDB’s administrative capacity in evaluating application, disbursing funds and monitor their utilisation and thereby reduce Sida’s administration to a minimum.

More specifically, the following issues in relation to the overall objectives are to be addressed by the evaluators:

1. The content and relevance of IDB’s own policy for supporting micro-enterprise development in Bolivia during the period in question and to what extent it has been effectively applied; is IDB changing its vision and policy for the future?
2. The efficiency and relevance of the procedures for application, approval, disbursement and monitoring of Swedish support; what have been the means of disseminating information, the criteria for eligibility, organisational arrangements and decision making procedures within the IDB?
3. Were audits of the Fund conducted and what conclusions did they generate?
4. The administrative efficiency of IDB: what were the cost for Sida in relation to the benefits achieved (see analysis under 2 and 3) and in comparison to other options of channeling the support such as implementing its own program? Do the fees charged by IDB correspond to actual costs for administering the support?
5. The MFI-beneficiaries’ own views on the content and the form of support offered by the Trust Fund (application requirements, amounts, content, conditions, lead-times, etc.); has it been satisfactory? Who do the beneficiaries perceive to be the source of funds?

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<sup>9</sup> Also available from Sida. Note that this is not the same group as the donors’ Consultative Group on Bolivia but a separate working group for financial sector development only.

6. The efficiency and relevance of providing grants with regard to stated objectives and the individual needs and stages of development of the MFI-beneficiaries (as compared to other financial instruments such as loans or guarantees); were there any conditions attached to the support and how did this affect the MFI-beneficiaries?
7. The communication between the two parties during the operation of the Trust Fund; to what extent has Sida been informed on the activities of the Trust, consulted on various decisions or itself requested information? Has this resulted in increased learning within Sida about microfinance and micro-enterprise in Bolivia?

*In conclusions and based on the above analysis (as well as the analysis under 4.1), the consultants should assess:*

8. The advantages and disadvantages of working through a “Trust Fund” arrangement; were the objectives and regulation of the Trust Fund well defined in advance of its establishment and are there any outstanding issues in connection with its possible liquidation?
9. IDB’s comparative advantages and disadvantages in supporting the future development of microfinance in Bolivia; based on the impressions generated by the evaluation, is the IDB and appropriate channel for continued Swedish support?

## **5 Method, Evaluation Team and Time Schedule**

### *5.1 Suggested components for the evaluation (in total 4 to 6 man-weeks)*

1. Preparation of the field work in consultation with Sida staff and the consultants who have conducted the desk study.
2. Visit to IDB’s HQ in Washington. The Micro-Enterprise Unit has had the main responsibility and should be able to refer to other relevant persons and departments.
3. Field visits to the six MFIs benefiting from Swedish support.
4. Interviews and visits to other important actors in Bolivia, including Sida, the IDB-office, the World Bank and other major donors, relevant Government agencies and other financial institutions.
5. Presentation and discussion with the Embassy in La Paz regarding the preliminary conclusions from field visits and interviews in Bolivia.
6. Elaboration of the final report to be presented to Sida in Stockholm.

### *5.2 Suggested composition and competence of the evaluation team*

The evaluation team should include at least one senior consultant with documented excellent knowledge of microfinance, considerable experience of the region and a good command of Spanish. The team should also be familiar with Swedish Development Cooperation Policies. The team will be assisted by a Swedish junior consultant funded by Sida. He/she will have a good knowledge of the microfinance sector in Bolivia and/or Latin America and an excellent command of Spanish.

## **6 Reporting**

The evaluation report shall be written in English with an Executive Summary in both English and Spanish. It should not exceed 60 pages, excluding annexes. Format and outline of the report shall follow the guidelines in **Sida Evaluation Report – a Standardised Format** (attached). Five copies of the draft report shall be submitted to Sida no later than four weeks after the field visit. Within two weeks after receiving Sida’s comments on the draft report, a final version in three copies

and on diskette shall be submitted to Sida. Subject to decision by Sida, the report will be published and distributed as a publication within the Sida Evaluations series. The evaluation report shall be written in Word 6.0 for Windows (or in a compatible format) and should be presented in a way that enables publication without further editing.

The evaluation assignment includes the production of a Newsletter summary following the guidelines in **Sida Evaluations Newsletter – Guidelines for Evaluation Managers and Consultants** (attached) and also the completion of **Sida Evaluations Data Work Sheet** (attached). The separate summary and a completed Data Work Sheet shall be submitted to Sida along with the (final) draft report.

