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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

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CAPITAL ASSISTANCE PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

511-4-048

BOLIVIA - SAVINGS AND LOAN DEVELOPMENT PROGRAM

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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

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AID-DLC/P-2003

June 19, 1973

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

Subject: Bolivia - Savings and Loan Development Program

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed \$6,000,000 to the Government of Bolivia for the Caja Central de Ahorros y Prestamos para la ~~Vivienda~~ to assist in financing the United States dollar and local currency costs of the Savings and Loan Development Program.

This loan proposal is scheduled for consideration by the Development Loan Staff Committee at a meeting on Friday, June 22, 1973.

Development Loan Committee
Office of Development
Program Review

Attachments:

Summary and Recommendations
Project Analysis
ANNEXES A - E

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TABLE OF CONTENTS

BOLIVIA - SAVINGS AND LOAN DEVELOPMENT PROGRAM

	<u>Page No.</u>
<u>SUMMARY AND RECOMMENDATIONS</u>	
<u>SECTION I - THE NATURE OF THE PROJECT</u>	1
<u>A. Project Description</u>	1
1. <u>Problems Confronting The System</u>	1
2. <u>Strategy for Achieving Project Purpose</u>	2
a. Essential Actions	3
b. Other Elements of the S&L Development Program	6
3. <u>Savings and Loan Operating Criteria</u>	7
a. Subloan Criteria For Home Mortgage Loans	7
b. Dividends on Savings Accounts	7
c. Criteria for Utilization of AID Loan Funds	8
<u>B. Project Background</u>	9
1. <u>The Urban Sector</u>	9
2. <u>Prior AID Assistance</u>	10
3. <u>Past Activities of The Savings and Loan</u>	11
4. <u>Other Sources of Home Financing</u>	13
<u>C. Project Justification</u>	15
1. <u>Place in The Country Program</u>	15
2. <u>Rationale for a Direct AID Loan</u>	15

	<u>Page No.</u>
SECTION II - <u>PROJECT ANALYSIS</u>	17
A. <u>Institutional Analysis: The Caja Central and The S&L's</u>	17
1. <u>Caja Central de Ahorros y Préstamos para la Vivienda</u>	17
a. Functions	17
b. Strength of The Bolivian S&L System	18
c. Role in The Proposed Program	19
d. Insurance Offered by The Caja Central	20
e. Technical Assistance Program for The Caja Central	22
2. <u>The Savings and Loan Associations</u>	22
a. Organization and Management	23
b. Mortgage Lending Procedures	23
3. <u>Managerial and Technical Capacity/Additional Staffing Requirements</u>	26
B. <u>Financial Analysis</u>	29
1. <u>Summary Cost Estimate and Financial Plan</u>	29
2. <u>Analysis of Elements Included in The Financial Plan</u>	30
a. Savings Promotion Program	30
b. Office Relocation and Improvement	30
c. Insurance Liquidity Fund	31
3. <u>Actions Required to Increase Savings Attraction: Proposed Plan</u>	32
4. <u>Factors Affecting Project Feasibility</u>	33
5. <u>Sensitivity of Results to Variations in Savings Growth and Market Share</u>	35

6.	<u>Justification for The Amount of The AID Loan</u>	35
7.	<u>Mortgage Loan Terms and Effective Interest Rate</u>	36
8.	<u>Readjustment Formula and Adjustment of System to Devaluation</u>	36
9.	<u>Mortgage Loan Collection Procedures</u>	37
10.	<u>Delinquencies and defaults</u>	38
11.	<u>Use of AID Loan Interest Spread</u>	38
12.	<u>Appraisal of Financial Soundness and Analysis of Operating Costs</u>	39
13.	<u>Justification for AID Loan Terms</u>	41
C.	<u>Economic Analysis</u>	43
1.	<u>Estimated Middle Income Housing Demand: Economic Soundness of The Project</u>	43
	<u>Project's Contribution to The Economy</u>	43
a.	Employment Effects	43
b.	Potential for Savings Attraction	46
3.	<u>Availability of Labor and Construction Materials</u>	51
D.	<u>Environmental Considerations</u>	55
 <u>SECTION III - LOAN ADMINISTRATION</u>		 57
A.	<u>Implementation Plan</u>	57
1.	<u>Target Dates</u>	57
2.	<u>Plan for Technical Assistance and Training</u>	57
3.	<u>Plan for Staff Training</u>	58
4.	<u>Procurement</u>	58

	<u>Page No.</u>
B. <u>Disbursement Procedures</u>	59
C. <u>USAID Monitoring Procedures</u>	59
D. <u>Reporting Requirements</u>	60
E. <u>Conditions and Covenants</u>	61
F. <u>Evaluation</u>	62
1. <u>Criteria for Evaluating Success Of Project</u>	62
a. Saving Attraction/Financial Self-Sufficiency	62
b. Volume of Housing Financed Including Occupational Groups Which May Have Benefitted	63
2. <u>Impact on Employment and Construction Material Industry</u>	63

ANNEXES

ANNEX A - LEGAL EXHIBITS

1. 611(e) Letter of Certification from USAID Director
2. Government of Bolivia Loan Request
3. Government of Bolivia's Position on Loan Request From T
Caja Central
4. Draft Loan Authorization

ANNEX B - ORGANIZATIONAL EXHIBITS

1. Organization Chart of The Bolivian S&L System
2. Caja Central - Present and Future Organization and Staffing Chart
3. "La Primera" S&L: Present Organization and Staffing Chart
4. Biographical Data: Caja Central Directors and S&L Managers

ANNEX C - FINANCIAL EXHIBITS

1. Past USAID/B Assistance to The Bolivian S&L System
2. Caja Central Operating Budget (1973-74)
3. Balance Sheets and Operating Statements - Caja Central (1971-1972)
4. Statements of Condition - S&L Associations (1971-1972)
5. Cash Flow Projections (1973-1982) Based on Rescheduled CB Loan
6. Projected Statements of Condition (1982)
7. Cash Flow Projections (1973-1982) Based on Additional GOB Loan

ANNEX D - OPERATIONAL EXHIBITS

1. Projects Ready for Financing As of May 20, 1973.

ANNEX E - STATUTORY CHECKLIST

1. Checklist of Statutory Requirements

SUMMARY AND RECOMMENDATIONS

1. BORROWER:

The borrower and executing agency will be the Caja Central de Ahorros y Préstamos para la Vivienda (Caja Central), a private autonomous non-profit organization established under Bolivian law as the agency to promote and regulate the Savings and Loan (S&L) System in Bolivia.

2. GUARANTOR:

The Loan will be guaranteed by the Government of Bolivia (GOB).

3. LOAN:

(a) Amount: US\$6.0 millón

(b) Terms: 30 year repayment period including a grace period of ten years on principal, with interest at 2% per annum during the ~~grace~~ ~~period~~ and 4% per annum thereafter. Approximately 90% of the loan will be converted to Bolivian pesos to meet estimated local currency requirements of the program.

4. PURPOSE:

The purpose of the loan is to enable the Bolivian S&L System to become financially self-supporting^{1/} over the next 10 years (and to function thereafter at a level of operations which will meet a significant portion of Bolivia's middle income housing demand). The broader goal to which the project will contribute is the strengthening of the financial institutions in the private sector and the redirection of their efforts in support of Bolivia's social and economic development.

5. PROJECT DESCRIPTION:

The project consists of the strengthening and expansion of the private, non-profit Bolivian S&L System. This system consists of the Caja Central and nine mutual savings and loan associations. The Caja Central is a central regulatory, financing and promotion agency for the system. The nine associations are spread throughout Bolivia, with

^{1/} Defined as the point at which the system has attracted sufficient savings to operate profitably without need for additional concessional assistance, and at which point net profits have been of sufficient magnitude to create the reserves necessary to support the system against any possible losses in the course of its operation.

two in the capital, La Paz. They accept savings deposits from the public and channel these deposits, as well as other available funds, into middle and lower middle income long term housing loans.

On the output side, the achievement of the project purpose would enable the system to finance a significant portion of Bolivia's middle and lower-middle income housing demand over the next several decades. The strategy for achieving the project purpose is outlined in Section I.A.2 below.

6. PROBLEMS CONFRONTING THE SYSTEM

The basic problem facing the Bolivian S&L System is its precarious financial condition. This condition is due to the relatively low volume of lending operations from which it derives its income. The volume of operations is in turn a function of the amount of domestic savings mobilized by the system plus external borrowing. Since its creation as a private entity, the Caja Central has labored under the handicap of insufficient capitalization. Operating at below the breakeven point and lacking adequate reserves to carry the system through any period of difficulty, the Caja Central's policy in the past has been to plough all available funds into income-producing ~~mortgage~~ mortgage loans. While this policy maximized income in the short run it did not contribute to increased savings attraction, upon which the long run success of the system depends. Given the financial condition of the system, the Caja Central was hesitant to forego current income from mortgage loans by reallocating available resources into savings promotion expenditure. As indicated above, this situation was a consequence of the private character of the Caja Central. Most other S&L systems in Latin America were sponsored by government housing or home loan banks; and being government institutions, the home loan banks received no-cost capital contributions to provide the necessary financial backing for the systems and to provide a sufficient volume of high yielding mortgage finance capital to enable these systems to incur relatively heavy savings promotion expenditures. In contrast, the Bolivian system began with a modest AID loan of \$1.0 million and, because of the private character of the Caja Central, no government equity contribution. While the longer run operating efficiency will likely be greater as a private rather than public institution in Bolivia, the short to intermediate run financial hardship on the private but not-for-profit mutual system has been severe.

What the proposed loan seeks to do is to provide the Bolivian system with a sufficient volume of quasi-equity capital to enable it (a) to undertake, once and for all, the large scale savings promotion effort necessary to build the system's long run savings base and (b) to create from the income generated from the spread on the AID loan, suf-

efficient reserves and surplus to protect the system against any possible losses which it might incur over time. The strategy for achieving the purpose of the loan is outlined in the following section.

7. STRATEGY FOR ACHIEVING PROJECT PURPOSE

To achieve a position of financial self-sufficiency over the next 10 years, it is estimated that the system must attract, at a minimum, approximately \$b. 100 million (US\$5 million) in free savings by 1982. Based on the March 1973 study of the potential of the Bolivian S&L System prepared by Claude Bovet, Ex-Director of the Peruvian Home Loan Bank, it is estimated that the Bolivian system can capture 12% of total savings deposits in financial institutions in 1982. In addition the Mission projects a rate in overall savings deposits of 10% per annum over the next decade. The effect of these two projections taken together would provide the system with approximately \$b. 180 million (US\$9 million) in savings in 1982.^{2/}

To reach the savings levels projected above, two actions are essential: (1) the system must undertake a large scale, systematic ~~savings promotion program~~; and (2) the system must also receive a substantial injection of low cost (quasi-equity) lending capital to enable it to generate the volume of income-producing assets (e.g. mortgage loans) required to overcome its cash flow problems and to capitalize the system at an adequate level to protect against reasonable risks.

Looking at the second requirement first, it is estimated that an AID Loan of \$6.0 million will be necessary to propel the system to the point of self-sufficiency. This level of AID assistance is predicated upon the effective rescheduling of \$b. 40 million 8 year Central Bank loan to the system. To offset the drain on the system of this 8 year loan, the Ministry of Finance should agree to the rescheduling of the CB loan to the S&L system and the softening of the terms to 20 year repayment, 10 year grace at 6% interest p.a. This option is preferred over 1) the GOB lending the system an additional \$b 40 million over 20 years with a 10 year grace and 2) the USG making a \$7.0 million loan with no additional GOB input. However, both these alternatives would have similar financial results as the^{3/} rescheduling option for producing a self-supporting system by 1982.

The key action to be taken by the system as a part of the S&L development program is the formulation and execution of a vigorous and aggressive savings promotion program. The parameters for such a program are set forth in the above-mentioned Bovet Report of March 1973. This savings promotion plan is described in Section I.A, 2 together with the other elements of the S&L development program.

^{2/} See Section II.B.3 for a discussion of the basis for these growth rate projections.

^{3/} In the body of the paper, only the rescheduling option will be discussed although it should be noted that the other alternatives are viable options in terms of achieving financial self-sufficiency. (See Annex C, Exhibits 5 and 7)

8. SUMMARY COST ESTIMATE AND FINANCIAL PLAN
(US\$ 000 equivalents)

U S E	S O U R C E		Total
	AID Loan	CB Loan ^{1/}	
Mortgage Loans	4,500	2,000	6,500
Savings Promotion Program	100		100
Office Relocation and Improvements	600		600
Insurance Liquidity Reserve	50		50
Training ^{2/}	170		170
Technical Assistance ^{2/}	100		100
Accounting Equipment ^{2/}	180		180
Totals	6,000	2,000	8,000

1/ The CB loan has already been disbursed and therefore was not available for the non-mortgage lending costs of the program. However, the funding source for such costs is essentially an attribution question; the net effect of the two loans will be to provide for the system a total of \$6.5 million for mortgage lending at an average cost of 3.23%.

2/ US dollar costs estimated at a total of \$450,000.

9. JUSTIFICATION FOR THE AMOUNT OF THE AID LOAN

As indicated above, for the System to achieve a position of financial self-sufficiency under the assumption stated, an AID loan of \$6.0 million will be necessary. The optimal - and target - level of savings mobilization by 1982 is \$b. 180 million (See Section II.B.5 and 6 for an analysis of the savings growth projections). However, inasmuch as there is no assurance that the system is more likely to reach the "optimal" level of \$b. 180 million than what we consider to be the "survival" level of \$b. 100 million (or some number in between), the \$6.0 million loan level is considered necessary to insure that the system will still be financially self-supporting should it only reach the lower level of savings by 1982.

The reason why the system could still achieve self-sufficiency even at the most pessimistic saving level is the earning power provided to the system from the 10% spread on the AID loan for mortgage lending. The outcome is quite different, however, if the GOB does not reschedule the \$2.0 million Central Bank loan. The future financial feasibility of the system was tested using only an AID loan input of \$4.5 million; and on this basis, at the \$b. 180 million optimal savings level, the system would experience negative cash flows in several years, would accrue a \$b. 28 million (US \$1.4 million) cumulative loss over the decade, and only in 1982 would the system show a slight profit. At the \$b. 100 million level of savings attraction, the system would accrue an even larger loss and would not reach the breakeven point by 1982.

10. GOVERNMENT OF BOLIVIA CONTRIBUTION

Considering the wholly private character of the S&L system, the degree of support the Government has provided to the system can be considered as substantial.

Shortly after the October 1972 devaluation the Ministry of Finance prevailed upon the Central Bank to give the extraordinary \$2 million loan to the Caja to enable the system to weather the effects of the devaluation; at the same time, the GOB did not re-adjust the \$1.4 million owed by the system to the GOB under the four above-mentioned local currency loans (a financial benefit worth approximately \$800,000 to the system); in addition, the GOB has agreed to guaranty the proposed \$6 million to the private S&L system and...to separate the GOB--guaranteed LosPinos HIG project from the other operations of the S & L System so that in the event of any shortfalls in that project, the GOB would not have recourse to the assets of the entire S & L System.

In accordance with the negotiating objectives set forth in the IRR, the Project Committee also obtained the agreement of the ~~Ministry of Finance~~ financial relief to the system in the form of a \$2.0 million GOB treasury loan to offset the cash flow problem created by the 6 year amortization of the Central Bank (CB) loan. However, current estimates of the future GOB fiscal situation indicate that a rescheduling of the CB loan and softening of the terms to 20 year repayment, 10 year grace at 6% p.a. is the preferable choice for offsetting the drain on the system of the 8 year CB loan.

11. OTHER SOURCES OF FINANCING

The IBRD, IDB and Export-Import Bank have expressed no interest in financing the project.

12. STATUTORY CRITERIA

All Statutory Criteria have been met; the checklist is contained in Annex E.

13. VIEWS OF THE COUNTRY TEAM

The Country Team supports the project because of the positive impact it will have on reducing unemployment and because of its longer run contribution to reducing the Bolivian housing deficit.

14. INTENSIVE REVIEW APPROVAL

The revised IRR for the loan was approved on May 8, 1973.

15. ISSUES

a. The viability of a private S&L system in Bolivia

A basic AID/W concern with the proposed loan when it was first presented in IRR form on April 18, 1973 was whether a private S&L system could become viable in Bolivia. Based on the Bovet Report of March 1973 which appraised the operations of the ~~Bolivian~~ Bolivian system and outlined a plan for becoming financially self-sufficient, this loan program has been designed specifically to provide the S&L system with the type and amount of assistance considered necessary to propel it to the point of self-sufficiency. The strategy for achieving this objective is presented under section 7 above. It is the conclusion of the Project Committee that the proposed loan program will enable the private S&L system to become not only viable but also a strong, private financial system within the Bolivian economy.

b. The Level of GOB Financial Support

As indicated under the Section of the GOB contribution to the project, the Project Committee obtained the agreement of the Ministry of Finance to provide financial relief to the system to offset the cash flow problem created by the 6 year amortization of the \$b.40 million Central Bank (CB) loan. The Ministry of Finance has agreed to provide the Caja Central with another loan of \$b.40 million, repayable over 20 years with a 10 year grace period, to be disbursed over the three year period 1974-1976.

While this contribution will more than resolve the problem created by the repayment of the Central Bank loan, the Mission questions the advisability of encumbering Treasury resources at a time when it is expected that these resources will be inadequate to meet GOB expenditure requirements, forcing the Treasury into borrowing from the Central Bank. The importance, at the margin, of \$b.40 million in the GOB's revenues and expenditures represents further pressure on an already narrow financial base.

~~Given the Treasury's expected~~ financial weakness in the next few years, the Mission believes that the GOB should reschedule the current CB loan and soften the terms to 20 year repayment, 10 year grace at 6% interest p.a. This would eliminate the short term drain on the S&L system caused by the CB loan's 8 year terms and at the same time eliminate the need for the GOB to expend additional budgetary resources at a time when the GOB probably will be running a substantial deficit. (The GOB has indicated a willingness in principle to explore means to reschedule the CB loan and the AID loan will be authorized on this basis. Should for any reason it not prove possible to reschedule the CB loan then 1) an additional \$2.0 million GOB Treasury loan input or 2) an increase of the proposed AID loan from \$6.0 to \$7.0 million would need to be considered. These alternatives would have similar financial results as the rescheduling although the former would place a burden on future GOB financial resources while the latter would require an additional \$1.0 million USG input. If, ultimately, either of the latter alternatives are selected rather than the option of rescheduling the CB loan, this will require an amendment to the original loan authorization.)

It is estimated that the GOB will have a deficit of \$b.757 million in 1973 of which approximately \$b.510 is presently estimated as unfinanced. This during a period in which it was expected that the GOB fiscal situation was to sharply improve, the chronic deficit problem has reappeared. In view of this situation, it would appear that from a fiscal stabilization point of view programming an additional \$b.40 million in expenditures to meet the Caja Central needs would be counterproductive, and from the project's point of view, could be considered a less-than-assured source of funding. Thus, the alternative of rescheduling the CB loan should be seriously considered.

