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BOLIVIA

GLOBAL CREDIT PROGRAM FOR SAFEGUARDING THE PRODUCTIVE FABRIC AND EMPLOYMENT IN BOLIVIA

(BO-L1217)

LOAN PROPOSAL

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ABBREVIATIONS

APS	Autoridad de Fiscalización y Control de Pensiones y Seguros [Pensions and Insurance Compliance and Oversight Authority]
ASFI	Autoridad de Supervisión del Sistema Financiero [Financial System Supervision Authority]
BDP	Banco de Desarrollo Productivo [Productive Development Bank]
CAF	Corporación Andina de Fomento [Andean Development Corporation]
COVID-19	Novel coronavirus disease caused by the SARS-CoV-2 virus, which was first detected in 2019
FDP	Fideicomiso para el Desarrollo Productivo [Productive Development Trust]
FONDESIF	Fondo de Desarrollo del Sistema Financiero y de Apoyo al Sector Productivo [Financial System Development and Productive Sector Support Fund]
INE	Instituto Nacional de Estadísticas [National Statistics Institute]
MEFP	Ministry of the Economy and Public Finance
MSMEs	Micro, small, and medium sized enterprises
NPL	Nonperforming loan
WHO	World Health Organization

PROJECT SUMMARY

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Financial Terms and Conditions				
Borrower:			**Flexible Financing Facility**[a]	
Plurinational State of Bolivia			**Amortization period:**	21.75 years
Executing agency:			**Disbursement period:**	1 year
Ministry of the Economy and Public Finance (MEFP)			**Grace period:**	10.75 years [b]
Source	**Amount (US$)**	**%**	**Interest rate:**	LIBOR-based
			Credit fee:	[c]
IDB (Ordinary Capital):	130 million	100%	**Inspection and supervision fee:**	[c]
			Weighted average life:	15.20 years
Total:	130 million	100%	**Currency of approval:**	United States dollars

Project at a Glance
Project objective/description: The general objective of this project is to support the sustainability of micro, small, and medium-sized enterprises (MSMEs) as employment providers in Bolivia amid the COVID-19 crisis. The specific objective is to support the short-term financial sustainability of MSMEs.
Special contractual conditions precedent to the first disbursement of the loan proceeds: (i) Approval and entry into force of the Credit Regulations on the terms previously agreed upon with the Bank; and (ii) approval and entry into force of an amendment to the regulations of the Fideicomiso para el Desarrollo Productivo [Productive Development Trust] (FDP), previously agreed upon with the Bank as regards the proceeds of this loan. Such amendment will contain at least the conditions and stipulations in the Credit Regulations; and (iii) the entry into force of a Supreme Decree increasing the authorized amount of the trust's independent assets so the FDP can receive the loan proceeds (see paragraph 3.14).
Exceptions to Bank policy: None.

Strategic Alignment			
Challenges:[d]	SI ☒	PI ☒	EI ☐
Crosscutting themes:[e]	GD ☒	CC ☐	IC ☐

(a) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, and commodity conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

(b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

(c) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with relevant policies.

(d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

(e) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. Description and Results Monitoring

A. Background, problems, and rationale

1.1 **Background.** On 11 March 2020, the World Health Organization (WHO) declared the COVID-19 outbreak a pandemic. COVID-19 is a respiratory disease caused by the 2019 novel coronavirus, or nCoV2019. As of 6 July 2020, the WHO has reported more than 11.3 million confirmed cases in 220 countries, resulting in more than 532,000 deaths.[1] Almost 2.6 million cases of COVID-19 and 44,000 deaths have been reported in Latin America and the Caribbean, affecting almost all countries of the region.[2] The situation is no different in Bolivia, where there have been 38,071 cases and 1,378 deaths from the disease in specific geographic areas. Regrettably, the numbers of cases, deaths, and affected countries are expected to continue to grow.

1.2 **Macroeconomic and/or social context.** Bolivia grew 2.2% in 2019, below the 4.9% average for 2006-2018. In 2020, this slowdown is compounded by the COVID-19 health crisis and falling oil prices. The International Monetary Fund (IMF) is projecting a contraction of -2.9% this year, followed by a recovery with 2.8% growth, in 2021. Smoothing out the accumulated imbalances, the government reduced the fiscal deficit from 8.1% in 2018 to 7.2% in 2019. A progressive, gradual reduction in the fiscal deficit over the period to 2022 had been announced prior to the pandemic. The health crisis means that priority will be given to public health, while efforts to contain the deficit continue. Domestic public debt stood at 56.8% of GDP as of year-end 2019. Its profile remains favorable, with long-term maturities and relatively low rates.[3] Fewer imports of capital goods in the last few months of 2019 helped reduce the current account deficit, which ended the year at -3.3% (versus -4.5% in 2018), its lowest level in the past five years. Falling oil prices also mean less revenue from natural gas exports, but this is partially offset by savings on fuel imports. Despite a decline in recent years, international reserves remain sufficient to cover short-term external obligations. In the current climate, foreign exchange policy is tilted toward maintaining economic stability. Inflation remains within bounds at low levels supported by the fixed exchange rate. The country has been adhering to essential quarantine measures to fight the pandemic, which has inevitably shut down much of the economy and had a negative impact on economic agents. Although poverty fell from 59% at the turn of the twenty-first century to 34.5% in 2018, the current economic slowdown, exacerbated by the pandemic, jeopardizes the social gains made in recent years.

1.3 The changes in behavior caused by the pandemic will lead to a very significant economic downturn with immediate manifestations and lingering effects, even once the health emergency is over. From a macroeconomic perspective, in addition to shrinking domestic demand, the Economic Commission for Latin America and the Caribbean (ECLAC) has identified at least five channels for transmission of the crisis impacts to the region's economy:[4] (i) slowing economic

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1 See: WHO COVID-19 Situation Dashboard, revised 6 July 2020.

2 See: Pan American Health Organization (PAHO) report (as of 6 July 2020).

3 This figure includes the domestic nonfinancial public sector debt to the Central Bank of Bolivia.

4 See: Press release of the Economic Commission for Latin America and the Caribbean (ECLAC) (19 March 2020).

activity of key trading partners will impact the demand for exports; (ii) less demand for tourism services; (iii) disruption of global value chains; (iv) falling commodity prices; and (v) worsening financial terms. For general aspects of the intervention, see the Diagnostic assessment of issues facing micro, small, and medium sized enterprises (MSMEs) (optional link 2).

1.4 **Current constraints on access to finance for MSMEs in Bolivia**. Law 947 of 11 May 2017, on Microenterprises and Small Businesses,[5] and Supreme Decree 3567 of 24 May 2018[6] establish a classification for microenterprises and small businesses based on three criteria: (i) annual sales revenue; (ii) assets; and (iii) number of employees. The geometric mean of these criteria is used to produce an index with four general categories and a subclassification for microenterprises and small businesses (see Table 1).[7] The latest census estimates that there are over 890,000 microenterprises and 72,000 small and medium-sized enterprises (SMEs), accounting for 99.5% of the country's businesses.[8] In Bolivia, private MSMEs employ over 78% of workers, divided among micro- (36%), small (34%), and medium-sized (8%) enterprises.[9] As shown in the following paragraphs (see paragraphs 1.5 to 1.11), despite their economic and social importance, these firms face a series of challenges in accessing credit, in the context of a financial sector that offers abundant commercial credit. The constraints on access to finance faced by MSMEs in Bolivia are explained below from the supply and demand perspectives.

1.5 **MSME demand for credit.** From the demand perspective, Bolivian MSMEs face a finance gap. The MSME Finance Gap[10] survey sampled 225,541 Bolivian MSMEs, 95.7% of which were microenterprises. Using the survey data, based on an econometric estimate,[11] it was calculated that the country's *formal* MSMEs have credit demand of US$3.927 billion, yielding a gap (difference between reported

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5 See: http://www.gacetaoficialdebolivia.gob.bo/edicions/view/965NEC, consulted on 8 May 2020.

6 See: http://www.gacetaoficialdebolivia.gob.bo/edicions/view/1066NEC, consulted on 8 May 2020.

7 The geometric mean defining the index used for the classification is calculated as follows:

$$Index = \sqrt[3]{\frac{Annual\ sales\ revenue}{35{,}000{,}000} + \frac{Assets}{21{,}000{,}000} + \frac{Number\ of\ employees}{100}}$$

Annual sales revenue and assets are calculated in bolivianos, and number of employees as an integer.

8 See: "Historial de la Base Empresarial Vigente del Registro de Comercio de Bolivia." Ministry of Productive Development and the Plural Economy, Bolivia. Consulted 8 May 2020.

9 Source: Estimates based on the 2018 microenterprise and small business survey (fourth quarter). National Statistics Institute (INE). Available at: http://anda.ine.gob.bo/index.php/catalog/45. Consulted 17 May 2020.