## APPENDIX 3

### FFP FIE S.A. report based on the CGAP format for appraisal of microfinance institutions

#### SUMMARY

##### A. KEY DATA

ITEM	ACTUAL			PROJECTED		
	1996	1997	1998	1999	2000	2001
1. Number of currently active <b>loan clients</b>	14.039	22.086	20.848	40.794	56.815	69.187
2. Total <b>outstanding loan balance</b> in US\$	7.694.325	12.127.449	14.086.742	24.269.612	35.347.464	45.191.640
3. <b>Average loan</b> balance per client	548	549	676	595	622	653
4. Number of <b>voluntary savings customers</b>	-	-	121	-	-	-
5. Total <b>balance</b> of voluntary <b>savings</b> accounts in US\$	-	-	8.398.759	1.005.000 6.822.600	2.325.000 9.069.000	3.775.000 11.865.800
6. <b>Loan Loss Rate</b>	-	-	-	-	-	-
7. <b>Delinquency Rate</b> Portfolio at Risk Basis, > 30 days late	1.53%	1.80%	0.65%	-	-	-
8. <b>Administrative Efficiency</b>	15.75%	14.98%	12.11%	-	-	-
9. <b>Operational self-sufficiency</b>	101.39%	100.79%	113.82%	-	-	-
10. Adjusted <b>return on average assets</b>	0.04%	-2.63%	1.05%	-	-	-
11. <b>Commercial liabilities</b> as % of loan portfolio	92.10%	101.59%	97.59%	-	-	-
12. Year-end free market <b>Ex-change Rate</b> —local currency / US\$	5.19	5.37	5.64	-	-	-
13. <b>Per capita Gross Domestic Product</b> in US\$, <i>not purchasing-power-parity adjusted</i>	914	931	950	-	-	-

The complete appendix can be obtained from Sida/INEC.

## APPENDIX 4

### FFP CAJA LOS ANDES S.A Report based on the CGAP format for appraisal of microfinance institutions

#### SUMMARY

##### KEY DATA

	ACTUAL			PROJECTED		
ITEM:	1996	1997	1998	1999	2000	2001
1. Number of currently active loan clients	23.905	29.545	34.818	42.449	-	-
2. Total outstanding loan balance in US\$	11.880.815	20.430.570	28.613.915	39.000.000	51.000.000	65.000.000
3. Average loan balance per client	497.0	691.5	798.9	918.8	-	-
4. Number of voluntary savings customers	574	1.186	2714	10.034	-	-
5. Total balance of voluntary savings acc'ts in US\$	158.397	185.202	551.751	2.000.000	-	-
6. Loan Loss Rate	-	-	-	-	-	-
7. Delinquency Rate—Portfolio at Risk Basis, > 30 days late	0.55%	0.86%	1.90%	-	-	-
8. Administrative Efficiency	16.33%	12.84%	12.81%	-	-	-
9. Operational self-sufficiency,	109.76%	116.78%	112.54%	-	-	-
10. Adjusted return on average assets.	2.03%	3.42%	2.63%	-	-	-
11. Commercial liabilities as % of loan portfolio	68.3%	73.1%	77.4%	-	-	-
12. Year-end free market Exchange Rate—local currency / US\$	5.19	5.37	5.64	-	-	-
13. Per capita Gross Domestic Product in US\$, <i>not purchasing-power-parity adjusted</i>	914	931	950	-	-	-

The complete appendix can be obtained from Sida/INEC.

# APPENDIX 5

## FADES

### Report based on the CGAP format for appraisal of microfinance institutions

#### SUMMARY

#### KEY DATA

ITEM	ACTUAL			PROJECTED		
	1996	1997	1998	1999	2000	2001
1. Number of currently active <b>loan clients</b>	23.128	24.891	26.962	29.061	31.205	33.395
2. Total <b>outstanding loan balance</b> in US\$	5.199.617	6.511.651	9.047.387	11.175.594	14.089.930	16.479.930
3. <b>Average loan balance</b> per client	225	262	336	385	452	494
4. Number of <b>voluntary savings customers</b>	-	-	-	-	-	-
5. Total <b>balance</b> of voluntary <b>savings</b> accounts in US\$	-	-	-	-	-	-
6. <b>Loan Loss Rate</b>	10.2%	20.8%	2.2%	-	-	-
7. <b>Delinquency Rate</b> Portfolio at Risk Basis, > 30 days late	7.88%	5.72%	4.25%	-	-	-
8. <b>Administrative Efficiency</b>	18.34%	16.26%	16.57%	-	-	-
9. <b>Operational self-sufficiency</b>	98.82%	129.15%	121.75%	-	-	-
10. Adjusted <b>return on average assets</b>	-5.15%	-1.15%	-1.74%	-	-	-
11. <b>Commercial liabilities</b> as % of loan portfolio	2.60%	4.15%	12.35%	-	-	-
12. Year-end free market <b>Exchange Rate</b> —local currency / US\$	5.19	5.37	5.64	-	-	-
13. <b>Per capita Gross Domestic Product</b> in US\$, <i>not purchasing-power-parity adjusted</i>	914	931	950	-	-	-

The complete appendix can be obtained from Sida/INEC.