16. RECOMMENDATIONS:

On the basis of the conclusions of the Capital Assistance Committee that this Project is technically, economically and financially sound, it is recommended that a loan be authorized to the Caja Central de Ahorros y Préstamos para la Vivienda in an amount not to exceed US\$6.0 million, subject to the following terms and conditions:

- a. 30 year repayment, including a 10 year grace period in principal repayments, with interest at 2% per annum during this grace period and 4% per annum thereafter.
- b. The loan shall be guaranteed by the Government of Bolivia.
- c. Prior to first disbursement of the AID loan, the Caja Central shall submit to AID, in form and substance satisfactory to AID, the following:
 - (i) A Savings Promotion Plan for the system, including a complete description of the various elements contained within the plan, the means to be utilized and estimated cost of the respective elements, and an implementation schedule for the plan. Satisfactory implementation of this plan will be a continuing condition to subsequent AID loan disbursements.
 - (ii) A plan for the recruitment and utilization of technical advisory assistance.
 - (iii) A training plan for employees of the Caja Central and the Associations.
 - (iv) A time-phased plan for the acquisition of the additional staff necessary for the Caja Central and the Associations to be able to carry out the expanded program. Except as AID may otherwise agree, all such staff additions shall have been made by the end of CY 1974 in order to obtain AID loan disbursements for CY 1975.
 - (v) An equitable plan for allocating the AID loan funds among the S&L Associations so as to maximize savings promotion efforts and competition for these funds. This plan shall include estimates of individual S&L savings growth targets, projected disbursements to the respective S&L's and criteria for the reallocation of unused S&L quotas.
 - (vi) A plan for the use of the interest spread on the AID loan, including a provision or reserve against possible disparities between cumulative mortgage readjustments based on the cost of living and future exchange rate fluctuation.

(vii) A statement of mortgage loan criteria, including maximum amount, interest rates, eligibility requirements, etc.

(viii) Documentation necessary to verify that the Government of Bolivia guaranty is in full force and effect for any AID loan funds which may be disbursed.

(ix) An arrangement whereby the GOB-guaranteed Los Pinos HIG project would be effectively isolated from the other operations of the S&L system so that in the event of any shortfalls in that project, the GOB would not have recourse to the assets of the entire S&L system.

d. Except as AID may otherwise agree, the Caja Central shall, prior to the end of CY 1974 have:

(i) Developed and put into practice a uniform procedures manual.

(ii) Organized an internal audit department.

(iii) Arranged for the performance of administrative audits of the S&L operations.

e. Except as AID may otherwise agree, or except for meeting short ~~term liquidity needs of the S&L's, the Caja Central shall not purchase~~ newly generated mortgages from the Individual Savings and Loan Associations.

f. The loan shall be subject to such other terms and conditions as AID may deem advisable.

g. As a pre-condition to the execution of the Loan Agreement, the Government of Bolivia shall enter into arrangements satisfactory to AID, for rescheduling the repayments of the existing \$40 million peso Central Bank loan to the Caja from 8 years with a 2 year grace period on principal payments to 20 years with a 10 year grace period.

Project Committee:

Co-chairmen: Marshall D. Brown-LA/DR
Ronald G. Russell-USAID/Bolivia

Project Loan Officer: Larry Armstrong-USAID/Bolivia

Financial Analyst: Robert Clark-USAID/Bolivia

Engineer: Hasan Hasan-USAID/Bolivia

Economist: Randolph Mye-USAID/Bolivia

Approved: Arthur W. Mudge, Acting Director-USAID/Bolivia

SECTION I - THE NATURE OF THE PROJECT

A. Project Description

The project consists of the strengthening and expansion of the private, non-profit Bolivian Savings and Loan (S&L) System. The system consists of the Caja Central de Ahorros y Préstamos para la Vivienda (Caja Central) and nine mutual savings and loan associations. The Caja Central is a central regulatory, financing and promotion agency for the system. The nine associations are spread throughout Bolivia, with two in the capital, La Paz. They accept savings deposits from the public and channel these deposits, as well as other available funds, into middle and lower middle income, long term housing loans. The specific purpose of the loan is to enable the S&L system to become financially self-supporting^{1/} over the next 10 years.

On the output side, the achievement of the project purpose would enable the system to finance a significant portion of Bolivia's middle and lower-middle income housing demand over the next several decades. The strategy for achieving the project purpose is outlined in Section A.2 below.

1. Problems Confronting the System

The basic problem facing the Bolivian Savings and Loan System is its precarious financial condition. This condition is due to the relatively low volume of lending operations from which it derives its income. The volume of operations is in turn a function of the amount of domestic savings mobilized by the system plus external borrowing. Since its creation as a private entity, the Caja Central has labored under the handicap of insufficient capitalization. Operating at below the breakeven point and lacking adequate reserves to carry the system through any period of difficulty, the Caja Central's policy in the past has been to plough all available funds into income-producing mortgage loans. While this policy maximized income in the short run it did not contribute to increased savings attraction, upon which the long run success of the system depends. Given the financial condition of the system, the Caja Central was hesitant to forego current income from mortgage loans by reallocating available resources into savings promotion expenditures.

^{1/} Defined as the point at which the system has attracted sufficient savings to operate profitably without need for additional concessional assistance, and at which point net profits have been of sufficient magnitude to create the reserves necessary to support the system against any possible losses in the course of its operation.

As indicated above, the Caja's precarious financial condition was a consequence of the private character of the Caja Central. Most other S&L systems in Latin America have been sponsored by government housing or home loan banks; and being government institutions, the home loan banks received no-cost capital contributions to provide the necessary financial backing for the systems and to provide a sufficient volume of high yielding mortgage finance capital to enable these systems to incur relatively heavy savings promotion expenditures. The Peruvian S&L System, for example, received a \$7.5 million GOP equity contribution (matched by a \$7.5 million AID loan) at the time it was created in 1962. Utilizing this strong capital base, the Peruvian system undertook a systematic savings promotion effort and has achieved the position of financial self-sufficiency which is being sought for the Bolivian system. In contrast, the Bolivian system began in 1966 with a modest AID loan of US\$1.0 million and, because of the private character of the Caja Central, no government equity contribution. While the longer run operating efficiency will likely be greater as a private rather than public institution in Bolivia, the short to intermediate run financial hardship on the private but non-for-profit mutual system has been severe.

What the proposed loan seeks to do is to provide the Bolivian system with a sufficient volume of quasi-equity capital to enable it (a) to undertake, once and for all, the large scale savings promotion effort necessary to build the system's long run savings base and (b) to create, from the income generated from the spread on the AID loan, sufficient reserves and surplus to protect the system against any possible losses which it might incur over time. The strategy for achieving the purpose of the loan is outlined in the following section.

3. Strategy for Achieving Project Purpose

To achieve a position of financial self-sufficiency over the next 10 years, it is estimated that the system must attract, at a minimum, approximately \$b. 100 million (US\$5 million) in free savings by 1982. Based on the March 1973 study of the potential of the Bolivian S&L System prepared by Claude Rovet, Ex-Director of the Peruvian Home Loan Bank, it is estimated that the Bolivian system can capture 12% of total savings deposits in financial institutions in 1982. In addition, the Mission projects a growth rate in overall savings deposits of 10% per annum over the next decade. The effect of these two projections taken together would provide the system with approximately \$b. 100 million (US\$9.0 million) in savings in 1982.^{1/}

^{1/} See Section II.B.3 for a discussion of the basis for these growth rate projections.

a. Essential Actions

To reach the savings levels projected above, two actions are essential: (1) the system must undertake a large scale, systematic savings promotion program; and (2) the system must also receive a substantial injection of low cost (quasi-equity) lending capital to enable it to generate the volume of income-producing assets (e.g., mortgage loans) required to overcome its cash flow problems and to capitalize the system at an adequate level to protect it against reasonable risks.

Looking at the second requirement first, it is estimated that an AID loan of US\$6.0 million will be necessary to propel the system to the point of self-sufficiency. This level of AID assistance is predicated upon the effective rescheduling of \$b. 40 million 8 year Central Bank loan to the system. To offset the drain on the system of this 8 year loan, the Ministry of Finance has agreed to lend to the system an additional \$b. 40 million over 20 years with a 10 year grace on principal repayments. This loan could be disbursed over the period of 1974-76. However, current estimates of the future GOB fiscal situation indicate that a rescheduling of the CB loan and softening of its terms is the preferable means for offsetting the drain on the S&L system of the CB loan since this would require no future outlay of scarce GOB financial resources. If the GOB were not ~~to provide this~~ or some similar form of financial relief from the repayment effects of the Central Bank loan, then an AID loan of at least US \$7.0 million would be necessary to enable the system to reach the lower boundary of financial self-sufficiency.

The key action to be taken by the Caja Central as a part of the S&L development program is the formulation and execution of well-conceived and aggressive savings promotion program. The parameters for such a program were set forth in the above mentioned Bovet Report of March 1973. Based on Bovet's recommendations and the experience of the system to date, the promotion plan which the Caja proposes to carry out will contain various aspects.

First, the Caja Central plans to initiate a national publicity campaign through radio, T.V. and the press which will include the following components:

A radio campaign that -

(1) captures the interest of broadcasting station owners in the plan for promoting savings.

(2) broadcasts information about the benefits which the saver will obtain on depositing his funds in the S&L system,

(3) stimulates savings through question and answer contests and other types of contests which offer prizes of cash, domestic appliances, paid trips, liberation of initial installments, etc..

(4) broadcasts interviews and round table discussions which deal with the topic of savings and housing systems, and,

(5) publicizes new housing programs which the system undertakes.

A television campaign that -

(1) captures the interest of the television station management in order to obtain full collaboration in implementing the promotional plan,

(2) televises discussions with community leaders, boards of civic groups, private company representatives, and press personnel on topics concerning savings which demonstrate the confidence that these people have in the S&L Associations,

(3) transmits interviews with groups of employees, workers and students with the purpose of stimulating these groups to begin their savings through the S&L System,

(4) televises programs with groups of parents to stimulate their savings for the "Future House of Your Own",

(5) transmits film-strips specially prepared for stimulating saving, and,

(6) televises various types of contests designed to encourage savings by offering cash and other prizes.

A press campaign that -

(1) captures the interest of newspaper directors and editors in order to ensure that the opinion of these people is favorable to the activities of the S&L System and that they provide ample newspaper coverage which is complete, informative and interesting,

(2) publishes the S&L System's activities including work meetings, conferences, social gatherings, seminars, personnel training, etc.,

(3) announces new programs of incentives and contests in which the savers should have direct participation,

(4) publishes news on new housing programs, and

(5) publishes statistics on the increase of savings and other S&L growth data.

In addition to the publicity plans mentioned above, the S&L System proposes to carry out the following complementary activities in order to enhance the possibilities for success of the promotion plan:

- (1) train S&L personnel in public relations including procedures for personally contacting employees, workers, students and housewives, based on a program of "door-to-door" visits,
- (2) improve the efficiency of the S&L System's employees in the management of the affairs of its savers and of the association in general,
- (3) improve the S&L offices by acquiring new office sites, buildings and furniture,
- (4) develop new service programs for savers,
- (5) prepare information bulletins for the public which give wide coverage to new and different S&L plans, and
- (6) develop a savings program around the idea of "Sav-

~~ing Day~~.

Furthermore, the Bolivian S&L System proposes to pay "the best interest" within the Bolivian financial system. Although the interest rates which other institutions offer to the public are not officially known, as soon as this situation is defined, the S&L system will establish "the highest interest rates" among the savings institutions. The fact that the S&L system will be readjusting its saving deposits as well as outstanding loans to compensate for internal price inflation will provide the system with a clear competitive edge in savings attraction over the other financial institutions which offer savings accounts. While these other institutions will be paying a nominal 8-10% p.a., which is subject to a price inflation estimated to average 5-10% p.a., the S&L system will be able to combine its 8-10% interest rate with the savings readjustment factor (in this example 5-10%) for a real or effective interest rate substantially greater than their competitors.

Besides the benefit of receiving the highest interest rate from the system, the following advantages of saving at a S&L association will be publicized:

- (1) importance of collateral for securing a loan,
- (2) savings accounts insured up to \$b. 50,000,

- (3) guaranteed investments,
- (4) readjustability of saving accounts based on a cost-of-living index,
- (5) ownership aspect of belonging to a mutual system, and
- (6) possibility of obtaining a "House-of-your-own" on the basis of savings.

Finally, the Caja Central proposes that several additional steps be taken to facilitate the savings promotion plan:

(1) train and motivate the directors of the S&L associations to enable them to give talks to groups of employees, syndicates, etc, with the purpose of encouraging them to save in the mutual S&L associations,

(2) carry out a study to determine where the campesinos and low income groups in the cities save, and what incentives can be created to encourage them to save in the mutual S&L associations, and

(3) establish a system which pays the maximum interest the law allows, i.e., 8% on demand deposits, 9% for savings held at least 6 months but less than 1 year and, 10% for savings held 1 year or more.

As a condition precedent to first disbursement, the Caja Central shall develop and refine the above plan in final form, including details on the means to be utilized and cost of carrying out each aspect of the plan, as well as a schedule for the implementation of the various components of the plan. The Caja Central has indicated that it is planning to contact Argentine and Peruvian advertising firms, as well as those in Bolivia, in order to choose the most capable firm for promoting savings in S&L institutions in Latin America.

b. Other Elements of the S&L Development Program

The other important elements of the assistance program on which agreement has been reached are listed below. The majority of these elements constitute managerial or operational improvements in the system.

- (1) Plan for utilization of technical assistance, including development of a central service corporation.
- (2) Plan for participant training.

(3) Organization of an internal audit department

(4) Plan for equitable allocation of AID loan funds among associations so as to maximize competition, while promoting the development of the smaller associations, including the establishment of savings growth targets by associations and the conditioning of loan disbursements on the basis of percentage increases in savings attraction.

(5) Allocation of AID loan spread between Caja Central and the associations.

(6) Establishment of a reserve of 1% of the spread on the AID loan against possible disparities between cumulative cost of living readjustments and exchange rate changes.

(7) Satisfactory reporting system from S&L's to Caja Central and from Caja to USAID/Bolivia.

(8) Plan for increased staffing.

3. Savings and Loan Operating Criteria

~~Operating Criteria for Minimum Mortgage Loans~~

- Maximum term: 20 years
- Down Payment (Tied Savings): 15% of total cost
- Interest Rate: 12% p.a. (plus 1.5% for life and mortgage insurance)
- Closing Fee: 3%
- Maximum Mortgage Loan (100% of value of house and land): US\$8,500
- Practical Minimum Mortgage Loan: \$2,500 - 3,000
- Borrower cannot own other house; owner occupancy only
- Maximum of 25% of monthly family income for amortization payments.
- Life insurance on family members whose income is included in monthly family income

b. Dividends on Savings Accounts

- Passbook savings: 8%
- Time deposits: 9-10% depending on period

c. Criteria for utilization of AID Loan Funds

The Caja Central proposes that 30% of the \$4.5 million loan be allocated to the two S&L's in La Paz and 70% of the loan be allocated among the seven associations outside La Paz. This is a distribution based on the fact that the S&L's outside La Paz are less developed and are most in need of assistance. Based on the information available concerning the geographic composition of estimated demand, it is believed that the funds can be promptly utilized on this distributional pattern. Should serious difficulties arise in placing all of the funds allocated to a given city such funds could be reallocated to the La Paz area and absorbed without difficulty.

It is proposed that up to 25% of the funds reserved for the individual associations be disbursed from the Caja to the S&L upon presentation of evidence that the S&L has projects and approved borrowers to utilize these funds. Thereafter the remaining 75% of the S&L quota will be disbursed in the same proportion as the S&L's percentage increase in free savings compared to the level of saving deposits as of June 30, 1973.

As a condition precedent to first disbursement, the Caja Central will submit a revised plan for the utilization of the AID loan, including individual S&L's savings growth targets, projected disbursements and criteria for subsequent reallocation of unused S&L quotas.

The purpose of conditioning disbursements to the S&L on success, relative to previous savings mobilization, in attracting increased savings is to maximize the incentive for the S&L's with the lowest savings to increase their savings and (b) to provide support to the efforts of the Caja Central to launch the system on the saving growth necessary to attain financial self-sufficiency by 1982.

It is noted that the proposed 70/30 funds allocation ratio between seven S&L's outside La Paz and the two in La Paz is somewhat inconsistent with the geographic distribution of the \$5.9 million backlog of projects shown in Annex C.2, which shows a 60/40 demand split between La Paz. However, this demand backlog is not intended to represent the actual use of AID funds but rather to justify the economic need of the loan amount in terms of effective demand. Based on the experience which Caja personnel have had with the Directors of the S&L's outside La Paz, the Caja is confident that there is more than enough demand in the secondary cities to enable 70% of the funds to be allocated outside La Paz.

B. Project Background

1. The Urban Sector

It is estimated that the population of Bolivia in 1970 was 4,658,000 which represents an increase of 55% over the 1950 level of 3,013,000. Over the same period of time, the urban population, which stood at 779,000 in 1950, increased by approximately 112% to its 1970 level of 1,652,000. Thus Bolivia's urban population has been growing about twice as fast as the general population as a whole. The rapid expansion which has taken place in Bolivia's urban sector is illustrated in the following table:

Growth In The Population Of The Principal Urban Centers
Of Bolivia Between 1950-1970 (in thousands)

<u>City</u>	<u>1950</u>	<u>1970</u>	<u>Percentage increase between 1950-1970^{1/}</u>
La Paz	321.1	679.0	111
Cochabamba	89.8	149.9	85
Oruro	63.0	112.5	79
Potosí	45.7	96.8	112
Santa Cruz	42.7	124.9	192
Sucre	40.1	84.9	112
Turija	16.9	35.7	111
Trinidad	10.7	22.8	113

^{1/} 1950 equals 100%

Source: Economic Statistics, USAID/Bolivia (1972) No. 13.

During this period, Bolivia was for the most part, without an effective institutional means to provide for the additional housing required by this process of rapid urbanization. However, in 1964 the National Council of Housing (CONAVI) was established by the GOB to provide low cost housing to government employees and in 1966 the private Caja Central de Ahorros y Previsión para la Vivienda (Caja Central) was created by decree law to provide mass financing for the middle income population, through a savings and loan (SEL) system. These institutions together with the National Mining Housing Board, which provides home financing to the workers in the mining industry and the National Petroleum Housing Board, which provides similar financing to the employees of the

petroleum industry, are the principal institutions providing financing for home construction or improvement in Bolivia.

Thus, during the period between 1950-1970, Bolivia accumulated a large urban housing shortage. It has been estimated by the Ministry of Urban Affairs that there is an urban housing shortage of 100,000 living units which is increasing at 2.7% yearly. Based on the assumption that approximately 10-15% of the urban population falls within the lower to upper middle income groups (the market focused on by the Caja Central) and that the housing shortage is distributed fairly equally among the various income groups, the urban shortage within the middle income groups is estimated to range somewhere between 10,000 to 15,000 units.

(While this figure may overstate the actual middle income housing deficit, there are no better sources available in Bolivia. There has been, for example, an average of more than 2,500 new electric power connections in the city of La Paz over the last five years. It is suspected that a major portion of these connections were for middle to upper income housing, but no data is available on the income breakdown of the new customers. A more important consideration for purposes of the proposed loan is the effective middle income demand for the housing to be provided under the proposed program; and as indicated in Annex C.2, there currently is a backlog of projects and home buyers which exceeds the amount of the AID loan.)

2. Prior AID Assistance

Against the background of rapid urbanization described above, which includes the resulting housing deficit and the inadequate institutional means to deal with the problem, AID has provided a total of \$2.2 million in seed capital and provided or authorized an additional \$9.6 million in the form of Housing Guarantees in order to help alleviate the housing shortage and, at the same time, to support the institutional development of the Bolivian S&L System (See Annex C.3)

The earliest loan assistance provided to a home financing institution was made to "La Primera", the first S&L Association in Bolivia. "La Primera" was authorized by a GOB Supreme Decree in September 1963 and commenced operations in June 1964. AID assisted "La Primera" with two local currency loans of US\$200,000 (April 17, 1964) and US\$500,000 (August 1, 1964) each. By the end of 1966, "La Primera" had approximately \$1.0 million in lending capital and had opened branches in Santa Cruz, Cochabamba and Oruro.