10 See: https://www.smefinanceforum.org/data-sites/msme-finance-gap, consulted on 8 May 2020.

11 See: https://www.smefinanceforum.org/data-sites/msme-finance-gap, consulted on 22 April 2020. The methodology assumes the existence of a credit market functioning with minimal imperfections and estimates potential demand based on developed country benchmarks and company size, company age and size (employees), and the debt-to-sales ratio. Supply was calculated for Bolivia using an ordinary least squares regression, $MSME\ lending = \alpha(MSME) + \beta(MACRO) + \gamma(BANKING) + \varepsilon$ where the logarithm of the supply of credit to MSMEs is the dependent variable, MSME is a vector blending the percentage of companies that are MSMEs, MSMEs with external access to credit, and the volume of credit to MSMEs as the total credit; MACRO is a vector including population, GDP, and a dummy variable for financial fragility; and BANKING is a vector including the interest rate, a z-score for the financial sector, the Lerner index (concentration), dummies for the existence of credit bureaus and registries of liens, contract enforcement, and a regulatory variable.

credit supply and demand) of US$1.703 billion, equivalent to 5% of the country's GDP.[12] The gap is potentially even wider, if one considers the informal sector, which the study estimated to represent additional demand of US$6.833 billion (21% of GDP), 1.7 times higher than formal sector demand. In the context of the COVID-19 emergency, the high level of informality among Bolivian microenterprises is significant from the demand perspective, as the survey found that many microenterprises report partial (37%) or total (23%) restrictions on access to credit, whereas 87% of SMEs say they experience no such constraints.[13]

Table 1. Bolivia: Business classification index, Supreme Decree 3567 of 2018

Business size	Subclassification	Index
Microenterprise	Type I	0 < I ≤ 0.004
	Type II	0,004 < I ≤ 0.021
	Type III	0,021 < I ≤ 0.035
Small business	Type IV	0,035 < I ≤ 0.115

Business size	Index
Microenterprise	0 < I ≤ 0.035
Small business	0,035 < I ≤ 0.115
Medium-sized enterprise	0,115 < I ≤ I
Large corporate	I > I

Source: Annex to Supreme Decree 3567 of 2018.

1.6 The above figures are consistent with the Enterprise Survey[14] finding that just 41.5% of Bolivia's microenterprises and 60% of its SMEs have a credit line or bank loan. In addition to the constraints on access to finance, lenders require relatively high ratios of collateral to loan value on loans to microenterprises and small businesses (1.95 times) and SMEs (2.6 times), which is part of the reason for their difficulty obtaining credit. Lastly, just 33% of microenterprises and 50% of SMEs rely on banking institutions to finance their working capital. These numbers show how, even before the pandemic, MSMEs faced barriers and constraints on access to finance, and, as explained below, this state of affairs may be exacerbated by an economic or financial crisis (see paragraph 1.10).

1.7 **MSME demand for credit: Women.**[15] It is also worth noting that, based on MSME Finance Gap data 43% of Bolivian microenterprises and 12% of SMEs surveyed were owned by women. This same data also indicates that 54% of women-owned businesses experience some form of constraint on access to credit. This percentage contrasts with the data for businesses owned by men, just 21% of which reported constraints. Furthermore, 30% of women-owned companies

[12] Estimated at US$33.197 billion for year-end 2017.

[13] Total restrictions are understood to mean firms that did not have access to credit in a financial institution and do not have access to external credit. Partial restrictions occur when there are external sources, but total or partial rejection of a credit application from a formal financial institution.

[14] See: https://www.enterprisesurveys.org/en/data/exploretopics/finance. Consulted 7 May 2020.

[15] A company is understood to be owned by women if it is more than 50% female-owned or if a woman is the absolute owner or manages the company. Companies with women among the owners or involved in their management are also included. The program will use measurement parameters established by international best practices.

reported a total lack of access to credit. Throughout the region, the financing gap between women and men is often underpinned by cultural, historical, and social factors, and Bolivia is no exception. Women have less purchasing power and less collateral, they suffer the effects of cognitive biases in the allocation of credit, and financial structures and services are ill-adapted to them. Collateral requirements are generally much stricter for women, and regulatory requirements limit their access to finance.[16] These barriers are expected to persist or intensify as a result of the COVID-19 crisis, for reasons including those explained below (see paragraph 1.9), impeding Bolivian MSMEs' access to credit, particularly in the case of those owned by women.

1.8 **Credit supply and MSMEs.** According to figures from Bolivia's Financial System Supervision Authority (ASFI), as of 31 December 2019[17] the financial system's total assets were Bs 255.473 billion (US$36.995 billion), held by 59 financial institutions. Full-service banks hold 77.1% of total assets, followed by State-owned banks (11.5%), credit unions (3.4%), development finance institutions (2.4%), Banco de Desarrollo Productivo (BDP) (2.2%), and SME banks (1.9%). The Bolivian financial system is relatively strong in terms of solvency, with an average capital adequacy ratio of 13.3%, which is above the statutory requirement of 10%. In terms of liquidity, the financial system has a ratio of short-term assets to liabilities of 41.8%, which is high relative to the regional average of 30.96%. It is worth noting that the financial system's past-due portfolio has been edging up from 1.9% at the end of 2019 to 2.3% in March 2020.[18] There have also been adjustments in provisioning for the past-due portfolio, currently 133%, which is high relative to the regional average of 109%.[19] These numbers reflect the initial impacts of the COVID-19 pandemic on credit in Bolivia. The country's financial system includes a series of institutions that directly address the specific needs of MSMEs. According to ASFI data, total credit grew 291.3% between 2010 and 2019, partly attributable to growth in microfinance (355.6%) and, to a lesser extent, increased lending to SMEs (128%). Although both segments grew, it is noteworthy that microcredit's share of the total portfolio rose from 25.4% (2010) to 29.6% (2020), while the SME portfolio fell from 21.5% (2010) to 12.5% (2020). The total portfolio of the financial system at year-end 2019 was Bs 183.760 billion (US$26.61 billion), representing 72% of total assets. The percentage breakdown by segments shows the importance of productive credit: 29.6% corresponds to the microcredit portfolio, 26% to housing, 22% to large corporates, and 21.9% to SMEs. Broken down by type of institution, 78.2% of the portfolio is held by full-service banks; 10% by State-owned banks; 3.7% by credit unions; 3.1% by development finance institutions; 2.3% by SME banks; 1.6% by housing finance institutions; and 1% by BDP.[20] Bolivia's MSME credit portfolio includes over 755,000 borrowers between microenterprises (98.8%) and SMEs (1.2%).

[16] Pailhé, C. (2014). "Regulación Financiera y Género. El Enfoque de Género en las Operaciones de Reforma Financiera de la División de Mercados de Capitales e Instituciones Financieras," Discussion Paper 347, Washington, D.C., IDB.

[17] ASFI (2020): Financial System Assessment. Consulted on 24 April 2020.

[18] ASFI (2020): Principales Variables del Sistema Financiero. Consulted on 27 April 2020.

[19] Figures from the Global Financial Development Database. Consulted on 30 April 2020.

[20] Corresponds to the institution's first-tier portfolio.

1.9 Although, broadly speaking, it appears that Bolivian MSME demand for credit is being met, the economic literature shows how microenterprises and small businesses can be impacted in situations of economic and financial crisis: (i) business lending becomes more expensive and inaccessible;[21] (ii) a cycle is triggered in which the financial sector ceases to finance the real economy, thereby deepening and extending the crisis;[22] (iii) smaller businesses are perceived as being higher risk due to heightened agency problems, thus raising their transaction costs (as they need to establish new financial relationships) and financial costs (as they are charged more to cover the higher perceived risk);[23] and (iv) the impact of stricter collateral requirements is amplified by the falling value of the assets pledged as security.[24] A government agency therefore needs to intervene to mitigate these impacts, particularly the deterioration of credit risk, so as to protect the most fragile businesses and those least able to respond to the crisis.[25]

1.10 Despite the supply-side outlook, given the impacts mentioned above, widespread deterioration in commercial lending portfolios is expected, with an attendant increase in provisioning. Recent experience financing MSME sectors in the midst of financial crises reveals how institutions serving them run higher risks of expected losses and refinancing risks.[26] Overall, these impacts, compounded by a potential increase in collateral requirements, will lead to a credit squeeze in a sector in Bolivia that has already slowed from annual growth of over 28% in 2015-2018 to 7.7% in 2019.[27] Lastly, given the set of social and economic circumstances resulting from the lockdown and the health emergency, as in other countries around the world, MSMEs will need sufficient liquidity to keep the production standstill from becoming a problem of insolvency.