## APPENDIX 6

### C.I.S.C. Report based on the CGAP format for appraisal of microfinance institutions

#### SUMMARY

##### A. Key Data

ITEM:	ACTUAL			PROJECTED		
1. Number of currently active loan clients						
	1996	1997	1998	1999	2000	2001
	65	109	99			
2. Total outstanding loan balance in US\$	73.782	93.528	100.633			
3. Average loan balance per client	1.135	858	1.016			
4. Number of voluntary savings customers						
5. Total balance of voluntary savings accounts in US\$						
6. Loan Loss Rate						
7. Delinquency Rate Portfolio at Risk Basis, > 30 days late	2.1%	1.6%	0.2%			
8. Administrative Efficiency	N.A.	N.A.	85.62%			
9. Operational self-sufficiency,	N.A.	N.A.	77.76%			
10. Adjusted return on average assets	N.C.	N.C.	N.C.			
11. Commercial liabilities as % of loan portfolio	N.A.	N.A.	205.01%			
12. Year-end free market Exchange Rate—local currency / US\$	5.19	5.37	5.64			
13. Per capita Gross Domestic Product in US\$, <i>not purchasing-power-parity adjusted</i>	914	931	950			

The complete appendix can be obtained from Sida/INEC.

## APPENDIX 7

### P.D.A.I. Report based on the CGAP format for appraisal of microfinance institutions

#### SUMMARY

##### A. Key Data

	ACTUAL			PROJECTED		
ITEM:	1996	1997	1998	1999	2000	2001
1. Number of currently active loan clients	1.307	1.209	563			
2. Total outstanding loan balance in US\$	373.443	419.199	210.043			
3. Average loan balance per client	286	347	373			
4. Number of voluntary savings customers						
5. Total balance of voluntary savings acc'ts in US\$						
6. Loan Loss Rate						
7. Delinquency Rate Portfolio at Risk Basis, > 30 days late	56.25%	35.96%	23.10%			
8. Administrative Efficiency	41.87%	53.45%	146.06%			
9. Operational self-sufficiency,	43.07%	31.30%	14.44%			
10. Adjusted return on average assets	- 11.96%	- 18.46%	- 41.67%			
11. Commercial liabilities as % of loan portfolio						
12. Year-end free market Exchange Rate—local currency / US\$	5.19	5.37	5.64			
13. Per capita Gross Domestic Product in US\$, <i>not purchasing-power-parity adjusted</i>	914	931	950			

The complete appendix can be obtained from Sida/INEC.



## APPENDIX 8

### **Colonia Pirai Report based on the CGAP format for appraisal of microfinance institutions**

#### **INTRODUCTION**

Colonia Pirai is not in itself a micro-credit program. It started its activities the 20<sup>th</sup> of January, 1973 in answer to the problem of abandoned children and adolescents. The problem of abandoned children living in the streets has been increasing in these last two decades, as it has in most of the countries in South America.

During these 26 years many children and adolescents of both sexes have found in COLONIA PIRAI a home as well as a training center that enabled them to enter society. Over 600 persons have been rehabilitated during this period.

In its beginning, Colonia Pirai was conceived as an educational community. Teachers and children and adolescents without family backing shared the living quarters, dining room, work, recreation and economy. The idea was to work together to earn their living.

Activities were started in an abandoned farm of 100 Has, 12 kms from the city of Santa Cruz, on the old highway leading to Cochabamba, with one house in adequate conditions, two in ruins, a pig barn, an old well and no electricity.

At present their equity is worth over 6.2 million dollars. They have modern installations for the breeding of pigs and for processing pork meat, a plant for processing balanced feed rations, high-quality modules for poultry – both for egg and meat production. Bovine and agriculture sectors, metal mechanics and carpentry shops. Furthermore, in order to systematize their pedagogical program there are two educational projects: the Professionalization Institute of Apiaguí (IPA) and the Center for the Professional Formation of Working adolescents (SAPUCAI). It is an agro-industrial educational center making a noteworthy contribution to the region.

The complete appendix can be obtained from Sida/INEC.

# APPENDIX 11

## Abbreviations

Sida-ASDI	Swedish Agency for International Development
B.C.B.	Bolivian Central Bank
IDB-BID	Interamerican Development Bank
CISC	Co-operative for Integrated Services of Cochabamba
COSUDE	Swiss Agency for Cooperation for Development
D.S.	Decree of Supreme Government
FADES	Foundation for Development of Alternatives
NBFI-EFNB	Non-Banking Financial Institutions
FFP	Private Financial Fund
FFP FIE S.A.	Private Financial Fund to Promote Economic Initiatives (a joint-stock company)
FONDESIF	Fund for Financial System Development and Support to Production
FUNDAPRO	Foundation for Development
MFI	Micro financial Institution
NAFIBO SAM	Bolivian National Finance Joint Venture, mixed corporation
NGO-ONG	Non-Governmental Organization
PCP	Property and Popular Credit Law
PDAI	Program for Integrated Agricultural Development
PMP	Program for Popular Microcredit
SBEF	Superintendency of Banks and Financial Institutions
VIPFE	ViceMinistry for Public Investment and External Financing

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