Subsequently, two additional loans were made to the Caja Central which was created in its present form by GOB Law 07585 in April 1966. In June 1967, AID signed local currency Loan 511-ICL-1009 with the Caja

Central for the equivalent of US\$1.0 million. This loan was used for subloans to the five S&L's which were organized during the disbursement period (including the three "La Primera" branches outside La Paz which were organized as independent S&L's in their respective cities). Further, AID assistance has been provided by a loan for the local currency equivalent of US\$500,000 (511-ICL-1024, January 1969) and Housing Investment Guaranty 511-HG-003 in September 1969 for US\$3.6 million. The Housing Investment Guaranty funds were used entirely for the purchase of mortgages from the existing S&L associations. In addition, the Caja Central has been authorized a US\$6.0 million Housing Investment Guaranty (511-HG-004) for the first stage of the "Los Pinos" project, a large housing development in La Paz. The "Los Pinos" project will be jointly administered by the Caja Central and the two S&L associations in La Paz.

3. Past Activities of the S&L's

Between 1964 when "La Primera" initiated operations and 1971 with the establishment of Paititi, the nine member Bolivian S&L Association was organized. As of December 31, 1972, the S&L system had attracted 11,965 savers who made net deposits (both free and "tied" savings) of 29.1 million Pesos Bolivianos, equivalent to approximately ~~US\$1.5~~ million (See Table I, page 12). Between 1967 and 1972 the number of savers in the system increased at an average annual rate of approximately 32% as did net savings. It should be noted, however, that in 1972 there was a net decrease in savings from the previous end of year which totaled 1.2 million Pesos Bolivianos (approximately US\$60,000^{1/}). This decrease in savings appears to have been caused by the October 27, 1972 currency devaluation which resulted in additional, above normal withdrawals from S&L savings accounts during the last quarter of CY 72 of 10.9 million Pesos Bolivianos (approximately US\$540,000^{1/}).

With respect to loan activity within the S&L system, 2,107 loans were made as of December 31, 1972 which amounted to 118.7 million Pesos Bolivianos equivalent to approximately \$9.9 million^{2/} (See Table II, page 12). Between 1966 and 1972, the number of loans granted and the amounts lent by the S&L system increased at an average annual rate of approximately 36%. Thus, during the period of 1966-1972, over 2,000 homes were improved or constructed with loans made by the Bolivian S&L System as shown in the following Table:

^{1/} converted at 20:1, the prevailing rate at time of withdrawal.

^{2/} converted at 12:1, the prevailing rate at time loans made.

TABLE # I: Number of Savings' Depositors & Amount Deposited in the Bolivian S&L System between 1967-1972 (in millions of pesos)

ASSOCIATIONS	Dec. 31 1967		Dec. 31 1968		Dec. 31 1969		Dec. 31 1970		Dec. 31 1971		Dec. 31 1972	
	No. of depositors	Net de- pos.										
La Primera	2,502	5.7	3,361	7.9	3,995	10.5	3,456	11.2	5,751	14.2	5,839	13.3
La Promotora	245	.5	250	.8	423	1.3	540	2.0	646	2.9	697	4.7
Guapay	289	.5	380	1.0	425	1.3	494	2.0	623	2.3	761	1.9
El Progreso	443	.6	582	1.1	751	1.8	1,010	2.8	1,244	3.7	1,254	2.1
Tarija	150	.1	186	.1	365	.4	495	1.0	647	1.5	745	2.0
Potosí	-	-	137	.1	235	.3	362	.8	383	.8	447	1.1
La Plata	-	-	-	-	231	.5	270	.9	353	1.2	353	.8
La Paz	-	-	-	-	-	-	1,112	1.7	1,315	3.4	1,397	2.7
Paititi	-	-	-	-	-	-	-	-	292	.2	472	.5
TOTAL	3,629	7.3	4,896	11.0	6,425	16.0	7,739	22.3	11,254	30.3	11,965	29.1^{1/}

^{1/} Includes approximately 5.5 million Pesos Bolivianos of "tied" savings.

TABLE # II: Number and Amount of Loans Made by the Bolivian S&L System between 1967-1972 (in millions of pesos)

ASSOCIATIONS	Dec. 31 1967		Dec. 31 1968		Dec. 31 1969		Dec. 31 1970		Dec. 31 1971		Dec. 31 1972	
	No. of Loans	Cum. Amt.										
La Primera	338	17.0	436	22.8	481	25.3	576	32.1	690	37.4	834	44.0
La Promotora	43	2.4	62	3.6	75	4.4	148	7.6	219	11.9	265	14.9
Guapay	36	2.0	55	3.4	65	4.2	101	6.8	142	9.7	247	17.0
El Progreso	44	1.9	60	2.9	100	4.4	157	7.3	241	11.2	279	16.8
Tarija	-	-	4	.2	12	.4	43	1.9	94	4.1	148	6.3
Potosí	-	-	-	-	1	-	26	1.2	49	2.0	78	3.1
La Plata	-	-	-	-	6	.3	30	1.6	52	2.7	68	3.9
La Paz	-	-	-	-	-	-	-	-	79	4.6	154	10.3
Paititi	-	-	-	-	-	-	-	-	-	-	34	1.9
TOTAL	461	23.3	578	32.7	740	39.0	1,081	58.5	1,566	83.6	2,107	113.7

SOURCE: December 31 Quarterly Report of the Bolivian System of Savings and Loans (1967-1972)

Number of Houses Financed by the S&L System Since
the Initiation of the Caja Central

<u>Years</u>	<u>Number of Houses</u>
1966	140
1967	318
1968	169
1969	115
1970	339
1971	485
1972	<u>541</u>
Total	2,107

Source: Caja Central

4. Other Sources of Home Financing

At present, besides the S&L system, there are several other Bolivian institutions which provide home financing to various special ~~sectors of the economy~~. These institutions include the Consejo Nacional de Vivienda (CONAVI), the National Mining Housing Board and the National Petroleum Housing Board. In addition, the commercial banking institutions are providing home financing.

CONAVI, a GOB agency, has the responsibility for providing low-cost housing for lower-income families employed by the Government. CONAVI obtains its capital from several sources which include a tax paid by the employer equivalent to 2% of the employee's salary and a 0.7% tax applied to the sales of the manufacturing industry. However, the major source of CONAVI's financing has come from two Inter-American Development Bank (IDB) loans: the first negotiated in 1963 for \$4,000,000 and the second in 1967 for US\$5,500,000. Both loans are on concessional terms requiring repayment in 30 years and annual interest payments of 2 and 3% respectively.

CONAVI's loans which are generally repayable in 20 years at 6% interest for single family dwellings and 8% for multi-family, condominium style apartments, have been used to built approximately 6,700 low cost living units since 1964.

The National Mining Housing and Petroleum Housing Boards have the responsibility of providing housing to the workers in the mining and petroleum industries. The principal source of income for these housing boards is a tax paid by the employer equivalent to 2% of the worker's salary. During the life of these two institutions, they have financed approximately 900 living units with 20 year repayable loans which carry annual interest of 6%.

The Bolivian commercial banking institutions have at their disposal a limited amount of funds from the Special Fund for Economic Development (the Special Fund) which can be used for financing home construction. These funds, which have been generated from the repayment of previous AID loans (511-L-014, 029, and 031) that were associated with the Corporación Minera de Bolivia (COMIBOL) and the Empresa Nacional de Electricidad (ENDE) have been made available to commercial banking institutions for relending for various developmental activities in the areas of Industry, Agriculture and Cattle, Transportation, Mining, and Construction which includes the completion of home construction. As of December 31, 1972, approximately 223.9 million Pesos Bolivianos had been disbursed from the Special Fund. Of this amount, approximately 65 million Pesos Bolivianos had gone to home financing since 1966. These funds are made available to the borrower at 10% interest per annum, principal repayable in 10 years.

These loans carry no maintenance of value provisions or insurance. Since these loans are for completion of construction (or in some cases expansion), the effective collateral requirement is on the order of 50% (home value plus land). In many cases the homes being financed from this source are somewhat more expensive than those financed by the S&L system. Approximately 600 living units have been completed with financing from the Special Fund.

C. Project Justification

1. Place in Country Program

AID has long had an interest in establishing the institutional capacity within Bolivia to provide housing for the middle and lower middle income sectors. There are various reasons for this interest: Bolivia is faced with a large and increasing housing shortage and the small but important middle class can neither build their houses nor buy them on the open market without institutional assistance; adequate housing will give the homeowner a direct interest in his country's economic and political stability; and, increased construction activity will have a significant effect on the economy in terms of jobs and materials and an indirect impact on stimulating entrepreneurial activity. The broader goal to which this project will contribute is the encouragement and strengthening of the capacity of private financial institutions to contribute to Bolivia's social and economic development.

Government sponsored housing programs have primarily served the needs of miners and other groups of workers, and with limited success. The only institution which provides long term housing finance for the middle and lower middle income sector is the privately owned mutual savings and loan (S&L) system, directed by the Caja Central. The S&L system has been supported by AID from its inception in 1963, with small local currency loans and two housing investment guaranties. (See Project Background above). This assistance, while invaluable in the early formation of the S&L system, has been insufficient to create the necessary conditions for the system to become viable and independent of outside support. The continuing Mission interest in assistance to the S&L system is shown in the current Bolivia CASP and USAID/Bolivia Field Budget Submission which was presented to AID/W in July 1972. Reflecting the policy stated above, they establish assistance to the S&L System as proposed in this Capital Assistance Paper as one of the priorities for AID lending in Bolivia.

2. Rationale for a Direct AID Loan

Section 222 (a) of the FAA as amended provides that the President shall assist in the development of savings and loan type institutions in Latin American countries. In the past, AID has provided both direct loans and housing investment guaranties for the establishment and strengthening of S&L systems in eleven Latin American countries. The S&L System in Bolivia has received two housing investment guaranties; however, what the Caja Central needs, in addition to mobilizing more saving and increasing the volume of mortgage lending, is to increase its capitalization to a level sufficient to protect the

system against the risks inherent in mortgage lending when a large proportion of the system liabilities are dollar denominated. This is the basic rationale for the direct AID loan; for only a concessional loan can provide the interest spread to the Caja (and the S&L's) necessary to assure adequate capitalization of the Caja and to enable all of the S&L's to operate profitably.

In addition, the achievement of the project purpose will enable the system to meet the housing needs of an ever-increasing proportion of the middle and lower-middle income population, and at the same time provide a permanent source of employment for the construction trades, the latter being a continuing concern within the realm of political economy for both the Bolivian and the United States Governments.

SECTION II - PROJECT ANALYSISA. Institutional Analysis: Caja Central and S&L Associations1. Caja Central de Ahorros y Préstamo para la Vivienda

a. Functions

The Caja Central was established in 1966 by Decree Law No.07585 as the private central home loan bank for the Bolivian S&L System. Under this enabling legislation the Caja enjoys the following attributes:

Banking

- To act as the borrowing agent for the savings and loan system, both with regard to local and foreign sources of finance.
- To be the primary lending agency for the individual associations comprising the savings and loan system.
- To perform other banking services for individual associations, such as to receive deposits from them, guarantee their borrowings from third parties, do mortgage loan banking, etc.

Insurance

- To provide savings deposit insurance..
- To provide mortgage loan (FHA) insurance.
- To provide individual or group credit life, accident and health, and unemployment insurance; as well as hazards and property insurance.

Promotion

- To charter new associations.
- To promote savings within the system.

Regulation

- To establish regulations to rule the activities of associations within the system.
- To establish interest rates and other limits affecting the associations.
- To determine the monetary correction limits affecting the associations.

Supervision

- To supervise the activities and operations of individual associations.
- To intervene in the management of individual associations as and when warranted by circumstances.

The Caja Central carries out the above responsibilities through four organizational units: the finance department; the supervision and insurance department; the technical department; and the legal department (see Organization Chart in Annex B). Currently the Caja Central has a total of 15 employees; 2 in the finance department; 4 in the legal department; 3 in the combined insurance and supervision department; 2 in the technical department; 3 messengers; and the Executive President. The Caja Central's actual budget of \$b.9.4 million (US\$ 47,000) for CY 1973 is shown in Annex C. To carry out its role in the proposed program, the Caja Central is planning to expand its professional staff by adding 3 positions in the technical department and one in the finance department, and by creating a full time promotion/advertising position and a full time internal audit position. The projected 1974 budget of \$b.10.24 million is also shown in Annex C.

The Board of Directors of the Caja Central is composed of ~~five directors, four elected by the S&L associations and one selected~~ by the Minister of Finance. The President of the Board is elected by the Board members for a period of three years and may be reelected. The current President, Mr. Ernesto Wende, is also Executive President of the Caja. Mr. Wende organized Bolivia's first S&L association prior to the creation of the Caja Central, and is in large part responsible for bringing the private S&L system in Bolivia to where it is today.

The Caja Central, and the S&L's are under the supervision of the Superintendency of Banks, which is currently exercised by the Examination Department.

b. Strengths of the Bolivia S&L System

At AID's request, a study of the present condition and future needs of the Bolivian S&L System was carried out in March 1973 by Claude Bovet, ex-President of the Peruvian S&L System. Mr. Bovet found that the overall system was soundly organized and operated and that it enjoyed the following accomplishments and advantages:

- Existing savings and loan legislation is comprehensive and the system faces no serious legal impediments.
- Instruments available to the system such as readjustment of accounts, high interest rates, promotional devices, and personal service, give it a competitive edge over other financial institutions in the attraction of savings deposits. This is also true to a great extent in the lending field.

- The Caja Central is well organized and adequately staffed, as are, on the whole, the individual associations within the system.
- The quality of developments and houses financed by the system, as well as their volume and geographic dispersion, provide the individual associations with a positive public and political image.
- The system has adjusted well to the October 1972 monetary devaluation, by readjustment of the associations' asset and liability accounts, despite the magnitude and suddenness of the required correction.
- Technical assistance has been obtained and utilized well by the system.

Mr. Bovet concluded that a basically sound institutional base for accelerated growth has been developed by the Caja Central and the S&L system. The present S&L system is based on the concept of decentralization with financially and operationally strong individual associations. This concept should be continued and strengthened. It maximizes the advantages of local initiative and expertise, together with the benefits of diverse experimentation and solutions. It promotes a healthy degree of competition between associations. Care will be taken in execution of the loan programs to ensure that the benefits are spread equitably to the entire system throughout Bolivia.

There are, however, a few areas where a degree of centralization might be advisable. As indicated below, technical assistance will be provided to study the possibility of centralizing activities in the following fields (see also page 22):

- Mortgage loan and savings account processing, data processing and other accounting requirements.
- System advertising and public relations.
- Land development and construction lending.

At the operating level, by centralizing the above functions, the system would obtain economies of scale and of specialization. This would be particularly important to associations outside the La Paz area, where the professional staff and specialized supporting elements required in their activities constitute a heavy burden on their overhead expenses.

c. Role in the Proposed Program

As the Borrower of the AID loan, the basic role of the Caja Central is to insure the achievement of the project purpose. The preliminary allocation plan for the AID loan funds was designed by the Caja

Central with the objective of strengthening the smaller associations and bringing all the associations to the point of financial self-sufficiency. The Caja Central will also monitor, together with USAID/P, the progress of the individual associations in meeting their respective savings growth targets. Disbursements to the associations will be subject to an evaluation of their efforts to promote savings and their success in actually attracting them.

Another major role of the Caja Central in the proposed program is the design and execution of the overall savings promotion program to be undertaken. A well-conceived savings promotion program is essential to the long run success of the project.

d. Insurance Offered by the Caja Central

The Caja Central presently provides FHA type as well as mortgage-life insurance to the 9 S&L associations in the system. It is also studying the possibility of offering savings deposit insurance to the members of the S&L associations in the future.

1) FHA Insurance

The purpose of FHA insurance in the U.S. has been to protect the home financing institution against a loss caused by the default of the mortgagee and to provide the financial institution with mortgages which can be easily marketed for capital since they meet standard FHA criteria. The Caja Central is providing FHA type insurance for these same purposes in Bolivia, i.e., the insurance protects the S&L associations from mortgagee default and provides mortgages that can be purchased and sold by the Caja Central to U.S. investors under the AID guarantee program.

The premium charged by the Caja Central is 1/2 of 1% yearly on the unpaid balance of the loan. As of December 31, 1972 approximately 230,000 Pesos Bolivianos had been paid into the FHA reserve account against a total amount of insurance in force of approximately 101.8 million Pesos Bolivianos. Based on the April 1972 findings of a mortgage insurance specialist ^{1/}, the present FHA reserve appears sufficient, especially when one takes into account the decrease in the reserve to total insurance-in-force ratio and the minimal total claims of 9,000 Pesos Bolivianos paid out to date. (For further information on the FHA approval process followed by the Caja Central see Section II, A.1.)

^{1/} Dallas Bennowitz, Report on the Bolivian Savings and Loan System and the Caja Central de Ahorros y Préstamos para la Vivienda (April 1972).

2) Mortgage-Life Insurance

The purpose of mortgage-life insurance is to pay off a mortgage obligation in the event of 1) total incapacitation of the mortgagee caused by accident, or 2) death of the mortgagee. Thus, in the event of either of these occurrences, the unpaid balance of the mortgage is paid by the Caja Central and clear title is passed to the beneficiary chosen by the mortgagee.

However, before a loan applicant can obtain mortgage-life insurance, he must fill out a Declaration of Health Form giving pertinent information regarding his and his family's medical history and his state of health. In addition, he must pass a medical examination given by a doctor acceptable to the Caja Central. When these procedures are satisfactorily completed, the Caja Central can insure the applicant for up to the difference between his actual age and 65. Thus, a man 50 years of age can obtain, as a maximum, a 15 year housing loan and insurance policy.

For mortgage-life insurance, the Caja Central charges a premium equal to 1% of the face value of the loan which is maintained over the loan's life. As of December 31, 1972, the Caja had set aside \$b 1,000,000 in the Capital Insurance Fund which was established ~~to~~ meet the initial capital requirements prescribed by the GOB for insurance operations. In addition to these funds, the Caja Central's Mortgage-Life Reserve Account contained \$b 1,100,607 at the end of 1972. This amount is considered sufficient, based on actuarial calculations, to cover named contingencies.

3) Saving Deposit Insurance

Deposit insurance provides a guarantee to the saver that his deposits will be returned to him upon request even if the savings institution fails. This type of insurance has been a positive asset to savings institutions for it assists them in their promotion of savings deposits by allowing them to advertise that their depositor's savings are insured safe against all loss.

The Caja Central was authorized to provide deposit insurance in the decree (07955) which created the Caja Central. No other Bolivian savings institution presently has such an authorization. The Caja Central is now considering the possibility of introducing this type of insurance to the 9 S&L associations. The cost of the premium would be 1/4 of 1% annually to the S&L associations on the average value

of savings deposits held during the year. The deposits would be insured up to 50,000 Pesos Bolivianos against any risk or loss. Thus, savings deposit insurance could be an important part of a strategy of savings promotion which the Caja Central and the S&L association is contemplating.

e. Technical Assistance Program for the Caja Central

A preliminary plan for technical assistance has been agreed upon with the Caja Central. It is presently contemplated that assistance will be provided in the following areas:

- Development of an operational manual to standardize all S&L operations, including auditing and administrative and control systems.
- Development of a centralized service bureau which could carry out certain functions on a centralized basis such as land development and construction lending; mortgage loan and savings account servicing, data processing and other accounting requirements; and system advertising and public relations.
- Development of a plan for mechanized accounting for the Caja Central and the S&L system to enable them to efficiently handle the ~~large~~ volume of savings and lending operations.
- Development of standardized construction supervision and control systems.
- Development of a Deposit Insurance Program.
- Savings Promotion.

The types of specialists and sources for obtaining such assistance are described further in Section III.A.2.