1.11 Bolivia has gained international recognition for the development of a financial system focused on supporting productive development and social interest projects. The country has been supporting MSME access to finance through public and private banks within the framework of public policies. Of particular note is the Financial Services Act (Law 393) of 21 August 2013,[28] which, among other policies, established the criteria for the improvement and promotion of production-oriented lending through the financial sector. It made technological innovation viable,

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[21] Bernanke, B. S. (1983). Nonmonetary Effects of the Financial Crisis in the Propagation of the Great Depression, National Bureau of Economic Research, Working Paper No. 1054. In this paper, the author shows the amplified effect of a financial crisis on an economic crisis, and how small and rural enterprises are hardest hit.

[22] Bernanke, B. S. and Gertler, M. (1990). Financial Fragility and Economic Performance, The Quarterly Journal of Economics, 1990, vol. 105, issue 1, 87-114.

[23] Bernanke, B. S. and Gertler, M. (1995). Inside the Black Box: The Credit Channel of Monetary Policy Transmission. Journal of Economic Perspectives, vol. 9, issue 4. Fall 1995, pages 27-48.

[24] Kiyotaki, N. and Moore, J. (1997). "Credit Cycles." Journal of Political Economy. 105(2): 211-248. doi:10.1086/262072.

[25] Op. cit. Bernanke B. S. and Gertler, M. (1995).

[26] Organisation for Economic Co-operation and Development (OECD) (2009). The Impact of the Global Crisis on SME and Entrepreneurship Financing and Policy Responses. OECD Publishing, Paris. Consulted on 23 April 2020.

[27] Op. cit.: ASFI (2019).

[28] Ministry of Economy and Public Finance (2019): Ley de Servicios Financieros y Decretos Supremos Reglamentarios. Consulted on 30 April 2020.

created a registry of nonconventional collateral, and laid out guidelines for rural lending. In another area, it established controls on interest rates and quotas (minimum percentage shares) for financial system institutions' production-oriented and low-income housing loan portfolios. These conditions were eased somewhat by Supreme Decree 4164 of 2020 (optional link 12). The Financial Services Act also created Banco de Desarrollo Productivo (BDP) as the institution responsible for fostering and promoting productive sector development (see paragraph 3.9). Later supreme decrees implemented regulations on the registry of nonconventional collateral, guarantee funds for the productive sector, and seed capital funds. Part of the growth in production-oriented lending, especially microcredit, is attributable to enforcement of the existing public policies. However, for the reasons given above, a public intervention is required to mitigate the economic and social impacts of the COVID-19 pandemic, particularly on MSMEs.

1.12 **Challenges and progress.** The Bolivian government declared a state of health emergency and total lockdown on 25 March 2020 with Supreme Decree 4200 of 2020 (optional link 13). Among numerous other measures, this administrative order imposed restrictions on people's mobility and the hours of operation of public and private enterprises, and issued instructions for the production and distribution of goods and services. The combination of these decisions began making an incremental impact on MSME activity and revenues from the stated dates. Subsequently, in recognition of safeguarding of the family unit and the equitable redistribution of economic surpluses, as part of the COVID-19 health emergency and lockdown measures, the Bolivian government published Supreme Decree 4216 of 2020 (optional link 5), creating the "Special MSME Support Program" and the "Emergency Employment and Job Stability Support Plan for Legally Incorporated Companies."[29] [30] The Special MSME Support Program seeks to ensure resources are available for safeguarding MSME sources of employment, functioning, business continuity, and operations and will provide the framework for execution of this operation. The program has been funded with Bs 1.5 billion (US$217 million) and sets conditions for individual loans to MSMEs.[31] Furthermore, Supreme Decree 29145 of 2007 (optional link 14) authorized the Ministry of Finance (since renamed the Ministry of Economy and Public Finance, MEFP), as trustor, to enter into a trust agreement using National General Treasury resources, to be managed by the BDP, a second tier bank, as trustee. The original purpose of the trust was to extend production-related loans. Subsequently, through Supreme Decree 4270 of 2020 (optional link 15), the National Government amended this supreme decree to grant the MEFP powers to expand the trust (referred to as the Productive Development Trust (FDP)) up to a total amount of Bs 2.084 billion (US$300 million). This same amendment authorized the use of resources of an aggregate amount of up to Bs 1.4 billion (US$201 million) for the implementation of Supreme Decree 4216. This amendment makes it possible to

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[29] See: http://www.gacetaoficialdebolivia.gob.bo/normas/listadonor/11, consulted on 22 April 2020.

[30] The Emergency Employment and Job Stability Support Plan for Legally Incorporated Companies focuses on ensuring that wages can be paid to workers enrolled in the comprehensive pension system through loans to businesses.

[31] The Ministry of Economy and Public Finance, the Central Bank of Bolivia, BDP, the ASFI, the Pensions and Insurance Compliance and Oversight Authority (APS), and the Financial System Development and Productive Sector Support Fund (FONDESIF) were designated to coordinate program management.

draw down funds set aside for the Special MSME Support Program managed by the MEFP in coordination with the BDP. Through Ministerial Resolution 159 of April 2020 (optional link 6), the MEFP established the coordination necessary for the MEFP to sign contracts and authorized BDP to administer the program resources and sign contracts with funding sources for the program exclusively with the following types of institution: SME banks, development finance institutions, credit unions, and housing finance institutions. Accordingly, as mandated by the MEFP, and as the executing agency and trustor of the FDP, the BDP will act as a trustee, as a second-tier bank supplying resources to first-tier banks (subborrowers) onlending to the final beneficiaries of this operation (see paragraph 3.1).

1.13 Additionally, via Circular 2842 of 29 April 2020 (optional link 7), the ASFI implemented regulations on the maximum amounts and rates for loans (through specific credit lines) with resources from the special program, as shown in Table 2. The circular also instructs the eligible financial intermediaries listed in the previous section on adjusting the credit review and evaluation process during the emergency and requires them to apply normal credit risk management to loans issued using resources supplied by BDP. Lastly, the ASFI stated that it would instruct BDP on the allocation of quotas to institutions based on specific criteria (see paragraph 3.10). This global credit program will be governed by the rules stipulated by the Bolivian authorities for the granting of individual loans. The challenge, to shield Bolivia's productive fabric from the economic troubles associated with the COVID-19 crisis, is to keep as many MSMEs as possible that were commercially viable prior to the crisis in business.

Table 2. Maximum amounts and authorized rates (ASFI)

Business type	Maximum loan size (bolivianos)	US$	Annual interest rate (%)
Medium-sized enterprise	115,000	16,691	6
Small business	75,000	10,885	7
Microenterprise	35,000	5,079	11.5

Source: ASFI (2020).

1.14 **Proposed intervention.** As indicated above, the financial sector in Bolivia is up against a series of constraints on providing all the financing that MSMEs will need during this crisis, both in the short term, to ensure MSMEs' immediate survival, and in the medium term, to stimulate a rapid recovery of economic activity and employment in the country. The proposed intervention focuses on supporting the financing of the "Special MSME Support Program" created by the Bolivian government, with the purpose of stimulating the supply of short-term liquidity to MSMEs on the proposed terms through the eligible financial intermediaries by means of a global credit program. The program seeks to mitigate the restrictions on access to credit faced by MSMEs affected by the COVID-19 crisis, in order to safeguard employment and the productive fabric, reduce the burden on social protection systems, and speed the economic recovery when the health emergency is over. The intervention does not involve financing the economic recovery because the Bolivian government's priority under the framework regulations for this program (see paragraph 1.12) is to address the liquidity crisis by safeguarding "MSME sources of employment, functioning, business continuity, and operations." The program is thus intended to ensure the short-term survival of the businesses.

The intervention will be structured as a special credit line created specifically for the purposes of the operation at the FDP. The trustor of the FDP is the MEFP, which will delegate fiduciary administration to the BDP (see paragraph 3.1).

1.15 **Size of the operation.** Assuming the loan portfolio in Bolivia continues its annual organic growth of 7.7%, MSMEs will generate additional credit demand of Bs 6.728 billion (US$861 million). However, the increase in demand for credit is expected to exceed this figure, given the need to meet short-term financial commitments, restructuring, additional financing, etc. as a result of the pandemic. This is taking place in a scenario in which businesses, particularly MSMEs, are receiving just a fraction of their revenue, if any. Given the uncertainty over the additional amount of resources and the Bolivian government's need to sustain business and industry, as well as employment, it is necessary to ensure the required sources of funding. The IDB loan will provide resources additional to those stipulated by Supreme Decree 4216 of 2020.