2. The Savings and Loan (S&L) Associations

A savings and loan association is a financial institution chartered expressly to accept savings deposits from the public and to invest these funds in long term residential mortgage loans. The nine S&L associations that make up the Bolivian system are not-for-profit mutual associations owned and controlled solely by their member-savers. (A stock association by contrast issues capital stock to the investor-owners who provide the initial operating capital for the corporation.)

As indicated in Section I.B.3, the nine S&L's have financed a total of 2,107 home loans since the system was formed in 1966; in 1972, they financed 541 home loans.

a. Organization and Management

The typical S&L is controlled by a Board of Directors which is elected by the member-savers. One of the primary responsibilities of the Board is to approve mortgage loans recommended by the S&L Manager. The organizational units of a S&L include the following: Loan Department, Technical Department, Legal Department, Accounting Department and Savings Department. All of these operations are coordinated and supervised by the S&L Manager.

b. Mortgage Lending Procedures

The mortgage lending procedures utilized by the S&L's are based in large part on U.S. FHA credit underwriting procedures. In fact the procedures are called the "FHA Standard" system in Spanish. The Bolivian FHA System was examined by Dallas Bennowitz, Assistant Vice President of the U.S. Savings and Loan League, in April 1972 and found to be soundly conceived. For this reason, only the main elements will be described below.

1) Loan Approval Process

Prospective borrowers may be seeking a loan to buy or build a house on land already owned or to buy a house in a development sponsored by a builder. In either case, the prospective borrower must have a savings account in the S&L equal to at least 3% of the loan requested and must provide the following information and meet the following requirements:

- Amount and purpose of the proposed loan.
- Family composition and evidence that family income is sufficient to amortize proposed loan.
- Evidence that no family member owns another home.
- Evidence that applicant is within age limits for mortgage life insurance.
- Evidence that applicant is in good health and can qualify for life insurance.
- Evidence of clear land title and municipal approval of plans, if the applicant wants to build his home on land already owned.
- Three copies of plans, technical specifications, budget and construction chronogram.

In order to avoid the expenditure of unnecessary time and effort, on the part of applicants and the associations, the S&L requires confirmation by the applicant in a pre-application form that he can meet all of the above requirements. After the S&L verifies that the applicant appears to be able to qualify for a loan, the applicant is requested to present the formal appropriate documentation necessary to fulfill the specific requirements.

Both the technical specifications and the budget must be signed by the proposed builder and the applicant, and found satisfactory by the S&L's engineer or architect. The proposed builder must also be known to the S&L technical department and be judged competent to carry out the project.

As soon as all of the required documents are submitted, the Loan Department fills out a standard loan application form (FHA Form 1) which is signed by the applicant. The Loan Department also completes the credit analysis and request for insurance commitment form (FHA Form 3). All technical plans, specifications, budgets, etc. are sent to the Technical Department. The Technical Department analyzes this information and records its findings in the Technical Report (FHA Form 2). The Legal Department carries out a similar review of all legal documents.

If the credit analysis and the technical and legal reports are satisfactory, the Loan Department verifies that the applicant has the required 15% on deposit in the form of tied or reciprocal savings, and then bills the applicant for the 3% closing fee. The S&L Manager then presents the application to the S&L Board of Directors for formal approval of the loan. After the loan is approved, the S&L sends a complete set of FHA forms on the loan to the Caja Central requesting a mortgage and life insurance commitment. Once this is received from the Caja Central, the S&L prepares the loan agreement; the loan is secured by a first mortgage on the property. After execution and registration of the mortgage loan, the Caja Central issues the FHA mortgage and life insurance, and the construction contract is signed with the builder. (Disbursement procedures are described in paragraph (3) below.)

The Bolivian FHA system serves two functions: (a) on the one hand, it insures the member associations against loss because of default by the mortgagee; and (b) it provides the Caja Central with marketable mortgages with some known grade of quality, which have been, and can be, packaged and sold to U.S. investors under the Housing Investment Guaranty Program. Buyers of mortgages do not want to look at each and every loan they buy. The fact that the Bolivian loans carry FHA type insurance indicates to the buyer that there is no need to make detailed investigations of each mortgage offered. That FHA criteria has been used

in the review of these loans and that they have been found to qualify for insurance is sufficient for most investors. The investor is actually buying the FHA insurance and the known underwriting standards that go along with this insurance. Also in the not too distant future the Caja Central may want to issue bonds or debentures backed by a pool or group of mortgages. This can only be accomplished if the mortgages in these groups are FHA insured.

2) Housing Project Approval Procedures

For housing projects sponsored by private builders and/or the S&L and a builder, the Caja Central has a standardized system of review to determine whether to issue a mortgage insurance commitment for the project. The following information is submitted by the S&L to the Caja Central for this purpose:

- name of project
- type (multifamily building or single family homes)
- description of different types of units
- ~~general description of project, including location, size of land, number of units and/or floors, commercial and community areas, cost estimate, period of construction, proposed builder, owner of land and how it will be financed, and number of families to be benefited~~
- project locations in relation to schools, churches, markets, places of work, transportation facilities, etc.
- availability of utilities
- market study of potential buyers
- complete technical study of project, including site plan, designs, technical specifications, structural calculations, construction plans, disaggregated cost estimates, soil studies, and all other relevant technical details
- analysis of all unit prices for items of construction
- breakdown of local and imported inputs
- construction schedule and proposed disbursement schedule
- report evidencing clear land title
- report on financial solvency and experience of (and proposed guaranties from) builder

- report containing analysis and approval of project by the Technical Department of the S&L, as well as approval of plans by the municipality
- approval of the project by the S&L Board of Directors.

The above information is analyzed by the Caja Central and if there is no problem found, the Caja Central issues an Insurance Commitment for the project; and then the S&L proceeds with the promotion of the project. As soon as the S&L members selected for the project have all deposited the required 15% in their savings, the S&L remits individual FHA forms to the Caja Central to obtain the specific Insurance Commitment relating to the respective individual borrowers. Thereafter, the mortgage loan contract and the construction contract are executed.

3) Construction Inspection and Disbursement Procedures

Once the project is under construction, the work is supervised by an architect or engineer employed by the S&L financing the project.

This individual is responsible for preparing periodic reports on construction progress and quality of work in place, as well as ~~for preparing periodic reports on construction progress and quality of work in place, as well as~~ for payments.

The S&L retains 10% of each payment to the builder as a guaranty of proper construction. This guaranty is returned to the builder 90 days after the project has been completed, if no defects in the construction have occurred during the period.

3. Managerial and Technical Capacity/Additional Staffing Requirements

The managerial and technical capacity of the Caja Central itself and that of the nine Savings and Loan associations it supports appear adequate for the volume of loans the system is processing at this time. This capacity has been built up in response to an increase in loan volume from 140 loans in 1966 to 541 loans in 1972.

As described in Section II.A.1. above, the Caja Central itself has a small staff consisting of 15 employees, 7 of which are professionals. The largest S&L association within the system, La Primera in La Paz, operates with a staff of 28 employees, while the staff of the other smaller associations ranges from five to ten. In all cases, however, a General Manager is on board on a full time basis and he carries on the dual role of General Administrator and Supervisor of all operations as well as that of Chief Loan Officer. Also in all cases, an architect or an engineer is employed directly by each association on a full time or part time basis to verify estimates of cost and monitor and certify construction.

It is the opinion of the Project Committee that the current managerial and technical expertise available within the system is adequate both in terms of quality and quantity. The question remains as to whether this staff would be capable of processing the additional workload generated by funds to be introduced into the system from this loan, including the GOB contribution, the Los Pinos project in La Paz and the projected increase in savings expected over the next three years. To illustrate this potential workload, the following table was devised showing the approximate number of loans per month each S&L association is expected to be handling during the three year life of the loan ^{1/}:

<u>S&L</u>	<u>1972</u>	<u>Per Month 1974-1977</u>	<u>74-77 USAID Loan</u>	<u>74-77 Los Pinos</u>	<u>Total 74-77</u>
La Primera (La Paz)	10	13	8	8	29
La Paz (La Paz)	9	12	6	8	26
Oruro	3	4	3	-	7
Cochabamba	4	5	5	-	10
Santa Cruz	9	12	11	-	23
Tarija	4	5	5	-	10
Potosí	3	4	3	-	7
Sucre	2	3	3	-	6
Trinidad	<u>1</u>	<u>2</u>	<u>2</u>	-	<u>4</u>
<u>Totals (monthly)</u>	45	60	46	16	122

The table indicates, then, that the two S&L associations located in La Paz and the one in Santa Cruz will most likely require additional managerial and technical staff due to the projected increase. The remaining S&L associations, however, are not operating to capacity at this time and the projected increase will require no additional personnel, although architects now associated with these institutions on a part time basis will need to attend to association business full time.

The Caja Central itself also will need to expand its managerial and technical staff since its work load is expected to more than double from its 1972 average of 45 loans per month to 122 loans per month during the life of the loan.

As a condition precedent to first disbursement, the Caja Central shall submit a time-phased plan for the acquisition of the additional staff for both the Caja Central and the S&L's in La Paz and Santa Cruz. It is estimated that the addition of one loan officer and one architect or

^{1/} Assuming that loan funds are disbursed over a 3 year period, 30% in La Paz and 70% rest of Bolivia. To be conservative, an average mortgage of \$5,000 per unit is used although this is nearer to the lower end of the loan range according to the Caja Central.

engineer will be required in these associations. In any event, all necessary staff additions shall have been made by the end of CY 1974 in order to obtain AID loan disbursements in subsequent years.

Based on a review of the past level of lending activity by the respective associations and of their current staffing levels, the Project Committee believes that the Caja Central and the S&L's will have the technical and managerial capacity to carry out the proposed program in a satisfactory manner with the staff additions described above.

B. Financial Analysis

1. Summary Cost Estimate and Financial Plan

(US\$ 000's)

<u>UTILIZATION OF LOAN FUNDS</u>	<u>S O U R C E</u>		<u>TOTAL</u>
	<u>AID LOAN</u>	<u>GOB LOAN</u>	
Mortgage Lending	4,500	2,000	6,500
Savings Promotion Program	400		400
Office Relocation and Improvements	600		600
Insurance Liquidity Reserve	50		50
Training 2/	170		170
Technical Assistance 2/	100		100
Accounting Equipment 2/	180		180
	<u>6,000</u>	<u>2,000</u>	<u>8,000</u>

1/ The CB loan has already been disbursed and therefore was not available for the non-mortgage lending costs of the program. However, the funding source for such costs is essentially an attribution question; the net effect of the two loans will be to provide for the system a total of \$6.5 million for mortgage lending at an average cost of 3.23%.

2/ US dollar costs estimated at a total of \$450,000.

<u>Source</u>	<u>Total</u>	<u>Cost US\$ 000's</u>			
		<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
AID Loan	6,000	--	2,693	2,123	1,184
GOB Loan	2,000	1,700	300	--	--
TOTAL	<u>8,000</u>	<u>1,700</u>	<u>2,993</u>	<u>2,123</u>	<u>1,184</u>

2. Analysis of Elements Included in the Financial Plan

a. Savings Promotion Program

(The savings promotion plan which is being contemplated by the Caja Central and the S&L associations is described in Section I.A.2.)

b. Office Relocations and Improvements

The Caja Central has proposed that approximately \$600,000 of the \$6.0 million loan be used to finance land acquisition and the construction of new office facilities for each of the S&L associations (except for "La Primera"). A portion of these funds would also be used to purchase new office furniture for the associations. It is generally agreed that one of the main factors which has hindered the growth of the Bolivian S&L System has been the poor location of their offices which are found on either the second floor or in offices where the public has no direct access. In addition, due to low initial capitalization, the S&L offices still lack adequate furniture, lighting systems and "ambiente" which are attractive for the general public and the personnel which work in them. In his report dated March 9, 1973, on the Bolivian S&L System, Claude Bovet strongly recommended to the Caja Central that they "give immediate attention to the relocation and improvement of existing offices".

The management of the Caja Central believes that unless the S&L System develops a better public image, one that gives the impression of financial soundness (which can be enhanced with new, more strategically located and attractive offices) the savings promotion campaign, which is an important facet of the loan project, will be less than fully successful. The utilization of GOB loan funds for improving S&L office locations and facilities, then, is considered an important and integral part of this overall strategy of savings deposit promotion.

In several instances, the S&L's are planning to construct multi-story buildings and utilizing the lower floor for their offices while selling the upper floors on a condominium basis to various business enterprises. "La Primera", the largest S&L in the system, has already initiated its building construction plans. Several years ago the association purchased land in the center city area of La Paz which it is presently clearing. With outside financial backing, the association is planning to initiate construction of its \$b.24,000,000 (approximately US\$1,200,000), 20-story office building in October, 1973. The construction period should last approximately two years.

The following table contains reasonably firm estimates, prepared by the Caja Central and the S&L's, of the costs of land, office construction and furniture for the other S&L association from the GOB loan.

(In Pesos Bolivianos)

<u>Association</u>	<u>Cost of land</u>	<u>Cost of Office Const.</u>	<u>Cost of Office Furniture</u>	<u>Total</u>
La Primera	-	-	120,000	120,000
La Paz	700,000	900,000	120,000	1,720,000
La Promotora	400,000	750,000	100,000	1,250,000
El Progreso	500,000	750,000	100,000	1,350,000
Guapay	400,000	750,000	100,000	1,250,000
Potosí	300,000	750,000	100,000	1,150,000
La Plata	300,000	600,000	120,000	1,020,000
Tarija	300,000	600,000	120,000	1,020,000
Paitití	<u>250,000</u>	<u>750,000</u>	<u>120,000</u>	<u>1,120,000</u>
Sub Total	3,150,000	5,850,000	1,000,000	10,000,000
20% Contingency allowance	<u>630,000</u>	<u>1,170,000</u>	<u>200,000</u>	<u>2,000,000</u>
TOTAL	<u>3,780,000</u>	<u>7,020,000</u>	<u>1,200,000</u>	<u>12,000,000</u>

For those offices to be financed from AID loan funds, AID will require that firm sources of financing sufficient to cover the entire cost of the building be assured prior to disbursement of loan funds.

c. Insurance Liquidity Fund

The resources shown for the Insurance Liquidity Fund will be utilized 1) to liquidate the outstanding mortgage life policy claims which the Caja Central is currently paying off over time to the associations, and 2) to provide the liquid reserves needed to pay new policy claims in full as they arise.

In addition to these liquid needs, the Caja Central also must increase the level of assets (technical reserves) which are backing the FHA and mortgage life insurance programs by approximately \$b.800,000; and if and when the Caja Central begins a deposit insurance

program, a total of \$b.3,000,000 in assets must be available in liquid reserves to support this program. While assets in the form of mortgage loan receivables constitute satisfactory reserves for the insurance program once they are operating, to begin the deposit insurance program or to increase the reserves level for FHA and mortgage life, the Central Bank requires that the reserves be in liquid form. Once Central Bank approval is granted, these liquid reserves can then be converted into mortgage loans. Thus, it is estimated that approximately US\$190,000 in program funds will be utilized on an interim basis to meet the liquid reserve requirement and thereafter will be invested in mortgages.

3. Actions Required to Increase Savings: Proposed Plan

The creation of a strong savings account market is a recent development in Bolivia. Savings in the banking sector, which in 1963 amounted to only 2% of the total money in circulation and represented only 14% in 1968, had grown to 32% of money in circulation by September 1972. This amounted to total savings of nearly US\$ 30 million. By the end of December 1972, credit unions had attracted a total of US\$ 7.3 million from their membership. This amounted to 20% of the amount in bank savings deposits. The savings and loan system however, had accumulated by December 1972 US\$ 1.2 million in free savings accounts (as distinguished from the required "tied" deposits). This was equal to only 4% of all bank savings deposits. Put another way, as of December 1972, banks had 76% of total savings account deposits of US\$37.9 million, credit unions 20% and the S&L system 4%.

Based on the February 1973 study of the Bolivian system prepared by Claude Bovet, ex-head of the Peruvian S&L System, the Missic estimates that the system can capture 12% of total savings deposits by 1982; the Mission also estimates that savings deposits in financial institutions will grow at a rate of 10% p.a. over the next 10 years. Taken together, the effect of these two projections would provide the system with approximately \$b.180 million (US\$9 million) in savings in 1982, ^{1/}and this level of savings mobilization combined with an AID loan of US\$6 million would enable the system to achieve financial self-sufficiency. What follows is a discussion of the conditions necessary to reach such a saving level and an analysis of the feasibility of achieving it.

^{1/} The current level of free savings deposited in the system is slightly in excess of US\$1 million (\$b.23.6 million as of 12/31/72).

To reach the savings level projected above, the following two (necessary but not necessarily sufficient) conditions must be fulfilled. The system must undertake a large scale, systematic savings attraction or promotion program, including inter alia the establishment of yearly growth goals for the entire system and for individual S&Ls as a percentage of the existing savings market and its anticipated expansion, coordinated planning throughout the system on such promotion devices as marketing strategy, advertising campaigns, incentive programs, training and motivation of employees, intensive individual solicitation of accounts, relocation and improvement of existing offices, and encouragement of directors and board members of the Caja Central and S&L System to use their personal influence to promote and solicit accounts. In addition, the system must also receive a substantial injection of low cost (concessional) lending capital to provide it with the volume of income-producing assets (e.g., mortgage loans) required over the next 10 years to overcome its cash flow problem and to become profitable (e.g. to cover all operating and financial costs and debt service; to finance a savings promotion plan on a continuing basis; and to earn a profit) while it simultaneously undertakes an intensive savings promotion program to eliminate the system's dependence on external concessionary assistance. A secondary need for this injection of lending capital is to increase the system's impact and credibility in terms of its ability to provide home loans to its members, and thus to attract indirectly new savings depositors as the public gains an increased awareness of what the system is and what services it offers. Since the Bolivian system is a private one and since the GOB is presently experiencing one of its chronic budgetary shortfalls, the only practical and realistic source of low cost assistance is the proposed AID loan. 3/

4. Factors Affecting Project Feasibility

Assuming that the Caja and the S&L's engage in an aggressive and concerted savings promotion effort, then the question to be examined is the feasibility of reaching the \$b.180 million (US\$9 million) "Optimum" savings level.

As suggested above, there are two factors which will interact to determine the level of total savings deposits in the system in 1982. The first factor, the size of the overall savings deposit market in 1982, is largely determined by forces outside the S&L System, except to the extent that the specialized mortgage finance service provided by the system attracts incremental savings deposits which would otherwise not

3/ To achieve the same level of profitability in 1982 without the US\$6.0 million AID loan would require the system to attract an additional US\$15.0 million in free savings over and above the levels discussed above. This possibility is not considered to be feasible.

have gone into a savings institution. The second factor, the proportion of the overall savings deposit market which is captured by the S&L System, is almost entirely determined by the system's competitiveness and its efforts to attract a much larger share of future savings.

Looking at the second factor first, there is unfortunately no directly relevant experience in Bolivia upon which to assess the reasonableness of the S&L consultant's estimate that the system could capture 12% of the savings market in 1982. The best evidence that this share is not unreasonable comes from an examination of experience of the AID supported S&L System in Peru, a neighboring Indian-based but more developed country, with a GNP approximately seven times greater than Bolivia's. The Peruvian S&L System began in 1962 and had by 1967 attracted approximately 11% of total savings deposited in Peruvian financial institutions; and as of January 1972, the share of this market which the Peruvian S&L System has captured exceeded 18%. While this argument by analogy has only limited value for predicting what the Bolivian System is capable of, it does suggest that to increase the system's savings market share from the current 3-4% to approximately 12% by 1982 is a theoretically feasible and not unrealistic goal.