1.16 **Targeting of the operation.** To supplement the Bolivian government's efforts, the program will focus on providing access to finance for all MSME productive sectors as established in the regulations (see paragraphs 1.12 and 1.13). Vulnerable sectors have been identified by an analysis (optional link 11) performed by the Bank and agreed upon with the country. The analysis concludes that the productive sectors most vulnerable to the COVID-19 crisis in Bolivia with a large share of MSMEs are agrifoods, tourism and hotels, textiles and maquila, and machinery and equipment. Coincidentally, the second-tier credit portfolio of BDP, which will be the trustee of the FDP (see paragraph 3.1), has the identified sectors among its top categories, and caters to them in the following proportions: agrifoods (43.5%), textiles and maquila and machinery and equipment (30%), and tourism and hotels (6%).[32] The program thus combines addressing the most vulnerable sectors with flexible execution, so that it can adapt to the uncertain future development of COVID-19.

1.17 **The Bank's experience and lessons learned.** The Bank has extensive experience in designing sovereign guaranteed loan programs aimed at improving the MSME access to finance through financial intermediaries ([13] of optional link 3). These programs have been implemented in times of economic expansion, when support focuses on access to long-term finance for production-oriented investments, and in times of economic recession, when support focuses on ensuring that MSMEs do not lose access to liquidity to continue their economic activity. In the last financial crisis confronted by the region in 2007, the Bank played a countercyclical role by expanding the amount of financing and facilities used to address the lack of access to credit faced by the region's MSMEs. For example, liquidity programs for growth sustainability were approved in 2008 and 2009 with the aim of reestablishing access to finance for working capital and foreign trade in the productive sectors. This helped to temporarily offset part of the deficit in financing flows to MSMEs resulting from the international financial crisis.[33] With the same objective of stimulating the supply of credit to the productive sectors, the

[32] The details of the financial structure and the composition by lending windows are reflected in paragraph 3.7.

[33] In 2008, the IDB created the Liquidity Program for Growth Sustainability under the emergency lending category (document GN-2492-3).

period following the crisis (2009-2013) saw the approval of contingent credit lines[34] for providing liquidity to the financial sector, as well as global multisector credit programs and—by far the majority—specific productive financing programs for MSMEs ([14] of optional link 3). Experience from operations in El Salvador, which targeted MSMEs in all economic sectors, particularly from the perspective of second-tier emergency response, has been applied to this operation since the design stage.

1.18 The most recent operations approved by the Bank in Bolivia are the lending programs, "Program to Create a Business Support Fund: Microenterprise and Small Business Support Fund (FAMyPE)" (loan 1739/SF-BO) and "Support to the National System for Development Financing and First Program" (loan 1937/BL-BO). These two initiatives shared the core objective of facilitating access to finance for viable private productive enterprises on more favorable terms, with a joint contribution of US$22.3 million from the IDB. Specifically, the Ministry of Planning and Development (MPD) was the executing agency for the first program and delegated its fiduciary administration functions to Nacional Financiera Boliviana S.A.M. (NAFIBO), which was subsequently transformed into BDP. These operations supplied resources to MSMEs for productive purposes and completed disbursements in 2011. The results of the final evaluation showed that the programs met their core objective by substantially enabling production-oriented financing not only for small economic units (small businesses and, especially, microenterprises) but also for women entrepreneurs. Notably, agricultural and manufacturing MSMEs benefited most in terms of the volume and number of subloans under the programs. One lesson learned from the operation was the need to choose the right first-tier institutions serving MSMEs across all sectors in Bolivia. For this reason, a group of financial institutions with experience, knowledge, and specialization in these businesses was chosen to deliver the subloans to the final beneficiaries, consistent with the Bolivian government's stipulations (see paragraph 1.12). More recently, the Bank's private sector arm, led by IDB Lab (formerly known as the Multilateral Investment Fund (MIF)), conducted an operation focused on financing productivity. Operations 4345/MS-BO and 4344/SX-BO, "Financial Products to Promote Climate Change Resilience," provided financing of US$5.5 million and technical assistance to small-scale agricultural producers to support their sustainability and climate change resilience. Disbursements for this program are nearing completion. Synergies will be pursued with IDB Invest and IDB Lab during program execution, to provide MSMEs with financing during the emergency.

1.19 **Lessons learned.** The Bank has extensive experience and has generated substantial knowledge regarding the design and implementation of policies to support MSME finance ([15] of optional link 3). For these public policy solutions to be effective, it is crucial to: (i) identify the market failure to be addressed; (ii) strengthen cooperation among public actors with expertise in the relevant area; (iii) strengthen cooperation between the public and private sectors, since the latter can help find solutions to problems; (iv) focus actions on overcoming the obstacles found; (v) identify the financial instrument or set of instruments that can be

[34] "Contingent Credit Line for Development Sustainability" under the Proposal to Establish a Set of Contingent Lending Instruments of the IDB (document GN-2667-2).

implemented in each situation; and (vi) utilize the most cost-effective combination of instruments for each situation.

1.20 The Bank also has relevant experience in designing solutions to mitigate the problems of access to finance faced by MSMEs. The following lessons have been learned from these actions as a whole: (i) leverage the countercyclical role of this type of operation in times of tightening credit; (ii) target resources toward segments where lending will have greatest impact on the well-being of society (the most vulnerable productive sectors); (iii) supervise the financial terms on which the resources are allocated to end-users, to avoid market distortions and ensure that there is no dilution of additionality; (iv) guarantee that the executing agency's institutional capacity is sufficient to operationalize the intervention, and evaluate and monitor the subloans issued; and (v) systematically compile, manage, and maintain program data so that the results can be analyzed and continue to be used in future interventions.[35]

1.21 **Strategic alignment.** The program is consistent with the second Update to the Institutional Strategy (document AB-3190-2) and aligned with the challenges of: (i) social inclusion and equality, through support for MSMEs and sustaining employment for vulnerable population groups; and (ii) productivity and innovation, through support for productive financing for MSMEs. The program is also aligned with the crosscutting area of gender equality and diversity, including the obligation for the executing agency (see paragraph 3.1) to measure the number of loans to MSMEs owned by women who are eligible beneficiaries. Tracking this number will make it possible to verify that that impact of COVID-19 does not exacerbate pre-existing barriers. In addition, the program will seek to prevent COVID-19's impacts from widening existing gaps, with at least 30% of lending through BDP's second-tier MSME windows to be targeted to women-owned SMEs. This will represent a significant increase on the amount they currently receive (see paragraph 1.7).[36] Additionally, the operation is consistent with the strategic focus area of resource mobilization, through the proposed mechanisms to mobilize private financial sector resources for MSME finance, as well as the company shareholders' own funds. The program will contribute to the IDB Group Corporate Results Framework 2020-2023 (document GN-2727-12) through the indicators of the number of MSMEs financed, the number of jobs supported, and the number of women benefiting from economic empowerment activities. The program is consistent with the Proposal for the IDB Group's Governance Response to the COVID-19 Pandemic Outbreak (document GN-2996), as part of the support for safeguarding the productive fabric and employment, and with the Support to SMEs and Financial Access/Supervision Sector Framework Document (document GN-2768-7), which emphasizes the importance of promoting access to finance by the sector.

1.22 **Coordination with other Bank projects.** The program will supplement efforts with the safety nets for vulnerable populations operation (Support for Vulnerable

[35] Section IV of the Support to SMEs and Financial Access/Supervision Sector Framework Document (document GN-2768-7) discusses a more extensive and detailed set of lessons learned from the Bank's experience in the sector, as well as the experience of other multilaterals, academic researchers, and other major stakeholders in public policy design of to support MSMEs.

[36] The baseline is 20%, which is the percentage of lending to women-owned MSMEs reported by first-tier financial intermediaries catered to by BDP's second-tier MSME windows.

Populations Affected by Coronavirus (loan 5039/OC-BO)). This program comes under the Bolivian government's declaration of a state of health emergency and lockdown (see paragraph 1.12) and addresses the problems arising out of them as part of the Bank's package of support in response to the emergency. This coordination seeks to leverage synergies to increase the impact of the Bank actions consistent with fiscal sustainability, through: (i) temporary application of the measures so that their short-term impact on the public finances is controlled, and (ii) support in financial terms for MSMEs, to ease the cost of financing and preserve jobs, thus contributing to a recovery in tax revenue.

1.23 **Coordination with other multilaterals and/or donor agencies.** When faced with events that require an immediate emergency response, coordination between international organizations is especially important to avoid overlap and enhance efficiency. Specifically, this program complements the emergency financial assistance of US$327 million from International Monetary Fund to assist Bolivia with urgently needed medical spending and relief measures to preserve social protection expenditure in response to the COVID-19 emergency.[37] It is also complementary to the loans of US$254 million from the World Bank to support poor households, vulnerable populations, and informal workers. Like this program, the IMF and World Bank assistance is being provided under the framework of Decree 4200 of 2020 (see paragraph 1.12). Additionally, this program was developed in coordination with the Andean Development Corporation (CAF) as a shareholder of BDP (see paragraph 3.6). The Bank will stay in ongoing contact with other multilaterals and international donors to coordinate future support to the country.

B. Objectives, components, and cost

1.24 **Objectives.** The general objective of this project is to support the sustainability of micro, small, and medium-sized enterprises (MSMEs) as employment providers in Bolivia amid the COVID-19 crisis. The specific objective is to support the short-term financial sustainability of MSMEs.

1.25 **Sole component. Support for improvement of the short-term financial capacity of MSMEs (US$130 million).** Resources under this component will be used to help MSMEs affected by the crisis to overcome temporary liquidity problems and continue operating. Eligible MSMEs will be supplied with liquidity from subloans under a second-tier credit line from BDP, acting as the trustee of the FDP, through eligible financial intermediaries. More than 30% of total program resources will be allocated specifically to women-owned businesses. As stipulated by the Government of Bolivia, lending to eligible SMEs will focus on addressing temporary liquidity problems and safeguarding the jobs they create, while enabling their functioning, business continuity, and operations.

1.26 **Beneficiaries.** Resources under this intervention will be directed to MSMEs affected by the COVID-19 crisis. The number of MSMEs potentially benefited by this program is at least the 11,960 business clients of the eligible financial intermediaries, as stipulated by the Government of Bolivia. More than 30% of the program proceeds will be allocated to women-owned businesses, in order to raise

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[37] Information available at: https://www.imf.org/es/News/Articles/2020/04/17/pr20170-bolivia-imf-executive-board-approvesemergency-support-to-address-covid-19, consulted on 13 May 2020.

the proportion over the 20% baseline, according to data on total restrictions on credit to women in Bolivia (see paragraph 1.7).

C. Key results indicators

1.27 **Expected outcomes.** The program's expected impact is to support the sustainability of MSMEs amid the COVID-19 crisis, as measured by the share of employment at MSMEs as a percentage of total employment in the country. The outcome indicators for the program will be as follows: (i) the relative rate of arrears, at 6 and 12 months after program start, in the relevant portfolio of working capital financing compared with the financial system's rate of arrears in working capital financing; (ii) the total amount of the relevant working capital financing portfolio achieved as a result of the program's support; and (iii) the proportion of the relevant working capital financing portfolio reaching women-led MSMEs through the financial intermediaries participating in the program.

1.28 **Economic viability.** The economic evaluation identifies the flows of benefits and costs generated by the program. The benefits consist of the economic value of the higher rate of business survival, as reflected principally by the value of the jobs saved as a result of the program. Calculations of the aforementioned flows (discounted at a rate of 12%) yield benefits of US$39 million and an internal rate of return of 16%. Additionally, the sensitivity analysis shows that benefits are robust to variations in the key parameters of the analysis (optional link 1).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

2.1 The total amount of the proposed program will be US$130 million from the Ordinary Capital resources. The operation will be structured as a global credit loan, since it involves financial intermediation to the beneficiary MSMEs. Disbursement requests will be accompanied by the information listed in the Credit Regulations. Disbursement will be over a period of 12 months based on the existing demand for resources from the COVID-19 emergency, according to Bolivian government estimates (see paragraphs 1.12-1.14).[38]

Table 3. Estimated program costs (US$ million)

Components	IDB	Total	%
Support for improvement of the short-term financial capacity of MSMEs	130	130	100
Total	**130**	**130**	**100**

B. Environmental and social safeguard risks

2.2 In accordance with directive B.13 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703), this operation cannot be classified ex ante, since it involves financial intermediation. The environmental and social due diligence was performed in compliance with Directive B.13: analyzing the

[38] See the initial estimate of assistance: https://www.la-razon.com/economia/2020/04/15/el-gobierno-proyecta-2-millones-de-beneficiarios-del-programa-de-apoyo-a-la-mipyme/. Consulted on 8 July 2020.

program's potential socioenvironmental risks, the applicable regulatory framework, and the executing agency's ability to manage them. Based on the due diligence findings and given the low risk profile of the eligible loans with program resources, this operation is regarded as low financial intermediation risk (FI-3). Given their size and nature, the loans will be classified as category "C". Loans in categories "A" and "B" will be ineligible for financing.

2.3 Resources from the subloans will not be used to finance any of the activities on the program's exclusion list, including high social/environmental risk sectors and activities, or activities that entail: (i) involuntary physical or economic resettlement; (ii) negative impact on indigenous groups; (iii) damage to cultural sites or critical cultural sites, (iv) negative impact on protected areas or Ramsar convention sites, or (v) the use of invasive species.

2.4 The requirements for managing and mitigating potential environmental and social impacts will constitute an Environmental and Social Risk Administration System that will be included in the Credit Regulations, which will be approved as a condition precedent to the first disbursement (see environmental and social management report).

C. Fiduciary risks

2.5 Since BDP is the FDP's trustee for technical and operational execution of the project, its fiduciary capacity was assessed using the Institutional Capacity Analysis Platform (simplified, online), concluding that project coordination and financial management are adequate for the administration of the loan operation. Fiduciary risk has been determined as low, since, according to the assessment, BDP does not present weaknesses in financial management.

D. Other key risks and issues

2.6 **Development risk.** The following high risks have been identified: (i) insufficient resources to meet the demand for MSME finance; to mitigate this risk, the Bank has designed the intervention to yield the maximum possible impact, has adhered to Bolivian regulations, and has sought to coordinate with all relevant stakeholders, to ensure that the response is commensurate with MSME financing needs; and (ii) adverse selection, with businesses that were not viable before the crisis being chosen as beneficiaries, or the selected businesses not surviving the impact of the emergency. To mitigate this risk, the Financial System Supervision Authority (ASFI) has asked for risk management to be adapted to the context of the crisis, and for appropriate risk management to be applied. Additionally, the financial intermediaries' lending technology is considered sound, as are their financial stability indicators.

2.7 **Public management and governance risks.** There is a medium risk that implementation of the measures included in this program will be delayed as a consequence of the emergency priorities managed by the government, so the resources might not reach the beneficiary MSMEs in a timely manner. To mitigate this risk, the Bank has designed the program to expedite approval processing and execute rapidly. The Credit Regulations that will be an integral part of this program have been reviewed jointly with the Bolivian government and will mitigate this risk. Additionally, the program is included as part of the government programs to address the emergency.

2.8 **Macroeconomic and fiscal sustainability risk.** There is a high risk that the combination of the health and economic crisis and external factors, such as the falling price of basic commodities, will significantly affect the country's fiscal and debt position, jeopardizing fiscal sustainability. To mitigate this risk, the Bank, together with other international organizations, is providing technical assistance to the country to prepare and monitor the implementation of post-pandemic economic and fiscal recovery plans that will help put the public finances back on a sustainable trajectory.

2.9 **Sustainability.** The program is expected to contribute to easing the temporary difficulties faced by MSMEs as a consequence of the COVID-19 pandemic. Nonetheless, it offers the country the opportunity to leave support mechanisms in place for future emergencies. The demonstration effect of the interventions is expected to enable preventive programs to be developed that reduce MSMEs' vulnerability.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

3.1 **Borrower and executing agency.** The borrower for the operation will be the Plurinational State of Bolivia. The executing agency will be the Ministry of the Economy and Public Finance (MEFP), which, through the Productive Development Trust (FDP), will delegate fiduciary administration to Banco de Desarrollo Productivo (BDP).

3.2 **Execution and administration.** Though the executing agency, the borrower will deliver the program loan proceeds to the FDP for BDP to administer as the trustee, and, as a second-tier bank, to onlend to MSMEs through eligible financial intermediaries to meet the program objectives in accordance with the Credit Regulations. BDP will perform the role of trustee for the FDP to execute the project within the framework of its existing organizational, administrative, and financial structure. BDP's finance and business department will be responsible for administration and coordination of the program with the executing agency, and for the latter's coordination with the IDB.

3.3 The MEFP is responsible for formulating and implementing macroeconomic policy, while promoting social and economic equity. Its tasks include: (i) macroeconomic policy-making under the General Economic and Social Development Plan; (ii) fiscal and financial policy-making, programming, execution, monitoring, and evaluation; (iii) monetary and foreign-exchange policy-making, programming, monitoring, and evaluation in coordination with the Central Bank of Bolivia; (iv) exercising the powers of a tax authority and lead agency for public management standards; and (v) policy-making on financial intermediation, financial services and instruments, securities, and insurance.

3.4 The MEFP has been the trustor of the FDP since it was created by Supreme Decree 29145 of 2007. The FDP's purpose has been changed through successive amendments and is currently to channel financing to productive activities in the productive sectors and complexes prioritized by the Bolivian national government. Against this backdrop, through Supreme Decree 4270 of 2020, in the context of the COVID-19 pandemic, it was established that the FDP would be used to enable the resources of the Special MSME Support Program managed by the MEFP to be made available.