If one is willing to assume that the system can attract this share of the savings market, then the critical factor determining the future financial viability of the system is the overall volume of savings deposits in 1982; this stock of savings must be of sufficient magnitude so that a 10-12% market share would give the system the volume of income-producing assets, given a 4% spread on mortgage loans financed from savings, needed to operate at a profit. The level of overall savings in 1972 will be determined by the rate at which savings in financial institutions grow over the next decade. For the period 1967-1972, savings deposits in Bolivian financial institutions increased at a rate of 20% p.a. Over the next 10 years the Mission estimates that this particular monetary aggregate will grow at a rate of 10% p.a., which they predicate upon a 5% GNP growth rate projection. Without attempting to argue whether GNP is the best explanatory variable for changes in savings deposits, if one assumes sufficient economic and political stability to permit real GNP growth of somewhere between 3-6%, then a 10% savings deposit growth rate is not unreasonable, and might well be a conservative estimate.

On the basis of the foregoing, it is concluded that assumptions upon which the success of the AID loan is based are reasonable and that the project is therefore considered feasible.

5. Sensitivity of Results to Variations in Savings Growth and Market Share

If total savings deposits grow at approximately 10% p.a. over the next decade and if the S&L System is able to attract approximately 12% of this total market in 1982, the system will have attracted approximately \$b.180 million (US\$9 million) in savings and will have achieved self-sufficiency. However, since these projections are not based on the actual prior experience of the system in Bolivia nor on any hard empirical relationships, it is important to test the sensitivity of the "optimal" outcome to variations in the overall savings deposits growth rate and in the proportion of the savings market attracted by the system.

An examination of alternative outcomes reveals that the same position of self-sufficiency and profitability could be achieved under the following conditions:

<u>Annual growth rate in savings deposits over 10 years</u>	<u>Total 1982 savings deposits - 1/ (\$b. millions)</u>	<u>Minimum S&L Market Share 1982</u>	<u>S&L Savings Deposits-1982 (\$b. millions)</u>
8%	1,295	14%	181
10%	1,557	12%	187
12%	1,864	10%	186
14%	2,224	8%	178

1/ As of the end of 1972, savings deposits in Bolivian Financial institutions totaled approximately \$b.600 million.

While total savings might grow at a higher or lower rate than the 8-14% p.a. range, on the basis of subjectively determined estimates, 8-14% is hypothesized to be the most probable range. Similarly a market share of between 8-14% is believed to be the most likely range for savings attraction. However, accepting the foregoing as reasonable, an obvious question is what happens if the system grows at the lower end of the projected 8-14% range and the system likewise only attracts an 8% market share? The answer is that, ceteris paribus, the system would still be profitable in 1982, but at a reduced level.

6. Justification for the Amount of the A.I.D. Loan

As indicated above, the system would still be operating at a profit if it captured 8% of a savings market that grows at an 8% rate. The reason for this is the earning power provided to the system from the 10% spread on the \$6 million A.I.D. loan. The outcome is quite different, however, if the level of the A.I.D. loan is reduced. The future financial

feasibility of the system was tested using an A.I.D. loan input of \$4.5 million; and on this basis, at the \$b.180 million optimal savings level the system would experience negative cash flows in several years, would accrue a \$b.28 million (US \$1.4 million) cumulative loss over the decade, and only in 1982 would the system show a slight profit. At the \$b.100 million level of savings attraction, the system would accrue an even larger loss and would not reach the breakeven point by 1982.

Inasmuch as there is no assurance that the system is more likely to reach the "Optimal" savings level of \$b.180 million than the "survival" level of \$b.100 million, an A.I.D. loan of \$6 million is considered necessary to insure that the system will be financially self-supporting should it only reach the lower level of savings by 1982.

7. Mortgage Loan Terms and Effective Interest Rate

The current mortgage loan terms offered to borrowers through the savings and loan system is 12% interest with a 1/2% add-on for FHA insurance. In addition, each S&L charges a flat one time 3% closing fee on the face value of the mortgage. The Caja provides life and disability insurance to mortgage holders at a 1% annual premium. The 12% rate allows for a 4% spread on capital generated from free savings, a 5% spread on AID loan funds passed on to the S&L's from the Caja Central, and of course a free 12% spread on any surplus capital available to the S&L's for relending.

Taking into account the effect of the 15% reciprocal savings deposit requirement and the 100% mortgage loan, the effective interest rate to the borrower is actually 1% greater than the nominal rate of 13 1/2% (12% interest plus 1 1/2% for insurance) i.e., 14 1/2%.

8. Readjustment of Mortgages

One of the conditions precedent to disbursement of the Los Pinos HIG (511-HG-004) required that the Sponsor-Borrower "has implemented a system for readjustment of mortgages, in form and substance satisfactory to AID". The statutes of the S&L system provided for an index based on a combination salary and cost of living index and the dollar/peso exchange rate. However, these indices had not been developed, and the system received approval to use the dollar/peso exchange rate for readjustment purposes. With the 65.8% devaluation in October 1972, this readjustment proved to be impractical, and an ad-hoc arrangement was made to allow a 40% readjustment of mortgages. This readjustment has been satisfactorily implemented by the S&L system. It was obvious, however, that these readjustment arrangements met neither the requirement of the Los Pinos authorization, nor the needs of the S&L system.

The GOB and the Caja Central proposed that the La Paz cost of living index be used for readjustment of mortgages. The cost of living index

had a legal basis in GOB legislation, had been in existence for a reasonable period of time, and had reflected fluctuations in the exchange rate and, so far as can be determined, salaries and income throughout the country. The Minister of Finance and other GOB officials, in discussions with Mission representatives, stated that they wished the readjustment to go into effect in December 1974, with the annual adjustment to be the average change of the La Paz cost of living index over the previous three years, or the change in the current year, whichever is lower.

The proposed readjustment formula was reviewed and accepted as satisfactory by the Development Assistance Executive Committee of the Latin American Bureau in May 1973. The Minister of Finance subsequently issued the necessary resolution to put these readjustment provisions, based on the La Paz cost of living index, into effect. The Caja Central has in turn issued the necessary implementary instructions to the individual S&L associations. The first readjustment will take place in December 1974, and subsequent readjustments will be made at yearly intervals.

The La Paz cost of living index has been prepared quarterly since 1936 by the National Bureau of Statistics in accordance with a GOB Supreme Decree. The index is based on market analysis done for middle to low income groups to determine the composition of a family expenditure budget (basket) for the year 1964. Food items represent approximately 55 percent of the index, with clothing, housing and miscellaneous items comprising the remaining balance. The GOB is presently working on plans to update the index.

Although there are plans to improve the data collection procedures, the movements of the index since its establishment have reflected the cost of living in La Paz with a reasonable degree of accuracy. The index has been consistently calculated and published regularly. Price changes for the rest of Bolivia diverge somewhat from La Paz, but not to a significant degree. It has therefore been concluded that the index can be used for Bolivia outside of La Paz, at least until such time as reliable nationwide salary and cost of living indices have been developed and put into effect.

Since a 40% readjustment was successfully put into effect in December 1972, it was deemed advisable to postpone the subsequent readjustment based on the La Paz cost of living index to December 1974. In the unlikely event that a significant currency devaluation should take place before that date, it would be necessary to again base a readjustment primarily on the dollar exchange rate. This risk is understood and accepted by the Caja Central and the S. R.

9. Mortgage Loan Collection Procedures

Monthly mortgage loan amortization payments are payable on the first of each month, with a 10 day grace period. After the expiration of the grace period the borrower is assessed a penalty interest of 3½ per annum on the total amount outstanding.

The method of handling delinquent loans by the S&L associations in Bolivia is much the same as that followed by good mortgage servicers in the U.S. i.e. telephone calls, letters, personal contact, and finally if all these fail and as a last resort, legal action leading to foreclosure

Mortgagees can be in arrears for up to three months without being declared in default and also losing the life insurance coverage. Once a loan is declared in default, after three months of non-payment, the association is authorized to take the appropriate legal action to evict the delinquent borrower and auction off the house.

10. Delinquencies and Defaults

The Bolivian S&L System's record for delinquencies and defaults is as follows:

<u>Months in Arrears</u>	<u>12/31/70</u>	<u>12/31/71</u>	<u>12/31/72</u>
2	34	60	63
3	23	33	35
Over 3	51	134	153
Defaults	1	4	13
Total loans outstanding	1,001	1,566	1,986
Delinquency ratio	10%	15%	13%
Default ratio	0.1%	0.26%	0.6%

By the end of March 31, 1973, the delinquency ratio, measured in terms of numbers of loans in arrears as a percent of portfolio, had been reduced from 13% to 10.5%. While this would appear to be a high ratio, if one takes the actual amount of principal and interest in arrears as a percent of total mortgage debt outstanding, this ratio is a very favorable 0.3%. It should also be noted that while the system had a total of 15 loans in default as of March 31, 1973, the system has never had to resort to actual foreclosure and sale. They have found that once the S&L's begin to take legal action against the delinquent borrowers, these borrowers endeavor to bring their payments current and avoid foreclosure.

It should also be noted that since the October 1972 readjustment of mortgage payments by 40%, there had been an improvement in the delinquency ratio and no significant change in the default rate.

11. Use of AID Loan Interest Spread

The present plan is to allocate the AID loan interest spread in the following manner:

Savings and Loan Associations	5%
Caja Central - for Contingency Reserve	1%
Caja Central - for general reserves and surplus to cover liquidation of long term debt or for relending	<u>4%</u>
Total Spread	10%
AID interest on loan	<u>2%</u>
Mortgage lending interest rate	<u>12%</u>

When the grace period of the AID loan expires and the interest rate increases to 4%, the allocation to the Caja of 4% for general reserves will be reduced to 2%.

In addition the Caja Central plans to allocate the resources of the AID loan to the savings and loan association in a manner that will provide the newer and smaller S&L's with a greater share of the new debt capital at the concessionary terms. It is estimated that 70% of the AID loan allocated to new mortgage lending will be distributed to the S&L's ~~located outside of La Paz with the remainder to S&L's~~ located in the capital city.

12. Financial Appraisal and Analysis of Operating Costs

The financial statement of the Caja Central and the individual savings and loan associations have been reviewed for the years 1971 and 1972. The balance sheets, operating statements, statements of condition and supporting schedules are included in Annex C.

In analyzing the operating results of the associations it becomes apparent that they are distinctly under-capitalized. Under-capitalization has forced them to adopt the policy of pledging portions of their mortgage portfolio to the Caja Central in order to generate funds to meet new borrower demands. In addition, the associations borrow from the Caja Central at rates of 7 to 10%, the funds being used for working capital or for financing. At December 31, 1972 the associations had pledged their portfolio to the Caja Central as follows:

<u>\$b Bolivianos 000's</u>	<u>—</u>	<u>Pledged</u>	<u>Portfolio</u>	<u>%</u>
La Primera		4,606	31,627	15
Progreso		6,047	11,033	55
Promotora		5,275	14,300	58
Guapay		10,355	15,627	67
Tarija		3,670	7,122	52
Potosí		2,445	3,754	65
La Plata		1,907	3,877	49
La Paz		6,357	11,046	58
Paititi		561	1,351	42

Mortgage loans pledged to the Caja by the associations are repaid by the associations at 11% interest on the same terms as the loans originally made. In effect the practice of pledging the associations portfolios to the Caja puts the Bolivian Savings and Loan System in the position of operating as a mortgage banking operation, with the associations receiving only 1% of the spread for servicing the loans. The low level of savings in the smaller associations and the reduced portfolios carried because of the practice described above, leaves little reinvestment capital available to them. At the present rate of savings deposit growth and lending activity, the associations cannot generate enough income to cover their overhead costs and reserve requirements. This is demonstrated in the cash flow projection for the entire system which discloses that at the current level of operation, the system would generate negative cash flows in each of the projected years through 1977, at which point the entire system would be unable to function financially. (See Page 42)

The Caja operates on the net income derived from the interest earned on mortgages obtained from the associations and the interest on the working capital loans made to the associations, less the cost of debt capital obtained from outside services. The income generated is not sufficient however to cover the administrative costs of the Caja. A review of the statements of operations for 1971 and 1972 reveals that surpluses from insurance activities have been included as income items and used to reduce the deficit in 1971 and is the source of the surplus shown in 1972. Any surpluses generated from the insurance activity should not be included as income to the Caja, but should be added to the insurance reserves. Present cash reserves are inadequate to fully liquidate claims upon the death or disability of policy holders. The limitation in the cash reserves requires the Caja to assume the mortgages of the policy holders and make the monthly payments.

Cash flow projections for the system have been prepared reflecting the anticipated increases in savings levels and the additional capital to be provided by the AID loan and the GOB loan. A schedule of the generation of reinvestment funds from the amortization of mortgage loans has also been provided. As can be noted from the cash flow projections, major additional mortgage lending levels made possible by the AID and GOB loans during the years 1974-1977 will provide refloes of capital from interest payments and principal amortization that will allow for reinvestment funds estimated at \$b.20 million of additional lending capital in 1976 and correspondingly greater levels through the projection period to establish a permanent source of lending capital. Reflected in the last projected year, cash liquidity will be adequate to provide some \$0 million pesos for lending and will provide the necessary reserves for contingencies, and for amortization of the long term debt that must be met beginning in 1984.

In order for the associations to be financially viable, the concessory terms of the AID and GOB loans must be passed on to the associations to the extent feasible. The associations' spread on their loans from the

Caja must be sufficient to cover operating costs, allow for reinvestment capital and establish reasonable reserves. At the current rate of 12% on mortgages, the associations should be granted an interest rate of 7% on AID loan funds. This would give the associations a 5% spread on their AID loan funded mortgage portfolio. It would then leave a 7% factor with the Caja to be used to meet the AID loan debt service, establish adequate contingency reserves and funds to liquidate its long term debt. Since the Caja must absorb the monetary correction on the AID loan in addition to the responsibility of liquidating the AID loan and the GOB loan, and will be faced with meeting any shortfall between the periodic readjustment of mortgages and the level of devaluation, should it occur, the rationale for retaining relatively large reserves in the Caja is justified.

Operating costs of the system have been reviewed and appear reasonable in view of the severe financial constraints within which most of the associations have been forced to operate. From the analysis it appears that several of the associations do not have insurance or are under-insured against losses of fixed assets and other forms of insurable loss. With the additional income generated from expanded operations, the associations should survey their insurance needs and obtain adequate coverage.

Advertising expenses for 1971 and 1972 incurred by the associations totaled \$b.134,567 and \$b.107,125 respectively. This reflects in part the relatively low emphasis placed on savings promotion by the associations in the past, and the lack of funds to engage in promotional activities. Both of these problems are addressed by the AID loan.

The financial statements of the Caja Central and the Savings and Loan Associations appear to be reasonable measures of their financial positions. Analysis of the financial data discloses the weaknesses in the system which the proposed AID loan addresses. The projected cash flow statements and projected statements of condition indicate that by 1982 the system will be in a sound financial position and will be fully capable of meeting the AID and GOB debt servicing requirements.

13. Justification for AID Loan Terms

For the purpose of determining appropriate repayment terms on the AID loan, alternative cash flow projections have been prepared for the years 1983 to 1990 (five years into the principal amortization period). While forecasts of circumstances 10 to 15 years in the future are by their very nature highly uncertain if not speculative - and particularly so in Bolivia, the projections suggests that the project can support harder terms than AID's most concessional and still achieve a position of financial self-sufficiency. In assessing the effects of alternative terms, the basic criterion was that the effect of the terms should not result in a contraction of mortgage lending operations.

Projections have been prepared based on loan terms of 2% - 4%, 30 years, 2% - 3%, 30 years, and 2% - 4%, 20 years (see page 41b). As can be noted from comparing the three alternatives, terms of 2% - 4%, 30 years are necessary to provide the system with a debt service burden soft enough to allow for sufficient liquidity to meet current obligations, maintain mortgage lending requirements and a reserve to meet unprojected contingencies.

The less concessional terms of 2% - 4%, 20 years as projected indicate that the system would be required to reduce mortgage lending levels beginning in 1988 to offset the cash drain imposed by the heavier debt service burden. The reduction of lending levels to meet current cash obligations is a problem that the proposed AID loan is intended to solve, and the imposition of harsher loan terms would have the possible effect of reinstating the problem during the amortization period of the loan.

Another factor which argues for not imposing any greater financial burden on the system than necessary is the fact that the above-mentioned projections are based on reaching the optimal savings growth level of U. S. \$9 million by 1982 and on net savings growth of \$1.2 million per year thereafter. Inasmuch as there is no assurance that the system is more likely to reach the optimal rather than the \$5 million survival ~~level of savings attraction~~, and since we are speculating about financial results 15 years in the future in a country not known for its long term perspective, the Project Committee believes that prudence dictates the use of terms which will maximize the possibility that the system can achieve a position of financial self-sufficiency in the event that our assumptions regarding savings growth prove to be overly optimistic.

The Capital Assistance Project Committee therefore considers the granting of 2% - 4%, 30 year terms to be a vital element in the proposed plan to put the Bolivian Savings and Loan System on a sound financial basis.

It should be noted that while the Caja Central is privately owned and operated, it is carrying out a quasi-public function in regulating/supervision and in providing central banking facilities for the S&L's. The nature of the role would not be materially changed if the Caja were publically owned and operated. Also, although the Caja and the mutually-owned S&L's are private, they are also not-for-profit concerns whose surpluses are utilized to expand the volume of middle income home financing.