3.5 The relationship between the MEFP and BDP, in which they act as the trustor and trustee of the FDP, is governed by a trust agreement first signed on 11 June 2007 to which six addenda have been added, the most recent being on 11 October 2016. The trust agreement includes the obligation to establish regulations for the trust, as well as the rights and duties of the trustor and the trustee, the conditions for accountability, the limits on the trustee's liability, etc.

3.6 The trustee of the trust is Banco de Desarrollo Productivo (BDP) is a semipublic corporation engaged in first- and second-tier activities to foster and promote the development of the productive sector. It is 80% owned by the Bolivian government with the remaining 20% held by CAF. Its core purpose is to promote development of the agriculture, livestock, manufacturing, fish farming, and timber and nontimber forestry sectors, which may be broadened to other productive sectors and trade and services sectors complementing productive activity in Bolivia. BDP's strategic role includes financing the execution of the production-oriented and strategic priorities established in the national government programs and policies to promote productive sector development and access to financial and nonfinancial services by productive sector operators.

3.7 By lending windows, the portfolio is mainly concentrated in lending for production purposes to microenterprises and small businesses (56%), small and medium-sized enterprises (22%), and farms (17%). The institution's total portfolio arrears rate was just 0.53% as of end-2019. The arrears rate on the second-tier portfolio is 0%. The institution's equity stands at US$90 million. By law, BDP is supervised exclusively by the Financial System Supervision Authority (ASFI). The institution has a AAA local rating from Fitch Ratings (optional link 9) and Moody's (optional link 10) with a March 2020 cutoff date.

3.8 The executing agency will have fiduciary responsibility for the program resources and perform the following functions: (i) making disbursements to eligible financial intermediaries for lending of the resources to eligible beneficiaries to meet the program objectives pursuant to the Credit Regulations; (ii) preparing execution and physical/financial progress reports for the IDB; (iii) monitoring compliance with environmental and social safeguards; and (iv) program monitoring and evaluation.

3.9 **Implementation considerations.** Through the global credit loan, MEFP will channel resources through the FDP, administered by BDP as trustee, through eligible financial intermediaries, who will then channel the loan proceeds to eligible MSMEs through subloans.

3.10 To be eligible, financial intermediaries must comply with the ASFI's instructions in Circular 2842 of 29 April 2020, based on the following criteria: (i) portfolio allocated to SMEs and microenterprises in bolivianos (Bs); (ii) number of loan transactions with SMEs and microenterprises; (iii) portfolio with 100% weight that the institution can allocate while maintaining a capital adequacy ratio of at least 11%; (iv) number of financial service points classified as central offices, branches, or agencies; (v) number of employees; and (vi) number of municipios where the institution is active. Additionally, the risk management criteria stipulated in the circular and the legislation in force must be complied with.

3.11 To be eligible, MSMEs must: (i) be incorporated under the laws of Bolivia; (ii) possess the licenses and permits required to operate under the laws of the country; (iii) meet the requirements to qualify as an MSME in the country; (iv) be solvent and creditworthy and satisfy the credit requirements of the financial intermediaries under the agreements with BDP, pursuant to the legislation in force, with the exception of any factor that has deteriorated as a result of the COVID-19 crisis; and (v) preferably operate in one of the priority sectors identified as part of this program. No individual subloan to an MSME may exceed 115,000 bolivianos (US$16,691).

3.12 **Program Credit Regulations.** The Credit Regulations describe responsibilities in the areas of administration, risk management, and coordination between the executing agency and the Bank, as well as the eligibility criteria for beneficiaries, subprojects, and any financial intermediaries. An amendment to the FDP's regulations will establish that its regulations contain, at least, the conditions and stipulations set forth in the Credit Regulations (see paragraph 3.14).

3.13 **Interagency coordination.** As stipulated by Supreme Decree 4216 of 2020 (see paragraph 1.12), there has been coordination between the Bank and various public sector entities since the initial stages of program development. These same entities will support program execution in accordance with their legal authority and specific functions. The program will be executed with full interagency coordination between the Ministry of Economy and Public Finance, the Ministry of Planning and Development, BDP, the Central Bank of Bolivia, the ASFI, and the Financial System Development and Productive Sector Support Fund (FONDESIF). Direct interactions have already taken place with all the entities to both facilitate the operation and ensure compliance with the program framework regulations during execution.

3.14 **Special contractual conditions precedent to the first disbursement of the loan proceeds: (i) Approval and entry into force of the Credit Regulations on the terms previously agreed upon with the Bank; and (ii) approval and entry into force of an amendment to the regulations of the Productive Development Fund (FDP) previously agreed upon with the Bank regarding the proceeds of this loan. Such amendment will contain at least: the conditions and stipulations of the Credit Regulations; and (iii) the entry into force of a Supreme Decree increasing the authorized amount of the trust's independent assets so the FDP can receive the loan proceeds.** The first condition is necessary to establish the structure, guidelines, and procedures to be followed by the executing agency for successful execution of the program. The second condition is necessary to ensure the FDP's compliance with the conditions and stipulations of the Credit Regulations. The third condition is necessary as it increases the authorized amount of the FDP's independent assets so the FDP is able to receive the flow of loan proceeds.

3.15 **Retroactive financing.** The Bank may retroactively finance up to US$26 million (20% of the loan amount) in eligible expenditures incurred by the borrower/executing agency prior to the loan approval date for guarantees and subloans to MSMEs, provided that requirements substantially similar to those established in the Loan Contract have been met. Given the need for a speedy response to COVID-19 and support to MSMEs, retroactive financing is a valuable tool for the immediate emergency response. Such expenditures must have been incurred on or after 11 March 2020, when the WHO declared COVID-19 a pandemic. Even though the established date is prior to the date the project officially entered the pipeline (document GN-2259-1), authorization of the retroactive financing on an exceptional basis is justified as from 11 March 2020, due to the exceptional circumstances arising from the global health emergency.

3.16 **Procurement.** As a demand-driven financial intermediation program, no procurement of goods, works, nonconsulting services, or consulting services is likely to be required as part of execution. No project execution plan or procurement plan is therefore included in this proposal. Any procurement of nonconsulting or consulting services required as part of program administration and/or evaluation will be conducted in accordance with the Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-15), or as subsequently updated. For additional details, see the Fiduciary Agreements and Requirements (Annex III).

3.17 **Disbursements.** The resources allocated to the sole component of the program will be deposited by the IDB with the MEFP in an exclusive line under the single treasury account. As trustor for the FDP, the MEFP will then transfer the proceeds to the FDP in order to increase its independent assets. As trustee and second-tier bank, BDP will place the proceeds with financial intermediaries, which will extend subloans/credit to the final beneficiaries, which will be MSMEs under the legislation of the Plurinational State of Bolivia. The loan will be disbursed via the modality of advance of funds and/or reimbursements, as established in the Financial Management Guidelines for IDB-financed Projects (document OP-273-12), or current version, in IDB policies. Disbursement verification will be on an ex post basis, subject to onsite review of the subloans.

3.18 **Financial statements and audit.** The executing agency will deliver audited annual financial statements for the project under the terms of reference agreed upon with the Bank, within 120 days after the close of each fiscal year or after the date of the last disbursement. Audits will be performed by a Bank-eligible external audit firm under the procedures established in the current audit guidelines.

B. Summary of arrangements for monitoring results

3.19 **Monitoring.** Program execution will be monitored via six-monthly progress reports prepared by the executing agency and delivered within 60 days after the close of each six-month period. The reports will be based on the reporting commitments included in the Results Matrix, as well as compliance with the eligibility criteria set out in the Credit Regulations, including those on the counting of transactions with women-owned companies to comply with the stipulations of the sole component (see monitoring and evaluation plan). These reports will be reflected in the progress monitoring reports (PMRs).

3.20 **Evaluation.** Various approaches will be used as part of the strategy for evaluating program results: (i) a reflexive evaluation, before and after the program, to determine the extent of outcomes and impacts; and (ii) a qualitative analysis discussing the lessons learned during program execution. The evaluation strategy is described in the monitoring and evaluation plan. Through the FDP, the executing agency will bear the costs of evaluation and monitoring in all cases.

3.21 **Information for program monitoring and evaluation.** The executing agency, which in turn delegates fiduciary administration to BDP through the FDP, will be responsible for maintaining data gathering and monitoring systems (see monitoring and evaluation plan). The executing agency will commit to maintain a system for monitoring and evaluation of all components, which it will use to prepare the reports and data delivered to the Bank. For the purposes of the evaluation, the executing agency will compile, store, and safeguard all information, indicators, and parameters necessary to prepare the project completion report (PCR), including annual plans and the final evaluation. Through the FDP, the executing agency will bear the costs of evaluation and monitoring in all cases. The additional information required for the evaluation process will be drawn from national and international secondary sources of statistical data and, potentially, reports of relevant organizations.

Development Effectiveness Matrix		
Summary	**BO-L1217**	
I. Corporate and Country Priorities		
1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Themes	**-Social Inclusion and Equality -Productivity and Innovation -Gender Equality and Diversity**	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	**-Jobs supported (#) -Micro / small / medium enterprises financed (#) -Women beneficiaries of economic empowerment initiatives (#)**	
2. Country Development Objectives		
Country Strategy Results Matrix		
Country Program Results Matrix		**The intervention is not included in the 2020 Operational Program.**
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		**See paragraphs 1.1 to 1.4 of the loan document**
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution	**9.6**	
3.1 Program Diagnosis	**3.0**	
3.2 Proposed Interventions or Solutions	**3.6**	
3.3 Results Matrix Quality	**3.0**	
4. Ex ante Economic Analysis	**10.0**	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	**3.0**	
4.2 Identified and Quantified Benefits and Costs	**3.0**	
4.3 Reasonable Assumptions	**1.0**	
4.4 Sensitivity Analysis	**2.0**	
4.5 Consistency with results matrix	**1.0**	
5. Monitoring and Evaluation	**7.0**	
5.1 Monitoring Mechanisms	**2.5**	
5.2 Evaluation Plan	**4.5**	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	**Low**	
Identified risks have been rated for magnitude and likelihood	**Yes**	
Mitigation measures have been identified for major risks	**Yes**	
Mitigation measures have indicators for tracking their implementation	**Yes**	
Environmental & social risk classification	**B.13**	
IV. IDB´s Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	**Yes**	**Financial Management: Budget.**
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

Evaluability Assessment Note: The operation BO-L1217, in the amount of US$130 million, is part of the Bank's operational response to the COVID-19 Pandemic, Global Credit Programs for the Protection of the Productive Sector and Employment. The general objective of the program is to support the sustainability of micro, small, and medium-sized enterprises (MSMEs) as employment providers in Bolivia amid the COVID-19 crisis. The specific objective of the program is: (i) to support the short-term financial sustainability of MSMEs.

The loan proposal presents a good diagnosis of the problem, as well as a review of international evidence. The proposed solutions are an appropriate response to the problems identified in the proposal and their contributing factors. The results matrix is consistent with the vertical logic of the project, presenting adequate indicators at the level of outcomes and impacts. The outcome indicators are appropriately defined to measure the achievements of the project's specific objective. The impact indicator – Percentage of employment in MSMEs over total employment in the country - reflects the contribution to the final objectives of the operation.

The economic evaluation shows that the operation is efficient, with an internal rate of return of 16% and an NPV of US$39 million. In a context of high uncertainty, the analysis considers the benefits which are derived from a higher survival rate of firms that are beneficiaries of the program, as well as of jobs preserved in firms which survive as a result of the program.

The monitoring and evaluation plan proposes a reflective analysis of the outcome and impact indicators included in the result matrix, complemented by a qualitative study of the main challenges in the execution of the program and the proposed solutions. The monitoring and evaluation activities will be carried out, in coordination with the Bank, by the Banco de Desarrollo Productivo (BDP) as a delegated institution of the Ministry of Economy and Public Finance to exercise the functions of the fiduciary administration of the operation.

RESULTS MATRIX

Project objective:	The general objective of this project is to support the sustainability of micro, small, and medium-sized enterprises (MSMEs) as employment providers in Bolivia amid the COVID-19 crisis. The specific objective is to support the short-term financial sustainability of MSMEs.

EXPECTED IMPACT

Indicators	Unit of measure	Baseline 2020	Final target	Means of verification	Comments
GENERAL OBJECTIVE: Support the sustainability of MSMEs amid the COVID-19 crisis					
Employment at MSMEs as a percentage of total employment in Bolivia	%	78	78	Ongoing Employment Survey, National Statistics Institute (INE).	The baseline is the percentage of private-sector employment in the country (economically active population employed in the private sector) accounted for by MSMEs. As several economic sectors will be supported, the baseline is calculated as the multisector average. The baseline (2019) and monitoring data are drawn from the INE Ongoing Employment Survey.

EXPECTED OUTCOMES

Indicators	Unit of measure	Baseline 2020	Final target	Means of verification	Comments
Specific objectives: Support the short-term financial sustainability of MSMEs					
Indicator 1. Relative rate of arrears, at 6 months after program start, in the relevant portfolio of working capital financing compared with the financial system's rate of arrears in MSME working capital financing.	%	2.15	2.15	Program monitoring and supervision information collected by the executing agency and the Financial System Supervision Authority (ASFI).	The baseline was calculated as follows: The numerator is the rate of arrears in the portfolio of MSME working capital financing by financial intermediaries eligible to receive program funds. The denominator is the average rate of arrears in the portfolio of MSME working capital financing by the financial system as a whole as of March 2020. Calculation based on ASFI data. This proportion is expected to remain constant over the life of the operation (see monitoring and evaluation plan). The final target will be calculated with the average rate of arrears of the financial intermediaries in the numerator and the system rate of arrears in the denominator, 6 months after receiving program funds.
Indicator 2. Relative rate of arrears, at 12 months after program start, in the relevant portfolio of working capital financing compared with the financial system's rate of arrears in MSME working capital financing.	%	2.15	2.15	Program monitoring and supervision information collected by the executing agency and the ASFI.	The numerator is the rate of arrears in the portfolio of MSME working capital financing by financial intermediaries eligible to receive program funds. The denominator is the average rate of arrears in the portfolio of MSME working capital financing by the financial system as a whole as of March 2020. Calculation based on ASFI data. This proportion is expected to remain constant over the life of the operation (see monitoring and evaluation plan). The final target will be calculated with the average rate of arrears of the financial intermediaries in the numerator and the system rate of arrears in the denominator, 12 months after receiving program funds.

Indicators	Unit of measure	Baseline 2020	Final target	Means of verification	Comments
Indicator 3: Total amount of the relevant working capital portfolio financing achieved as a result of the program's support.	US$ million	382	411	Program monitoring and supervision information collected by the executing agency and the ASFI.	The relevant portfolio is the portfolio of the participating financial intermediaries devoted to MSME working capital financing. The baseline calculation reflects the potential group of participating financial intermediaries. The value is the sum of their working capital financing portfolios. The target is the expected value of this portfolio (not issuance) at the end of the program based on the growth rate projected by BDP. The expected final value depends on portfolio inflows and outflows (for more details, see monitoring and evaluation plan).
Indicator 4: Proportion of the relevant working capital financing portfolio reaching women led MSMEs through the financial intermediaries participating in the program.	%	20	30	Program monitoring and supervision information collected by the executing agency and the ASFI.	The baseline is the percentage of lending to women in the program's relevant portfolio, understood as the MSME working capital financing portfolio of the participating financial intermediaries in terms of amounts. The program is expected to help raise the proportion of these loans, considering an estimated target of 30%, which represents a significant increase over the baseline. Pro-gender indicator.

OUTPUTS

Outputs	Unit of measure	Baseline 2020	Year 1	Year 2	Final target	Means of verification	Comments
Sole component: Support for improvement of the short-term financial capacity of MSMEs (US$130 million)							
Output 1: Amount issued to MSMEs for working capital financing under the program.	US$ million	0	104	0	104	Monitoring and supervision information processed by the executing agency.	The value of the final target is the cumulative amount from all the years of project execution.
Output 2: Amount issued to women-led MSMEs for working capital financing under the program.	US$ million	0	26	0	26	Monitoring and supervision information processed by the executing agency.	The value of the final target is the cumulative amount from all the years of project execution. Pro-gender indicator.

Country: Bolivia **Sector:** CMF **Project number:** BO-L1217 **Year:** 2020

Cofinancing: Not applicable **Coexecution**: Not applicable

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: Ministry of the Economy and Public Finance (MEFP), which delegates fiduciary administration to Banco de Desarrollo Productivo (BDP), through the Productive Development Trust (FDP).

Name of Project: Global Credit Program for Safeguarding the Productive Fabric and Employment in Bolivia

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. Use of country systems in the project[1]

Budget	■	Reports	☐	Information system	■	NCB	☐
Treasury	■	Internal audit	☐	Shopping	☐	Advanced NCB	☐
Accounting	■	External control	☐	Individual consultants	☐	Consulting firm	☐

As trustee of the Productive Trust Fund (FDP), Banco de Desarrollo Productivo (BDP) will be responsible for technical execution of the project, under the overall coordination of the Ministry of the Economy and Public Finance (MEFP). The MEFP will be the executing agency, and therefore the Bank's main interlocutor during execution and supervision. Through the FDP, the MEFP will be responsible for general management of the project, including planning, legal management, procurement, disbursement management, administration, finance and accounting, monitoring and evaluation, and technical management.