BOLIVIAN SAVINGS AND LOAN SYSTEM
EXTENSION OF CASH FLOW PROJECTION
TO 1990

Pesos Bolivianos 000's

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
<u>TERMS: 2% - 3% 30 Years</u>								
Total Sources of Cash	<u>167,987</u>	<u>179,424</u>	<u>192,058</u>	<u>203,258</u>	<u>216,689</u>	<u>237,794</u>	<u>241,907</u>	<u>252,928</u>
Mortgage Lending Level	<u>80,000</u>	<u>80,000</u>	<u>80,000</u>	<u>80,000</u>	<u>80,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
Other Cash Requirements	<u>63,049</u>	<u>71,165</u>	<u>81,912</u>	<u>86,994</u>	<u>92,076</u>	<u>98,258</u>	<u>102,540</u>	<u>106,822</u>
Cash Surplus Available for Contingencies	<u>24,938</u>	<u>28,259</u>	<u>30,146</u>	<u>36,264</u>	<u>44,613</u>	<u>39,536</u>	<u>39,367</u>	<u>46,106</u>
<u>TERMS: 2% - 4% 30 Years</u>								
Total Sources of Cash	<u>167,987</u>	<u>178,659</u>	<u>190,528</u>	<u>200,963</u>	<u>213,629</u>	<u>233,969</u>	<u>237,317</u>	<u>247,513</u>
Mortgage Lending Level	<u>80,000</u>	<u>80,000</u>	<u>80,000</u>	<u>80,000</u>	<u>80,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
Other Cash Requirements	<u>63,914</u>	<u>71,930</u>	<u>82,677</u>	<u>87,759</u>	<u>92,841</u>	<u>99,023</u>	<u>103,305</u>	<u>107,517</u>
Cash Surplus Available for Contingencies	<u>24,173</u>	<u>26,729</u>	<u>27,851</u>	<u>33,204</u>	<u>40,788</u>	<u>34,946</u>	<u>34,012</u>	<u>39,996</u>
<u>TERMS: 2% - 4% 20 Years</u>								
Total Sources of Cash	<u>167,987</u>	<u>172,694</u>	<u>178,598</u>	<u>183,068</u>	<u>189,769</u>	<u>204,144</u>	<u>201,527</u>	<u>205,818</u>
Mortgage Lending Level	<u>80,000</u>	<u>80,000</u>	<u>80,000</u>	<u>80,000</u>	<u>80,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
Other Cash Requirements	<u>69,779</u>	<u>77,895</u>	<u>83,642</u>	<u>93,724</u>	<u>98,806</u>	<u>104,988</u>	<u>109,270</u>	<u>113,592</u>
Cash Surplus Available for Contingencies	<u>18,208</u>	<u>14,799</u>	<u>9,956</u>	<u>9,344</u>	<u>10,963</u>	<u>(844)</u>	<u>(7,743)</u>	<u>7,734</u>

BOLIVIAN SAVINGS AND LOAN SYSTEM
CASH FLOW PROJECTION
AT CURRENT OPERATING LEVEL
1973 - 1977

Pesos Bolivianos CCC's

SOURCES OF CASH:

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
Cash on Hand					
Loan Portfolio Activities	11,796	-	-	-	-
Insurance Activities	26,743	22,106	29,117	22,526	22,535
New Savings Deposits	2,709	2,911	2,976	2,962	2,920
GOB Loan	1,836	1,996	2,168	2,940	3,220
Other	34,000	6,000	-	-	-
Total Cash Available	<u>3,809</u> <u>80,893</u>	<u>182</u> <u>33,195</u>	<u>210</u> <u>34,471</u>	<u>230</u> <u>28,658</u>	<u>264</u> <u>28,939</u>

UTILIZATION OF CASH:

Operating Costs	9,909	10,621	11,630	12,736	13,947
Portfolio Activities	53,005	10,223	1,642	-	-
Reserve Requirements	2,723	189	201	264	256
Dividends	8,228	4,522	2,558	2,786	3,048
GOB Loan Amortization	1,080	1,860	8,817	9,341	8,979
Other Loan Repayments	8,816	8,817	8,815	8,816	9,197
Other	6,654	84	84	84	84
Total Cash Utilized	<u>90,415</u>	<u>35,316</u>	<u>33,747</u>	<u>34,117</u>	<u>35,511</u>
Cash Flow (Deficit)	<u>(9,522)</u>	<u>(3,121)</u>	<u>724</u>	<u>(5,459)</u>	<u>(6,572)</u>
Cumulative Deficit	<u>(9,522)</u>	<u>(12,643)</u>	<u>(11,919)</u>	<u>(17,378)</u>	<u>(23,950)</u>

C. Economic Analysis

1. Estimated Middle Income Housing Demand: Economic Soundness of the Project

As indicated in the section on the urban sector, the rapid rate of urbanization between 1950 and 1970 has created a large urban housing shortage. The Ministry of Urban Affairs estimates a current urban housing deficit of 100,000 units. Absent any data on income distribution, the Mission's best estimate of the lower to upper middle income group (the general market focus of the Caja Central) is that it constitutes approximately 10 - 15% of the urban population. Assuming that the housing deficit is distributed fairly evenly among the various income groups, the urban shortage or need within the middle income groups is estimated to range somewhere between 10,000 and 15,000 units.

A more meaningful measure for purposes of the loan, however, is effective demand for middle income housing. Here we have two indicators: (a) the system's experience in selling the houses it has built in the past; and (b) the backlog of projects and applications currently on hand. With respect to the houses built by the system in the past, the Caja Central indicates that a very eager and receptive market has been found in all cases. A survey of interest for the Los Pinos HIC project ~~in La Paz~~, for example, turned up more than twice as many potential buyers (2,000 plus) as the number of units to be built.

With respect to the backlog of projects and applications on hand, the Caja Central has provided data indicating that there are currently projects with eligible buyers totalling 1,185 units estimated to cost approximately US \$ 6,900,000. A breakdown of these projects by type, size and location is presented in Annex D.1. Based on this demand data, it is believed that the AID loan funds will be used promptly and that the system will find a ready market for the estimated 4,200 houses projected to be built by the system over the next decade.

In addition to these figures, the Consejo Nacional de Vivienda (CONAVI) estimated that the demand for urban housing in 1972 was 9,520 units of which 5,544 (approximately 60%) represented demand from the lower income sector and 3976 (approximately 40%) represented demand from the middle income group. These figures suggest that the demand for middle income, urban housing in 1972 was over three times the number of units planned for construction under the AID loan.

2. Project Contribution to the Economy

a. Employment Effects

Cost records of the Caja Central indicate that 21.2% of the cost of all housing projects it sponsors is expended for labor. The Caja Central also estimates that a total of 51.8% of the cost is spent

for material both native and imported. The remaining 27% of the cost represent design, supervision, administration and profit.

1) On the Site Employment

Based upon conversations with the Camara Boliviana de la Construcción and the technical staff of the Consejo Nacional de Viviendas (CONAVI), it is estimated that 30 man months of labor are required for the construction of a \$5,000 composite unit to be financed under the loan 1/. Hence the total \$6,500,000 program fund represents the construction of 1,300 units each requiring 30 man months to construct. Therefore, the overall employment effect is the creation of 3,250 man years of labor through the construction activities to be undertaken.

2) Employment Derived from Material Manufacture

The employment component derived from the manufacture of construction materials is very difficult to predict. In order to illustrate the general range of such employment effects, however, several assumptions have to be made: first, that both imported and native materials generate the same rate of second level employment; second, that in the manufacture of all materials 40% of the cost represents labor and the remaining 60% 2/ raw materials; and third, that all labor employed in the manufacture of construction materials in Bolivia receives an average wage of \$1.50 per day.

Using the Caja Central's figure of 51.8% of the cost of all units as expended toward materials, then the total material cost for the loans is 51.8% of \$6.5 million, or \$3,367,000. The labor component of this material cost would be 40% or \$1,346,800. On the basis of an annual salary of \$470 per year per laborer, this represents 2,865 man years of labor.

1/ It is estimated that it would require 4 skilled and 6 unskilled trade workers to complete such a composite unit in 3 months working without interruption. For the three months period, it is estimated that there would be 76 productive days. The wages of the skilled workers are \$2.00 per day or a total of \$608. Those of the unskilled are \$1.00 per day for a total of \$456. Total labor cost per unit therefore equals \$1,064 which represents 21.3% of the cost (as opposed to 21.2% recorded by the Caja Central.)

2/ It is realized that there are tertiary effects on employment in the production of raw materials. However, for the purposes of this paper these effects have not been considered because they would be difficult to quantify.

3) Administrative, Engineering and Other Employment

The remaining 27% of project funds which will be disbursed for engineering design, construction supervision, administration of loans, contractor white collar and technical personnel etc., will also generate some employment in these areas. The extent of this employment again is hard to predict without making some very general assumptions, and the resulting forecast will be necessarily crude. This is true because of the variance in the salary range of personnel included in this area, and because 10.8% of the total cost is estimated to be the return on investment for the contractor in the form of profit.

It is assumed that a weighted average of the salaries of the group in this area of the project is \$200 per month or \$2,400, per year. This includes engineers and architects who may earn \$500 per month and administrators earning \$200 per month on one end of the scale, and secretarial help, construction inspectors' helpers and messengers who earn \$100 a month or less. On that basis, 27% of project funds or \$1.75 million are disbursed in this area, or 731 man years for the total life of the project.

4) Summary

of this project on employment is summarized in the following table:

Component	Cost Breakdown		Effective Cost		Man/ Year	Employment Generated in Man Years
	%	\$	%	\$		
On site labor	21.2	1,378,000	100	1,378,000	424	3,250
Material derivative	51.8	3,367,000	40	1,346,800	470	2,365
Admin. Eng. & Other	27.0	1,755,000	100	1,755,000	2,400	731
Totals	100.0	6,500,000		4,479,800		6,346

5) Comparison of Projected Employment Effects with the Program Loan

Data available as of May 1, 1973 for the Program Loan shows that for \$8,173,036 disbursed for projects financed under the Program Loan funds, a total of 71,315 man months of employment (5,943 man years) were generated. This figure is strictly for on-site employment as monitored in the field. This indicates that for every \$1,375 expended under the Program Loan, one man year of employment has been generated so far.

A similar computation for the projected Caja Central Loan yields a figure of \$2,000 for every one man-year of employment generated. The difference is not surprising in view of the fact that the Program Loan was conceived primarily as a public works program designed specifically to create a maximum of on-site employment with a minimum of design, engineering and start-up costs, whereas projects to be financed under the Caja Central loan will have greater design, engineering and development costs and will likely have a higher capital to labor ratio due to relatively more efficient methods of construction and labor utilization employed by the private contractors.

b. Potential for Savings Attraction

1) Financial Intermediation

The deepening and broadening of the structure of financial intermediary institutions would appear to be a basic ingredient of the process of economic development. Savings mobilization in the institutions of a formal intermediary institution permits the use of interest rate policy to attract savers who would normally hold wealth in the form of money. This high liquidity preference is clearly evident in the Bolivian case where the income elasticity demand for money has been approximately 1.3 for the last ten years. However, this ratio has declined somewhat in the period since 1965 as the commercial banks have sharply increased their savings deposits and as the S&L system and the credit cooperative systems have attracted increasing amounts of savings (see Page 48). The importance of this trend can be further seen in the relative increase in savings as a proportion of demand deposits and currency (see Page 48). Studies by George G. Kaufman and Cynthia M. Latta ^{1/} appear to indicate that the income elasticity of the demand for money is inversely related with the depth of financial intermediation within the economy. If this is correct then coincidence between the development of the S&L system and the increased savings level in financial institutions would seem on the surface to corroborate their findings.

2) Growth in Domestic Savings

We have assumed on the basis of the 1965 to 1972 period that savings will grow at an average annual rate of 10% between 1973 and 1982. This would imply an increase in the marginal rate of savings from 3.3% prevailing in 1965 - 1971 to a rate of 8.7%. This savings growth increase reflects an average growth in the economy of about 6% in

^{1/} Cited in Deena R. Khathkhate: Analytic Basis of the Working of Monetary Policy in Less Developed Countries. IMF Staff Papers November 1972.

real terms. A per capita income growth rate of about 3% per annum is estimated for the period in the GOB's Economic Plan.^{1/} At the average rate of growth of 6%, the GOB estimated the internal savings level would double in the 1973-1982 period.

Financial institutions during the past 10 years have made increasing efforts to attract savings as the economy grew at an average annual rate of 7%. These efforts of commercial banks, savings and loan associations and financial cooperatives generally competed for these savings. As a result, the informal financial market became less useful as the intermediaries provided increased security and liquidity to savers. Although the informal market still exists, it is believed that the volume of resources available has declined necessitating nominal interest rates ranging in the 40% to 50% bracket ^{2/}. This diversion of savings to the formal market, it is believed, has contributed to a more efficient allocation of financial resources, whereas, the informal market provided mostly short term loans for consumer goods purchases, the financial intermediaries have attracted and used these funds for productive and social investments on longer terms.

The S&L associations in competing with other financial institutions have a number of advantages including exemptions from legal reserve requirements, exemptions from all national and international ~~taxes and~~ it is the only institution to offer monetary correction which means that the effective interest rate on deposits offered savers can be substantially higher than other financial institutions. The reduction in intermediation costs due to the exemptions from the legal reserve requirements and taxation permits the associations to lend at rates 10% to 15% below normal bank lending rates. These factors are expected to contribute substantially to the ability of the system to attract incremental savings in future years.

Given the positive advantages of the Caja Central system combined with the expected growth in total market savings, it is believed that the institution should be able to capture 12% of the 1982 savings market. Moreover, in comparison with the 1971 savings market shares of 19% and 17% which had been captured by the S&L systems operating in El Salvador and Peru respectively, this 12% market percentage is relatively small. Combined with the relatively conservative estimate of saving growth in the economy, the Caja Central should not require further external assistance in reaching a self-sustaining level of operations.

^{1/} Five Year GOB Social and Economic Plan, 1973, CONEPLAN

^{2/} "Capital Market of Bolivia", Study done under the auspices of OAS, unpublished, 1973.

SAVINGS COMPONENT OF MONEY SUPPLY
(In Millions of Pesos)

	<u>Money Supply</u>	<u>Savings</u>	<u>Percentage</u>
December 1963	664.7	13.3	2.0
December 1964	800.1	21.2	2.6
December 1965	992.8	32.0	3.2
December 1966	1.113.5	64.0	5.7
December 1967	1.146.3	104.0	9.1
December 1968	1.231.5	174.2	14.1
December 1969	1.344.4	252.6	18.8
December 1970	1.710.5	351.7	21.9
December 1971	1.699.2	441.0	25.9
January 1971	1.690.8	453.5	26.8
June 1972	1.777.6	540.0	30.4
December 1972	2.152.6	545.2	25.3
January 1973	2.105.5	552.1	26.2
February 1973	2.101.3	559.8	26.6

Source: Banco Central, Boletín Estadístico 208

LOAN PORTFOLIO OF PRIVATE COMMERCIAL BANKS
(In Millions of Pesos)

<u>Type of Loan</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>
Commercial	78.6	110.4	128.4	137.5	148.5	165.3	189.7	254.3
Industry & Artisans	38.1	63.7	88.0	119.5	139.9	184.5	234.2	355.6
Construction	0.4	0.2	0.3	0.5	5.9	6.6	7.1	11.5
Agriculture				5.6	8.0	14.1	24.8	58.5
Export							1.4	
Private Individuals	7.4	13.8	16.4	17.5	19.7	25.5	27.9	46.2
Other	<u>6.9</u>	<u>8.1</u>	<u>12.1</u>	<u>3.3</u>	<u>9.0</u>	<u>0.9</u>	<u>1.9</u>	<u>70.7</u>
Total	131.4	196.2	245.2	283.9	331.0	369.9	487.0	796.8

Source: Central Bank of Bolivia

PROJECTION OF INCREMENTAL GROWTH IN REAL GNP
AND SAVINGS: 1973-1982
(Millions of Pesos)

	<u>Incremental Increase in GNP</u>	<u>Incremental Increase in Savings</u>	<u>The level of annual savings growth by S&L system needed to obtain 12% of total savings market by 1982</u>
1973	617	61.7	4.5
1974	654	65.4	8.5
1975	686	68.6	11.7
1976	721	72.1	13.7
1977	757	75.7	15.1
1978	794	79.4	18.3
1979	834	83.4	19.2
1980	876	87.6	20.0
1981	920	92.0	22.1
1982	966	96.6	24.2

Source: Economic Section USAID/Bolivia.

BOLIVIA: DOMESTIC SAVINGS IN FINANCIAL INSTITUTIONS
(In Millions of Pesos)

	<u>Commercial Banks</u>		<u>Credit Unions</u>		<u>Savings & Loan Assoc.</u>		<u>Total</u>	<u>Change in Savings</u>	
	<u>₺</u>	<u>%</u>	<u>₺</u>	<u>%</u>	<u>₺</u>	<u>%</u>		<u>Absolute</u>	<u>Relative</u>
1963	12.0	82	2.6	18			14.6		
1964	19.5	72	7.6	28			27.1	12.5	86
1965	29.4	56	23.1	44			52.5	25.4	94
1966	59.8	54	51.6	46			111.4	58.9	112
1967	97.8	56	70.9	40	7.3	4	176.0	64.6	58
1968	167.3	64	85.1	32	11.0	4	263.4	97.4	70
1969	241.7	68	97.3	27	16.0	5	355.0	91.6	35
1970	318.4	71	108.1	24	22.3	5	448.8	93.8	26
1971	422.6	74	122.7	21	30.3	5	575.6	126.8	28
1972	545.2	76	146.4	20	29.1	4	720.7	145.1	25

Source: Economic Section USAID/Bolivia.

3. Availability of Labor and Construction Materials

a. Labor

The Ministry of Labor of the GOB estimates that there are approximately 25,000 building trades workers ^{1/} in Bolivia. Of this total, 14,000 or 56% are located in the La Paz area; and the remaining 11,000 or 44% are distributed over the rest of the country. Only 25% are considered experienced masters of their trades, another 25% are considered adequate professionals and the remaining 50% consist of apprentices, helpers and trade laborers.

Conversations with the Cámara Boliviana de Construcción indicate that this volume of skilled and semi-skilled workers, and its geographical distribution, is basically dictated by the demand for these building trade services. It was stated that this work force has in the past expanded or contracted to meet the level of demand, and that its geographical distribution has varied depending on the location of the construction activity. This elasticity is expected to continue in the future.

Caja Central's records indicate that the range of their mortgages is from \$5,000 to \$8,500. The Cámara Boliviana de Construcción estimates that 30 man-months of labor to construct a \$5,000 house. If the total project funds of \$6,500,000 were to be disbursed for these units alone, then a total of 1,300 houses would result over a three year period. The required annual labor force then would be 1,083 workers, or 4.3% of the total available force countrywide. On the assumption that 70% of all project funds will be disbursed in the interior (outside the La Paz area), then the labor force required in areas other than La Paz would be 758 workers or 6.9% of the total interior force. It is likely that a labor force geographical re-distribution may occur as a result of construction activities outside the La Paz area to further reduce this percentage.

In any case, the impact on the labor force is considered to be minimal, and there is little likelihood that the availability of labor would become a constraint on project implementation.

b. Construction Materials

The volume of native materials required for the project is essentially that for constructing 1,300 composite units costing

^{1/} Masons, plasterers, painters, concrete finishers, carpenters, steel workers, electricians and plumbers.

\$5,000 each, or an average of 433 composite units per year. It is estimated that one third of all project construction will be high-rise multifamily buildings and the remaining two thirds will be single family housing units. The material requirements for the composite unit represents the project requirement as a whole.

The Caja Central's records indicate that 32.1% ^{1/} of the total cost of all housing which it financed in the past was expended toward local materials. For the composite \$5,000 unit, this would represent \$1,605. Following is a projection of the annual volume of construction materials that will be required:

<u>Material</u>	<u>Per Composite Unit</u>	<u>Material</u>	<u>Volume</u>	<u>Total Vol.</u>	
<u>Material</u>	<u>% Cost</u>	<u>\$ Cost</u>	<u>Unit Cost</u>	<u>Comp. Unit</u>	<u>533 Units</u>
Brick	4.1	205	0.20 ea.	1,025	547,000
Cement	8.0	400	40.0/ton	10	5,330
Wood	8.2	410	0.20/bd/Foot	2,050	1,092,000
Aggregate	3.19	159.50	5.50/M3	29	15,467
Gypsum	2.24	112	\$25/ton	4.48	2,390
Limestone	0.75	37.50	\$25/ton	1.5	800
Paint	2.02	101	\$4.5/gallon	24.4	13,037
Roofing Tiles	2.29	114.50	2.00/M2	57.0/M2	30,400
Wire and Nails	1.31	65.50	0.70/Kilo	94	50,000
Totals	32.1	1,605.00			

These annual volumes represent a small percentage of, and will have very small effect on, the national production capacity of these materials. The following is a brief discussion of the availability of some of these materials which illustrates the small effect of the program on overall capacity:

Bricks and Tiles: Although no exact statistics exist on the production of bricks and tiles, each major city in Bolivia has at least one, and sometimes two, large factories producing anywhere from 20,000 to 200,000 units per day. Many small independent producers also share in the market. There has been some reluctance on the part of factory owners to disclose their production figures for fear of taxation. It is quite apparent, however, that the 547,000 bricks and 30,400 square meters of tiles required by one year of program construction represents one or two days of national production.

^{1/} Caja Central breakdown is as follows:

Labor	21.2%	Supervision	1.0%
Local Materials	32.1	Overhead	14.6
Imported Materials	19.7	Profit	10.6
Design	0.8	Total	100.0

Cement:^{1/} The current cement production capacity of Bolivia is 265,000 tons per year with a projected expansion to 380,000 tons by 1975 and 490,000 tons by 1978. National cement consumption in 1972 was only at the level of 150,000 tons. Plans are now being finalized for the export of approximately 3,000 tons per month to Brazil. The project requirements of 5,330 tons per year represents less than 4% of the national consumption and about 2% of the 1972 capacity.