Governing laws/regulations: The main legislation applicable to BDP includes: (i) Supreme Decree 28999 of 1 January 2007, transforming Nacional Financiera Bolivia Sociedad Anónima Mixta NAFIBO, S.A.M, into the current Banco de Desarrollo Productivo (BDP), Sociedad Anónima Mixta BNDP, S.A.M (BDP); and (ii) the Financial Services Act (Law 393 of 21 August 2013)—BDP is supervised by Bolivia's Financial System Supervision Authority (AFSI); and (iii) Supreme Decrees 29145 of 2007 and 4270 of 2020, instituting the FDP and enabling the funds provided for the implementation of the Special MSME Support Program managed by the MFEP in coordination with BDP to be made available, respectively.

Banco de Desarrollo Productivo (BDP) is a semipublic corporation engaged in first- and second-tier activities to foster and promote the development of the productive sector. It is 80% owned by the Bolivian government with the remaining 20% held by the Andean Development Corporation (CAF).

[1] Any system or subsystem subsequently approved may be applicable to the operation, in accordance with the terms of the Bank's validation.

2. Fiduciary capacity of the executing agency

Since BDP is the trustee for the FDP, for the technical and operational execution of the project a fiduciary capacity assessment was conducted using the Institutional Capacity Assessment Platform (ICAP) (simplified, online), concluding that financial management and project coordination are adequate for administration of the operation. As a demand-driven financial intermediation program, no procurement is envisaged, so procurement capacity has not been assessed. The most recent loan operations recently executed by BDP with the Bank in Bolivia are the lending programs, "Program to Create a Business Support Fund: Microenterprise and Small Business Support Fund (FAMYPE)" (loan 1739/SF-BO) and "Support to the National System for Development Financing and First Program" (loan 1937/BL-BO).

3. Fiduciary risks and mitigation measures

Fiduciary risk: High ☐ Medium ☐ Low ■

Risk	Risk level (medium/high)	Mitigation plan
No fiduciary risks were identified.		

II. Considerations for the Special Provisions of the Contract

Conditions precedent to the first disbursement: No fiduciary conditions.
Exchange rate: For accountability reporting, the applicable exchange rate will be the rate in effect on the date of conversion of the disbursement currency into the local currency on the day the borrower, the executing agency, or any other person or corporation with the necessary delegated authority makes the respective payments or transfers. Article 4.01(b)(ii) of the General Conditions.
Audited financial reports on the program: The executing agency will deliver the audited annual financial statements for the program, duly issued by an independent auditor acceptable to the Bank, within 120 days after the close of each fiscal year of the executing agency during the original disbursement period or as extended, and within 120 days after the date of the last disbursement of the loan. The type of audited financial report to supervise financial management of this project is a special-purpose financial audit.

III. Agreements and Requirements for Procurement Execution

Exceptions to policies and guidelines:

• No exceptions envisaged.

Retroactive financing and/or advanced procurement	• The Bank may retroactively finance up to US$26 million (20% of the loan amount) in eligible expenditures incurred by the borrower/executing agency prior to the loan approval date for guarantees and subloans to MSMEs, provided that requirements substantially similar to those established in the Loan Contract have been met. Given the need for a speedy response to COVID-19 and support to MSMEs, retroactive financing is a valuable tool for the immediate emergency response. Such expenditures must have been incurred on or after 11 March 2020, when the WHO declared COVID-19 a pandemic. Even though the established date is prior to the date the project officially entered the pipeline (document GN-2259-1), authorization of the retroactive financing on an exceptional basis is justified as from 11 March 2020, due to the exceptional circumstances arising from the global health emergency and national measures.
Additional procurement support	• Not applicable.
Alternative procurement arrangements	• Not applicable.
Projects with financial intermediaries	• As this loan is for global credit programs and other operations in which resources are provided to financial intermediaries to issue subloans or other onlending modalities, it will be stipulated that the Bank's prohibited practices clauses must be included in the agreements between the borrower and its financial intermediaries, and those between these intermediaries and the subborrowers. As the program concerns financial intermediation for MSMEs (private sector), paragraph 3.13 of policy document GN-2349-15 applies, establishing that procurement is usually undertaken by the respective beneficiaries in accordance with established private sector or commercial practices acceptable to the Bank. Alternatively, if the effective inclusion of these clauses in the aforementioned contracts is not possible or practicable in view of the program's circumstances, the project team may examine other mechanisms to adopt acceptable controls and duly bind the relevant third parties to the Sanctions Procedures. The design of such mechanisms will be coordinated with the Office of Institutional Integrity (OII), with support from the Legal Department, and described in the Credit Regulations.

Procurement agents	• Not applicable.
Direct contracting	• Not applicable.

Operating expenses will be financed: ☐ Not applicable.	**Domestic preference:** ☐ Not applicable.
General supervision methods for project procurement: Not applicable.	
Supervision method: Not applicable.	**For:** Not applicable.

Country limits: www.iadb.org/procurement.

IV. Agreements and Requirements for Financial Management

Programming and budget	• The borrower being the Plurinational State of Bolivia and the executing agency the MEFP through BDP, as trustee for the FDP, the funds for this operation must be incorporated into the National General Budget for subsequent transfer to BDP, which is an administratively and financially autonomous entity and also needs to incorporate them into the FDP.
Treasury and disbursement management	• The disbursement method will be advances of funds and/or reimbursements. • The disbursement mechanism will be submission of physical disbursement requests, as the Bank's new *Disbursement Online* system will be implemented in Bolivia in late 2020. • **Bank account:** The borrower will hold the proceeds of advances in a U.S. dollar-denominated bank account exclusively for the program at the Central Bank of Bolivia for the receipt of disbursements and subsequently to the designated exclusive line under the single treasury account in dollars or bolivianos. • **Financial plan:** Advances will be made for a period of up to six months, depending on the demand for loans. • **Percentage for accountability reporting:** 80% of advances pending justification. • **Project resource flow:** The funds will be disbursed to the borrower/executing agency into the account opened at the Central Bank of Bolivia. From there, they will be transferred to BDP through the FDP, for subsequent disbursement to banks and other financial institutions extending subloans/credits to the MSMEs that are the end-beneficiaries.

Accounting, information systems, and reporting	• **Specific accounting standards:** as BDP is responsible for technical and fiduciary execution of the FDP, as well as for preparing the various FDP reports, BDP's existing regulatory framework will be used. This framework includes a consolidated accounts manual authorized by the Financial System Supervision Authority (ASFI). • **Accountability reports:** Cash flow and disbursement statements, statement of cumulative investments, with their respective notes, will be prepared by BDP using its proprietary information system (Sistemas ARGOS), which is part of its accounting system, and auxiliary records in Excel. • **Accounting method and currency:** Accounting will be on an accrual basis, but financial reports required by the Bank will be prepared on a cash basis and denominated in U.S. dollars. The type of report required will be a special purpose financial audit.
External control	• In agreement with the Bank, the executing agency, through BDP, will select and engage the services of a Bank-eligible auditor, in accordance with the terms of reference agreed upon in advance.
Project financial supervision	• Financial supervision will be conducted by means of visits to BDP, working meetings, and review of reports, including the audited financial reports.

V. Relevant Information for the Operation

Policies and guidelines applicable to the operation

Financial Management	Procurement
• OP-273-12, or the policy in effect at the time of execution.	• GN-2349-15 • GN-2350-15

Records and files

BDP has digital and physical files, as well as procedures and instructions allowing appropriate records and files to be kept. One of the main systems is "Sistemas ARGOS – ARGOSNET: General description of first- and second-tier core systems," which includes the following functionalities: (i) Integration of modules: credit/portfolio, lending rates, financing line investments, credit/trustee portfolio, document control, document flow (securities custody), accounting, guarantee fund, other administrative modules (fixed assets, correspondence, fixed fund, travel expenses, payroll); (ii) automatic accounting; (iii) automatic integrity checks on financial modules; (iv) parametric transactions; (v) reversible processes and transactions; (vi) independent modules able to issue account statements; (vii) integrated and hierarchical accounting period end modules; (viii) user administration module: roles, options, reports, and transactions; (ix) built-in error handler; (x) audit log record; (xi) automatic alerts: transactions scheduled for a specific date; and (xii) interface with other external systems.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/20

Bolivia. Loan ____/OC-BO to the Plurinational State of Bolivia
Global Credit Program for Safeguarding the Productive
Fabric and Employment in Bolivia

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Plurinational State of Bolivia, as borrower, for the purpose of granting it a financing to cooperate in the execution of the Global Credit Program for Safeguarding the Productive Fabric and Employment in Bolivia. Such financing will be for the amount of up to US$130,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ___ ____________ 2020)

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