Aggregates, Limestone and Gypsum: These native materials are available in natural deposits throughout the country.

Timber: The main sources of timber in Bolivia are located in the Santa Cruz area, Tarija and Los Yungas. The industry's current capacity far exceeds the native demand, and much of the timber from Santa Cruz and Tarija is exported to Argentina. Price levels are maintained through production controls imposed by the industry, but no production statistics are available. The one million board feet required annually for the program are estimated to represent a small percentage of the national capacity and should have little effect on it.

Imported Materials: The Caja Central estimates that 19.7% of the cost of construction will be for imported materials. These include reinforcing steel, aluminium frames, galvanized metal, electrical wiring and fixtures, plumbing supplies and other hardware. Available stocks of these materials are normally elastic enough to meet the demand, and inventories in these items are likely to increase when a new project is announced.

In summary, the construction material requirements of this project loan constitute a small percentage of the general market demand and no shortages are expected in either the native or the imported portion of these materials during the life of the project.

4. Occupational Groups Benefitted by the S&L System

A 10% sample of the total loan portfolio of the S&L system revealed the following distribution of loans by occupational groups:

^{1/} Data on cement was obtained from the three producers and their future expansion plans: Cemento Viacha (La Paz), Cemento Sucre (Sucre), and Cemento COBOCE (Cochabamba).

Teachers	11.66%
"Técnicos"	11.22%
Engineers	9.86%
Public Servants	9.42%
Merchants	9.42%
Artesans	8.52%
Accountants	8.08%
Doctors	5.84%
Lawyers	5.38%
Businessmen	5.38%
Economists	4.93%
Others	10.29%

Another study of the average income of home owners from the system through 1972 indicates that 82% earned between \$b.2,000 and \$b.5,000 per month.

D. Environmental Considerations

1. General

The environmental implications resulting from construction activities financed through project funds will be of second or third level actions, removed in time and space from the original disbursement that will be made to the Caja Central. In as much as these funds will be exclusively utilized for the construction of dwellings, either individually, grouped in housing projects or in highrise multi-family buildings, the potential environmental disturbances are relatively easy to predict and will be addressed and tested below.

2. Assessment of Potential Impact

The short term environmental impact, essentially during the construction stages, are going to be limited in effect and of short duration in most instances. This type of disturbance is not going to be new or novel and most communities undergo similar disturbances on a continuous basis.

The long term impact may be evaluated in the following terms:

(a) Adverse effects on existing natural resources and ecological systems: in all cases, conservation of existing land resources will be observed, and all existing vegetation, foliage and ground contours will be preserved to the maximum extent possible. Architectural treatments envisioned will be in harmony and will be designed to blend with the existing surroundings.

(b) Adverse consequences to the effected communities physically and culturally: in the case of individual dwellings, no danger of adversely affecting the community exists. In the case of multifamily buildings, without exception these will be located in densely populated urban areas where similar edifices exist. In the case of housing projects, housing sites will be located in newly developed areas and the price structure will assure a uniform and homogeneous cultural blend with no adverse cultural effect.

(c) The introduction of pollutants: in the case of single dwellings and multi-family buildings, no such potential exists since these will be introduced into existing communities with already functioning environmental protection systems. In the case of newly conceived housing projects, environmental protection systems such as adequate drainage, traffic distribution, landscaping, sanitary sewerage and solid waste collection and disposal systems, will be included in project plan and will be compatible with already existing surrounding

systems. No project without these and other applicable features will be approved for financing by the Caja Central or any of the S&L associations.

3. Commitment of Resources

Resources that will be irreversibly committed as a result of this project will consist exclusively of land for housing sites. Land thus committed will be either in areas already being utilized for this purpose or from others that offer no particular industrial or commercial potential.

In all cases, such land commitment will include allocations for recreation and other public areas consistent with the size of each housing tract and its projected future expansion.

SECTION III - LOAN ADMINISTRATION

A. Implementation Plan

1. Target Dates

a. Execution of the Loan Agreement and GOB Guaranty

The proposed loan program has been developed in close cooperation with the GOB and the Caja Central. All significant issues have been resolved. Therefore, no unusual delay is foreseen in negotiation and drafting of the loan agreement and the required GOB guaranty. These documents, which should be executed simultaneously, could reasonably be signed within six weeks following loan authorization.

b. Conditions Precedent to Initial Disbursement

Conditions precedent to initial disbursement could reasonably be met within two months after the loan is signed. The officers and staff of the Caja Central are experienced in the ways of AID and have been able in the past to meet AID requirements promptly and effectively. The basic elements of the S&L promotion plan to attract savings have been developed. The basic decisions required by the necessary conditions precedent have been taken and staff work is well under way.

2. Plan for Technical Assistance

The Caja Central has proposed a technical assistance plan which should strengthen the operations of the S&L System in areas of relative weakness and provide additional expertise to better implement expanded system activities.

Loan funded advisors will be engaged during the latter part of 1973 or as soon as practicable. They will be obtained from such organizations as The Savings and Loan Foundation, Inc., the U.S. Savings and Loan League, and the Interamerican Savings and Loan Union. Advisors will be sought for each of the following areas:

- Publicity, promotion and public relations
- Accounting
- Mechanical accounting systems
- Administrative systems and personnel management
- Project evaluation, appraisal and technical supervision of construction
- Finance

Presentation of a plan acceptable to AID for obtaining and utilizing this technical assistance, together with a projected budget will be a condition precedent to initial disbursement.

The cost of obtaining the services above is estimated at US\$100,000. This amount has been provided in the proposed budget for the Caja Central and will be funded by the AID loan.

3. Plan for Staff Training

The Caja Central is planning to provide training for S&L System personnel in the following areas:

- | | |
|-----------------------|--------------------------|
| - Accounting | - Public relations |
| - Financial analysis | - Publicity |
| - Project evaluation | - Administrative systems |
| - Project supervision | - Personnel management |

Key personnel will be sent to participant training in other Latin American countries or in the United States. An extensive staff training program will be initiated using seminars, training courses and conferences within Bolivia. Instruction will be given by experts from organizations such as the National League of Insured Savings Associations, the U.S. Savings and Loan League and the International Savings and Loan Union, as well as by qualified senior personnel of the Caja Central and the Bolivian S&L associations. A final version of the training plan acceptable to AID, including firm execution dates, will be required as a condition precedent to initial disbursement.

4. Procurement

a. General

Dollar procurement will be made from geographic code 941 countries in accordance with standard AID procedures. The bulk of the loan funds will be used for local currency expenditures by the Caja Central or the S&L associations in an intermediate credit institution (ICI) relationship with the Caja Central. AID policies as they relate to local currency expenditures and ICI expenditures will be followed.

b. Accounting Equipment

Members of the financial department of the Caja Central have surveyed the equipment needs of the Caja and the Associations, and have solicited recommendations from the local representatives of IBM, NCR and Olivetti regarding levels of mechanization needed in the system. Based

on these surveys it is estimated that the Caja and the associations will require about \$180,000 of accounting equipment to attain a level of mechanization that will support the expanded level of savings and mortgage lending anticipated under the AID loan.

At present only "La Primera" utilizes machine accounting for processing and maintaining loan records and for posting dividends. All other associations retain manually posted loan ledgers and make manual calculations of dividends for posting to savings ledgers. Also there is a lack of general office equipment such as calculators, typewriters and adding machines. Although a specific equipment list has not been formulated, the Caja has concluded that each S&L should have as a minimum, data processing equipment that will update and post the mortgage loan ledgers and maintain the general ledger and savings ledger on a current basis. The equipment should also have the capability of calculating and posting dividends to savings ledgers. Accounting machines are available from the U.S. Manufacturers represented in Bolivia that can provide these functions below the computer level.

Included in the technical assistance portion of the AID loan are funds to provide for a technician to develop a program for the mechanization of the S&L accounting system taking into consideration the expanded activities in the system, the communication limitations in the country, and the software and maintenance services available in Bolivia.

B. Disbursement Procedures

It is anticipated that initial disbursements of US\$500,000 will be made to the Caja Central upon satisfaction of the necessary conditions precedent. Subsequent disbursements will be made to the Caja Central on a reimbursement basis as funds on hand are expended for allowable project costs or passed on to the associations in accordance with the criteria for utilization of AID loan funds described in Section I.A.3.

C. USAID Monitoring Responsibilities

Primary implementation and monitoring responsibilities with the USAID Mission will rest with the Office of Capital Development. Within this office, a loan officer will work closely with the experienced local hire housing advisor. They will maintain close contact with the Caja Central to ensure full compliance with the Loan Agreement and implementation letters, and to identify and resolve any implementation or policy problems which may arise. They will also coordinate the activities of the mission offices mentioned below to the extent that they affect this project.

The Mission controller will assist the Caja Central in compliance with AID disbursement procedures.

The Mission Engineering and Transportation Division (ETD) will participate in Mission project reviews. ETD will also assist as required in preparation of equipment lists for AID financed foreign currency procurement. ETD will spot check construction projects from time to time to verify the engineering capacity of the individual S&L associations and in the case of large multi-story structures, will informally verify the adequacy of engineering shown in the plans.

In addition to the mission officers mentioned above, it is anticipated that a full time engineering inspector/advisor will be funded by the Caja Central in connection with the Los Pinos Housing Investment Guaranty (511-HG-004). He will receive administrative support from the mission, and should prove to be a useful source of advice and assistance with respect to this loan program.

D. Reporting Requirements

The following reports shall be submitted by the Caja Central:

1. Annual

a. Annual audit report, prepared by an independent auditor acceptable to AID.

b. Annual financial reports for the Caja Central and the individual S&L associations.

2. Quarterly (may be combined as appropriate)

a. Comparative data on movements of deposits, savings and withdrawals for each S&L association.

b. Comparative data on number of savers in each S&L association.

c. Number, amount and purpose of loan applications (i) received and (ii) approved by each S&L association.

d. Progress on construction and number of workers and professionals employed in construction financed by each S&L association.

e. Narrative summary of the activity of the Caja Central and the S&L system.

f. Such other reports as AID may require.

E. Conditions and Covenants

In addition to the standard AID conditions and covenants, the loan agreement should include the following:

1. Conditions

Prior to first disbursement of the AID loan, the Caja Central shall submit to AID, in form and substance satisfactory to AID, the following:

(i) A Savings Promotion Plan for the system, including a complete description of the various elements contained within the plan, the means to be utilized and estimated cost of the respective elements, and an implementation schedule. Satisfactory implementation of this plan will be a continuing condition to subsequent AID loan disbursements.

(ii) A plan for the recruitment and utilization of technical advisory assistance.

(iii) A training plan for employees of the Caja Central and the Bolivian S&L Associations.

(iv) A time-phased plan for the acquisition of the additional staff necessary for the Caja Central and the S&L associations to enable these institutions to carry out the expanded program. Except as AID may otherwise agree, all such staff additions shall have been made by the end of CY 1974 in order to obtain AID loan disbursements for CY 1975.

(v) An equitable plan for allocating the AID loan funds among the S&L associations so as to maximize savings promotion efforts and competition for these funds. This plan shall include estimates of individual S&L savings growth targets, projected disbursements to the respective S&L's and criteria for the reallocation of unused S&L quotas.

(vi) A plan for the use of the interest spread on the AID loan, including a provision or reserve against possible disparities between cumulative mortgage readjustments based on the cost of living and future exchange rate fluctuation.

(vii) A statement of mortgage loan criteria, including maximum amount, interest rates, eligibility requirements, etc.

(viii) Documentation necessary to verify that the Government of Bolivia guaranty is in full force and effect for any AID loan funds which may be disbursed.

(ix) An arrangement whereby the GOB-guaranteed Los Pinos HIG project would be effectively isolated from the other operations of the S&L system so that in the event of any shortfalls in that project, the GOB would not have recourse to the assets of the entire S&L system.

2. Covenants

Except as AID may otherwise agree, the Caja Central shall, prior to the end of CY 1974, have:

- (i) Developed and put into practice a uniform procedures manual.
- (ii) Organized an internal audit department.
- (iii) Arranged for the performance of administrative audits of the S&L operations.

Except as AID may otherwise agree, or except for meeting short term liquidity needs of the S&L's, the Caja Central shall not purchase newly generated mortgages from the individual Bolivian Savings and Loan Associations.

3. Preconditions to Execution of the Loan Agreement

As a precondition to the execution of the Loan Agreement, ~~the Government of Bolivia shall enter into arrangements satisfactory~~ to AID, for rescheduling the repayments of the existing \$40 million Banco Central Bank loan to the Caja from 8 years with a 2 year grace period on principal payments to 20 years with a 10 year grace period.

F. Evaluation

1. Criteria for Evaluating Success of Project

An approach to the evaluation process is outlined in the framework below. The evaluation will be concerned with the major elements of the project: (a) savings attraction and increasing financial self-sufficiency of the S&L System and (b) volume of housing financed, including occupational groups which may have benefited. Although evaluation will be a continuing process, a meeting will be held at least once a year between the USAID Mission, Caja Central and S&L System personnel involved in project execution and monitoring. Each of the major elements will include, inter alia, the study of the following items:

a. Savings attraction and financial self-sufficiency

- (i) Comparative movements of sight deposits, time deposits and withdrawals for each S&L association.

- (ii) Changes in number and composition of savers in each S&L association.

- (iii) Comparison in number, amount and purpose of loan application received and approved by each S&L association.

- (iv) Review of changes in overall financial situation for each S&L association and for the Caja Central.

- b. Volume of Housing financed, including occupational groups which may have benefitted

(i) Review of amount and type of housing financed by the system.

(ii) Review of amount and type of employment directly and indirectly generated from construction financed by the S&L System.

(iii) Review of composition of borrowers from the S&L System by occupation, income, delinquency, etc.

2. Impact on Employment and Construction Material Industry

a. Employment

In order to verify the on-site employment forecast directly resulting from this loan, the Caja Central, through the different S&L associations, will require all contractors to report monthly on the number of people employed by each project. This labor force count will be broken down by trade, and a regional summary prepared by each S&L association for submission to the Caja Central on a monthly basis. The Caja Central will then combine these regional reports into a national summary to be submitted to USAID on a semi-annual basis. USAID will compare this actual field data with that forecast in the loan paper, and differences will be evaluated and reconciled.

The labor cost component of materials utilized in the construction of projects financed under this loan could not realistically be determined in the field, and therefore will not be required.

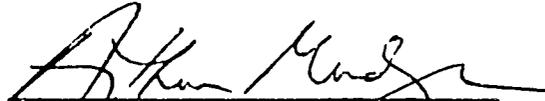
b. Construction Material Industry

The share of this project loan in the national consumption of construction materials is estimated to be quite marginal, and will have little effect on the industry as whole. Although such volume could be realistically measured, it is not felt that the voluminous bookkeeping operation that would be required is justifiable in view of this fact.

CERTIFICATION PURSUANT TO SECTION 611 (e) OF THE
FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, Arthur W. Mudge, the principal officer of the Agency for International Development in Bolivia, having taken into account among other factors the maintenance and utilization of projects in Bolivia previously financed or assisted by the United States, do hereby certify that in my judgement Bolivia has both the financial capability and human resources capability to effectively maintain and utilize the capital assistance project: SAVINGS AND LOAN DEVELOPMENT PROGRAM.

This certification is based, inter alia, on the Bolivian Savings and Loan System's performance in the execution of recent local currency loan financed development projects, and AID housing investment guaranty projects.


Arthur W. Mudge
Acting Director, USAID/Bolivia

Ministry of Finance
Bolivia

Mr. Edward W. Coy
Director
USAID/Bolivia
La Paz

Letter No. 01 1150
La Paz, May 7, 1973.

Dear Mr. Coy,

Subject: US\$ 6,000,000 Loan for
the Housing Program

As you are aware, officials of the Caja Central de Ahorro y Préstamo para la Vivienda, together with technicians of AID and this Ministry, have been working on the collection of data, background information, as well as in the preparation of necessary documents for a loan application for the construction of dwellings of social interest on the national territory.

The estimated amount to carry out the program has been calculated at ~~US\$ 6,000,000~~ and the terms of the credit should be the same as those normally granted by AID.

The above prompts me to submit to your consideration for subsequent processing in Washington this formal credit request in the amount of and with the objectives specified above. The estimated amount is considered self-sufficient for the executing agency of the Loan.

I wish to express to you that the favorable consideration of this request will be greatly appreciated by the Government headed by Gen. Hugo Banzer Suarez as a token of the spirit of cooperation of the Government and people of the United States of America to the Government and people of Bolivia.

I take advantage of this opportunity to reiterate to you the feelings of our highly and distinguished consideration.

Sincerely yours,

Luis Bedregal Rodo
Minister of Finance

Ministry of Finance
Bolivia

Mr. Edward W. Coy
Director
USAID/Bolivia
La Paz

Letter No. 01 1338
La Paz, May 22, 1973.

Dear Mr. Director,

For your information, and with the request that you inform us of your official position regarding the application submitted by the President of the Caja Central de Ahorros y Préstamos para la Vivienda, for a \$b.40,000,000 loan from the Government of Bolivia for 20 years at the same interest rate which the Central Bank of Bolivia would have granted them, I quote below their request.

Should an agreement be reached in this connection, the Ministry of Finance would incorporate the amount indicated in the General Budget of the Nation for the years 1974, 1975 and 1976, in three equal installments.

The following is the text of the note sent to this Ministry by the President of the Caja Central de Ahorros y Préstamos:

"CAJA CENTRAL DE AHORROS Y PRESTAMOS PARA LA VIVIENDA -----
SG No. 710 ----- La Paz, May 18, 1973 ----- Mr. Luis Bedregal Rodo
----- Ministro de Finanzas ----- La Paz ----- Dear Mr. Minister
----- We hereby make reference to the meeting held in the Office
of Lic. Jorge Rivero Vargas, Undersecretary of the Financial Ad-
ministration Department of said Ministry, at which time the
economic contribution was considered which would be made available
by both the Government of Bolivia and the Government of the United
States of America to our S&L System with a view to creating the
best conditions for the future development of the Savings Associa-
tions in La Paz and the interior of the country. In the inter-
view granted us by Lic. Rivero Vargas, and with the participation
of officials of the USAID/Mission, specific reference was made to
note No. CI-1150 addressed by your authority to the USAID Director
in Bolivia regarding a loan by the Agency for International Deve-
lopment to the Caja Central in the amount of US\$ 6,000,000 and to
the note of reply CAP/I-124/73 by Mr. Coy to your Office. -----
In this regard, we hereby submit to your consideration a loan re-
quest for the Caja Central, in an amount of \$b.40,000,000 at 20
years, with a 10 year grace period for the repayment of capital

and at an interest rate of six percent (6%) per annum. In addition to the terms and conditions mentioned above, which was the object of the said interview, it was decided that in principle the resources of the mentioned loan would originate from the Treasury of the Nation and that loan disbursement would be made in partial amounts, between the years 1974 and 1976.

"The granting of said financing by the Supreme Government would make possible the concession by the Government of the United States of America a credit to the Caja Central in an amount of US\$ 6,000,000 at 40 years, with a ten-year grace period for capital repayment and at an annual interest rate of two percent (2%) during the grace period and three percent (3%) to become effective on the date of amortization payments.

"The exceptional character of our request is based principally on the mutual dependency of both financings, which jointly will facilitate the realization of the objectives ~~of our~~ System, not only regarding the future S&L Systems' self-sufficiency, but also regarding the proper attention of the housing needs of thousands of families from different sectors of the urban population, which urgency is becoming more evident and pressing in the different capitals of the Republic.

"The function fulfilled by the institutions making up our S&L System, which is eminently social and non-profit making, constitutes a guaranty for the application and use of the mentioned resources in the most adequate conditions of the socio economic environment surrounding the activities of the Housing and Savings and Loan Associations.

"As you properly express, Mr. Minister, in your note dated May 4, 1973 the granting of the loan which we are hereby requesting, given its dependency on the loan by the Government of the United States, will constitute a token of the spirit of collaboration of both Governments in an endeavour having as its goal a highly social content.

"We take this opportunity to reiterate to you the testimony of our attention. ----- Ernesto Wende, President ----- "

We request your prompt reply so that we may inform the Caja,
We remain,

Jorge Rivero Vargas
Subsecretary of Financial Administration
Ministry of Finance

DRAFT
LOAN AUTHORIZATION

Provided:from: Alliance for Progress Funds
BOLIVIA: Savings and Loan Development Program

Pursuant to the authority vested in the Deputy U. S. Coordinator, Alliance for Progress, by the Foreign Assistance Act of 1961, as amended, and the delegation of authority issued thereunder, I hereby authorize the establishment of a loan ("Loan"), pursuant to Part I, Chapter 2, Title VI, Alliance for Progress, to the Caja Central de Ahorros y Préstamos para la Vivienda ("Borrower") of not to exceed six million United States dollar (US\$6,000,000) to assist in financing the United States dollar and local currency costs of the Savings and Loan Development Program administered by the Borrower. The loan shall be guaranteed by the Government of Bolivia ("Guarantor") and shall be subject to the following terms and conditions:

Interest and Terms of Repayment

Borrower shall repay the Loan to AID in United States dollars within thirty (30) years from the date of the first disbursement under the Loan, including a grace period not to exceed ten (10) years. Borrower shall pay to AID in United States dollars on the disbursed balance of the Loan interest at the rate of two percent (2%) per annum during the grace period and four percent (4%) per annum thereafter.

2. Other Terms and Conditions

(a) Except for marine insurance and ocean shipping, goods and services financed under the Loan shall have their source and origin in Bolivia and countries included in AID Geographic Code 941. Marine insurance financed under the Loan shall have its source and origin in Bolivia or any country included in AID Geographic Code 941, provided, however, that such insurance may be financed under the Loan only if it is obtained on a competitive basis and any claims thereunder are payable in convertible currencies. Ocean shipping financed under the Loan shall be procured in any country included in AID Geographic Code 941.

(b) United States dollars utilized under the Loan to finance local currency costs shall be made available pursuant to procedures satisfactory to AID.

(c) Prior to any disbursement of loan funds or the issuance of a Letter of Commitment under the Loan Borrower shall submit evidence in form and substance satisfactory to AID that:

(i) The Government of Bolivia guaranty is in full force and effect.

(d) The Loan shall be subject to such other terms and conditions as AID may deem advisable.

Deputy U.S. Coordinator

Date

BIOGRAPHICAL DATA OF KEY PERSONNEL

I. CAJA CENTRAL

A. Board of Directors

1. Ernesto Wende Frankel

Executive President

Education: Economist M.A.; Berea College, Berea, Kentucky. University of California, Berkeley, California. Nebraska University, Lincoln, Nebraska.

Experience: Assistant to the Program Officer, USAID/Bolivia. Assistant to the Director of the Interamerican Agricultural Service. Founder and President of "La Primera" S&L Association. Founder and President of the Caja Central, since 1966. Director of the InterAmerican Savings and Loan Union. Director International Union of Societies and Associations of Savings and Loans. Governor of the Affiliated No. 16 of the American Savings and Loan Institute.

2. Oscar Parada Perdiel

Vice-President

Education: Accountant; Accounting School, Santa Cruz, La Paz, and Monetary Studies Center, Mexico.

Experience: General Manager, Central Bank of Bolivia. General Manager, Banco de Santa Cruz de la Sierra in La Paz. Present position.

3. Hugo Alfonso Salmón

Education: Lawyer; Universidad Mayor de San Andrés, La Paz. Accounting School, La Paz. Journalism Course, CEPAL. Management Course, La Paz, Publicity Course, La Paz.

Experience: Lawyer. Journalist. Director of the Legal Department of the Ministry of Foreign Relations. Secretary General of the Ministry of Interior. Undersecretary of the Ministry of Communications.

Undersecretary of the Municipality of La Paz. Director of the Agricultural Bank. Secretary Director of the Corporación Boliviana de Fomento. President of the Press Association. Manager of the French Press News Agency.

4. Gastón Guillén O.

Education: Accountant; Accounting School, La Paz. Monetary and Banking Specialization, Mexico.

Experience: Manager of the Central Bank of Bolivia. Officer of Banking and Public Credit, Ministry of Finance. Financial Manager of the Bolivian Development Corporation. Present Position.

5. Col. Oscar Angulo T.

Director appointed by the Ministry of Finance.

Education: Military Engineer; Military School of Engineering. Course on Social Housing, Santiago de Chile.

Experience: Military Attache of the Bolivian Embassy in Paraguay. Commander of Military Divisions. President of the National Housing Council. President of Military Housing Cooperative. Manager of EMCIC Construction Company.

B. Personnel

Heads of Departments

1. Luis Fernando Moreno

Chief of the Audit and Insurance Division.

Education: Financial Auditor; Universidad Mayor de San Andrés, La Paz. George Washington University. American University. Illinois University.

Experience: Costs and Personnel Officer, Compañía Arroyo de Minas. USAID/B Accounting Division, local chief. USAID/B Audit Division, local chief. President of the Independent Professionals Association.

2. Gastón Mujía T.

Legal Advisor to the Caja.

Education: Lawyer M.L.; Universidad de San Andrés, La Paz. Universidad Central de Madrid, España. Tulane University, New Orleans, La.

Experience: Official of the Ministry of Foreign Relations. Chief of the Legal Department of the Interamerican Agricultural Service. Legal Advisor of "La Primera" S&L Association. Founder of Caja Central and the Bolivia S&L System.

3. Jaime Cajías T.

Chief Financial Department.

Education: Economist Auditor; Universidad Mayor de San Andrés. Mexican Business Administration Institute.

Experience: Cashier, Auditor of Teléfonos Automáticos, La Paz. Auditor, "Bolivia" Insurance Company, La Paz. Auditor and Chief of the Foreign Department of Banco Industrial, La Paz. USAID, Field Auditor. Auditor and Administrative Manager, Empresa Minera Unificada. Professor at the Universidad Mayor de San Andrés.

4. José Eduardo Frías T.

Chief, Technical Department.

Education: Architect; Universidad Mayor de San Andrés, La Paz.

Experience: Professional activities. Professor at the Universidad Mayor de San Andrés, La Paz.

II. SAVINGS AND LOAN ASSOCIATIONS

1. Jorge Fernandez Arroyo

General Manager of "La Primera" S&L Association, La Paz.

Education: Economist; Universidad Mayor de San Andrés, La Paz. Business Administration School, Fundação Getulio Vargas, Sao Paulo, Brazil.

Experience: President of the Board of Directors of La Primera. Chief of the Tax Reform Commission. Director of Fiscal Policy. Chief of the Economic Studies Department of the Ministry of Finance. General Manager of Manufacturas Fernandez, La Paz. Treasurer of the National Industrial Chamber.

2. Raúl Vivado Pizarro

General Manager of "La Paz" S&L Association, La Paz.

Education: Engineer; Louisiana State University. Mississippi State College.

Experience: Administrator of Ford Bacon & Davis Consultants. Assistant Manager Matomas and Bol-Inca Mining Co. Manager Bol-Inca Mining Co. Manager Artesanías Textil Boliviana Ltda. Manager of the Bolivia Productivity Center.

3. Román Paz

General Manager of "Potosí" S&L Association, Potosí.

Education: Lawyer; Universidad Tomás Frías, Potosí.

Experience: Professional activities.

4. Adrián Urriolagoitia

General Manager "La Plata" S&L Association, Sucre.

Education: Lawyer; Universidad de San Francisco Xavier, Sucre.

Experience: Professional activities. Manager of Sociedad Comercial Importadora.

5. Victor Flores Ovando

General Manager of "Tarija" S&L, Tarija.

Education: Economist; Universidad "Juan Misael Saracho", Tarija.

Experience: Professor at the University "Juan Misael Saracho". Treasurer of the Municipality of Tarija.

6. Freddy Garrón

General Manager of "Paititi" S&L Association, Trinidad.

Education: Teacher; Normal Superior de La Paz.

Experience: Director of "Trinidad" School. Owner of a cattle enterprise.

7. Antonio Villegas

General Manager of "La Promotora" S&L Association, Cochabamba.

Education: Financial Auditor; Economist; Universidad
"Tomás Frías" Potosí.

Experience: Professional Activities.

8. Juan Manuel Parada

General Manager of "Guapay" S&L Association, Santa Cruz.

Education: Accountant.

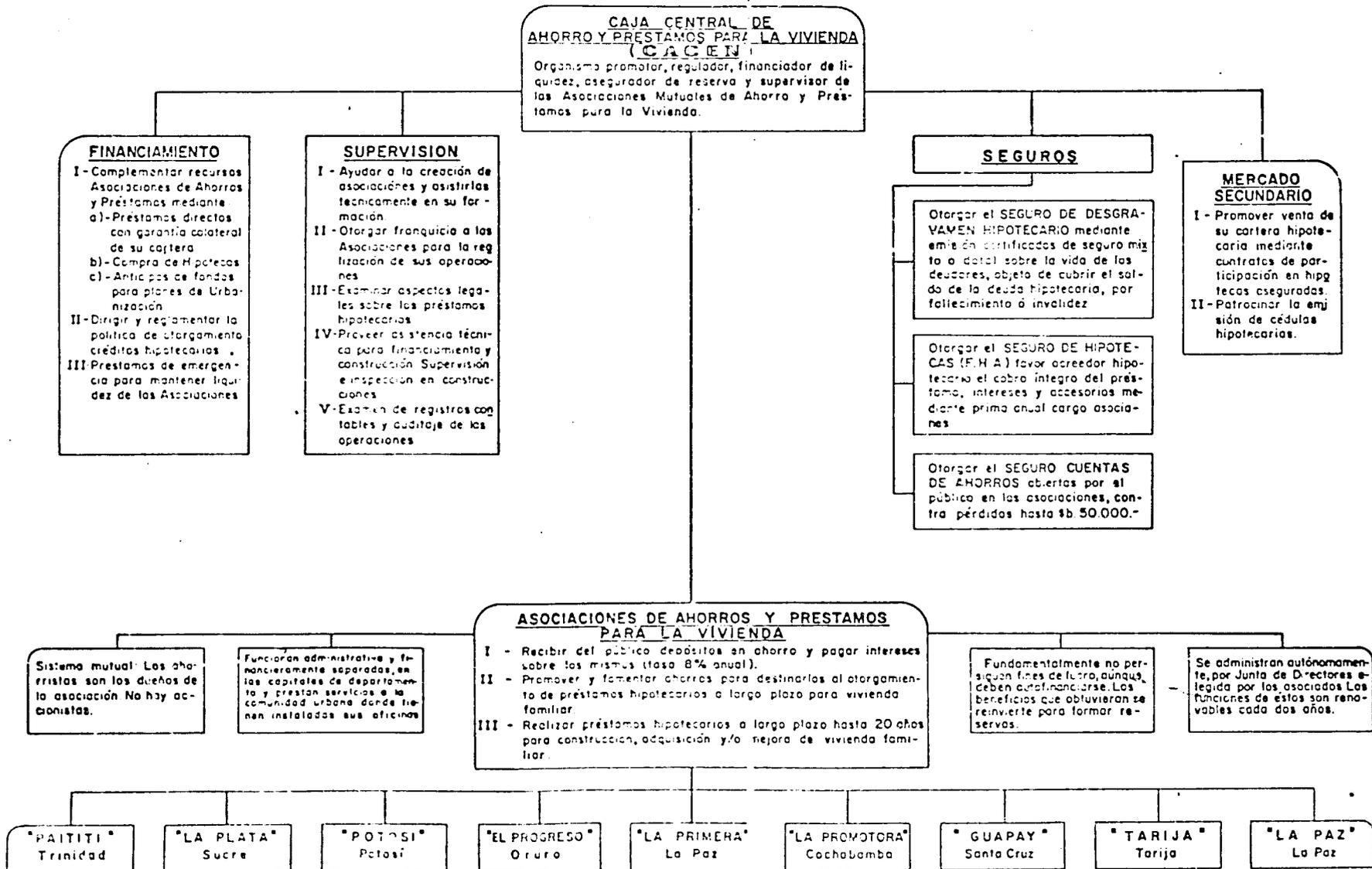
Experience: Vice President of the Banco de Santa Cruz de
la Sierra, Santa Cruz. Manager of commercial enterprises.

9. Cristina de Mercado

General Manager of "El Progreso" S&L Association, Oruro.

Education: Accountant; Instituto Nacional de Comercio,
Oruro.

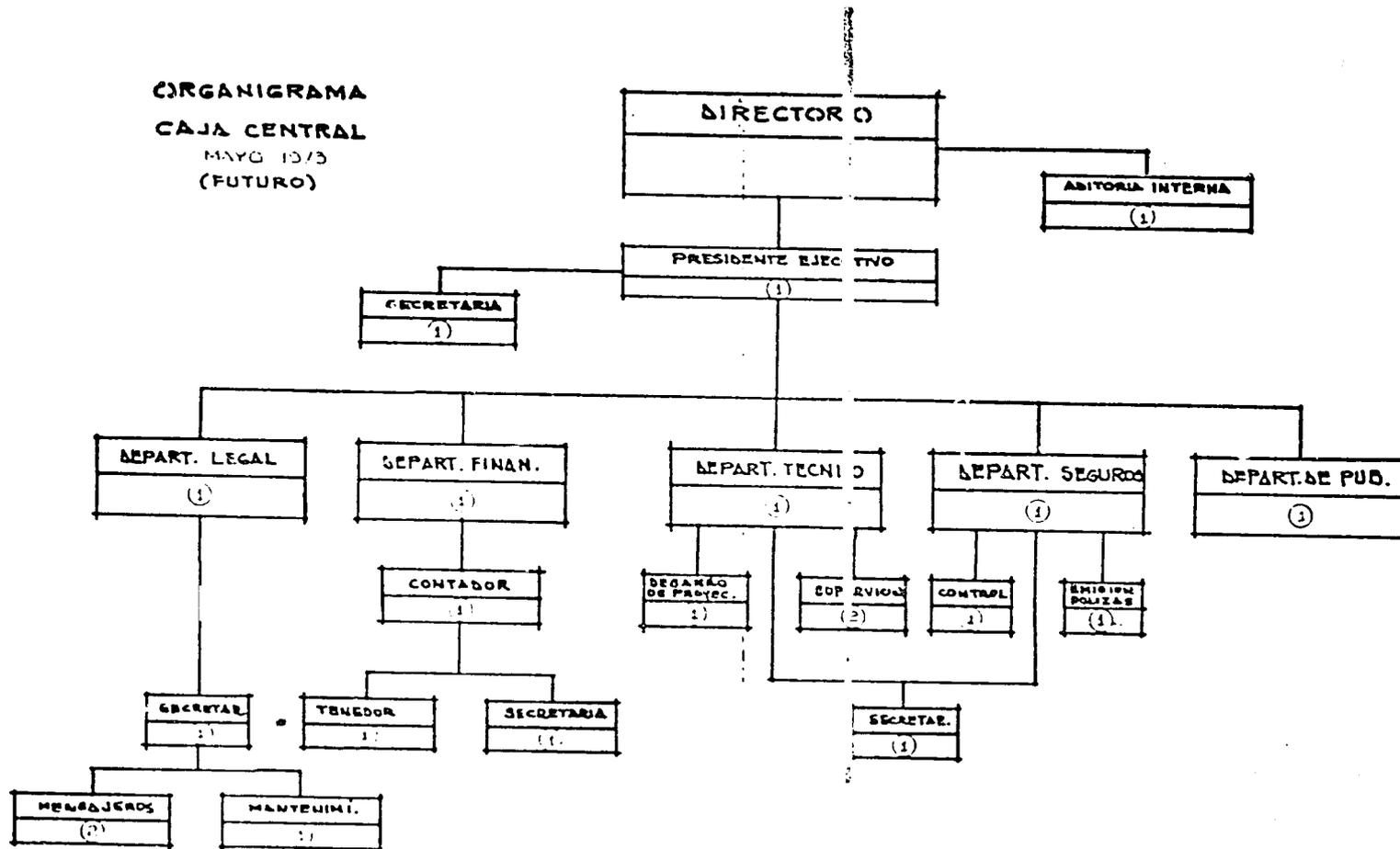
ORGANIGRAMA DE LA CAJA CENTRAL DE AHORROS Y PRESTAMOS Y DEL SISTEMA BOLIVIANO DE AHORROS Y PRESTAMOS PARA LA VIVIENDA



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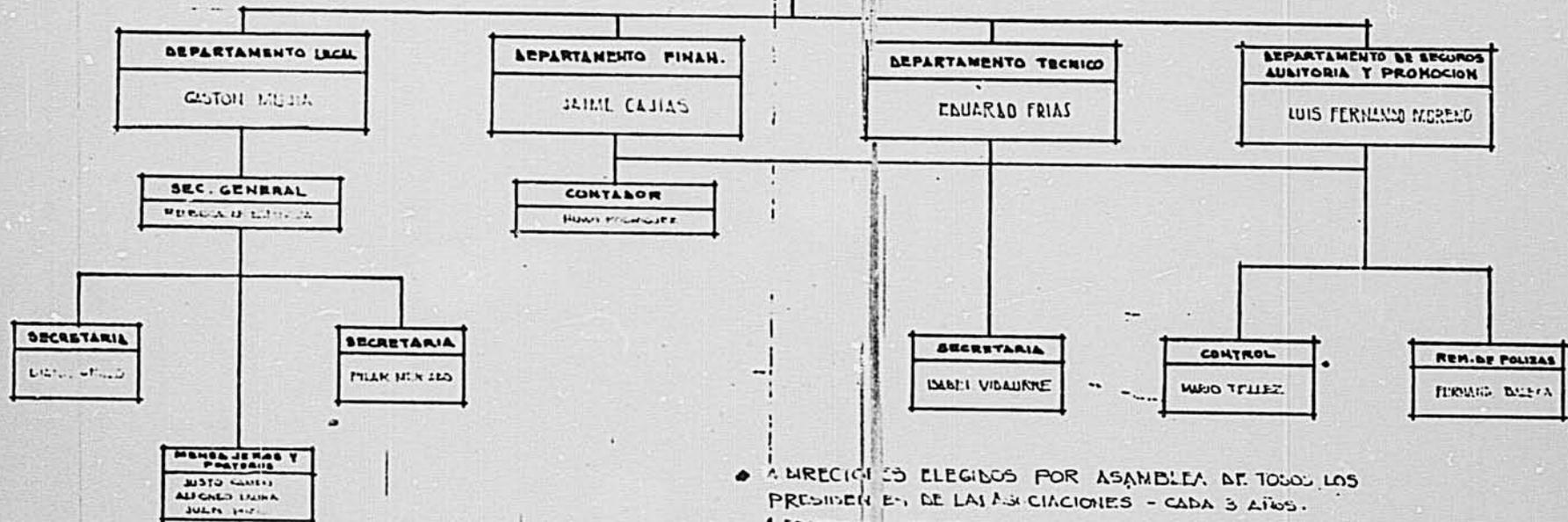
AID-PLC/F-2003
ANNEX B
Exhibit 1
Page 1 of 1

**ORGANIGRAMA
CAJA CENTRAL
MAYO 1973
(FUTURO)**



**ORGANIGRAMA
CAJA CENTRAL**

MA. 1957
(PRESENTE)

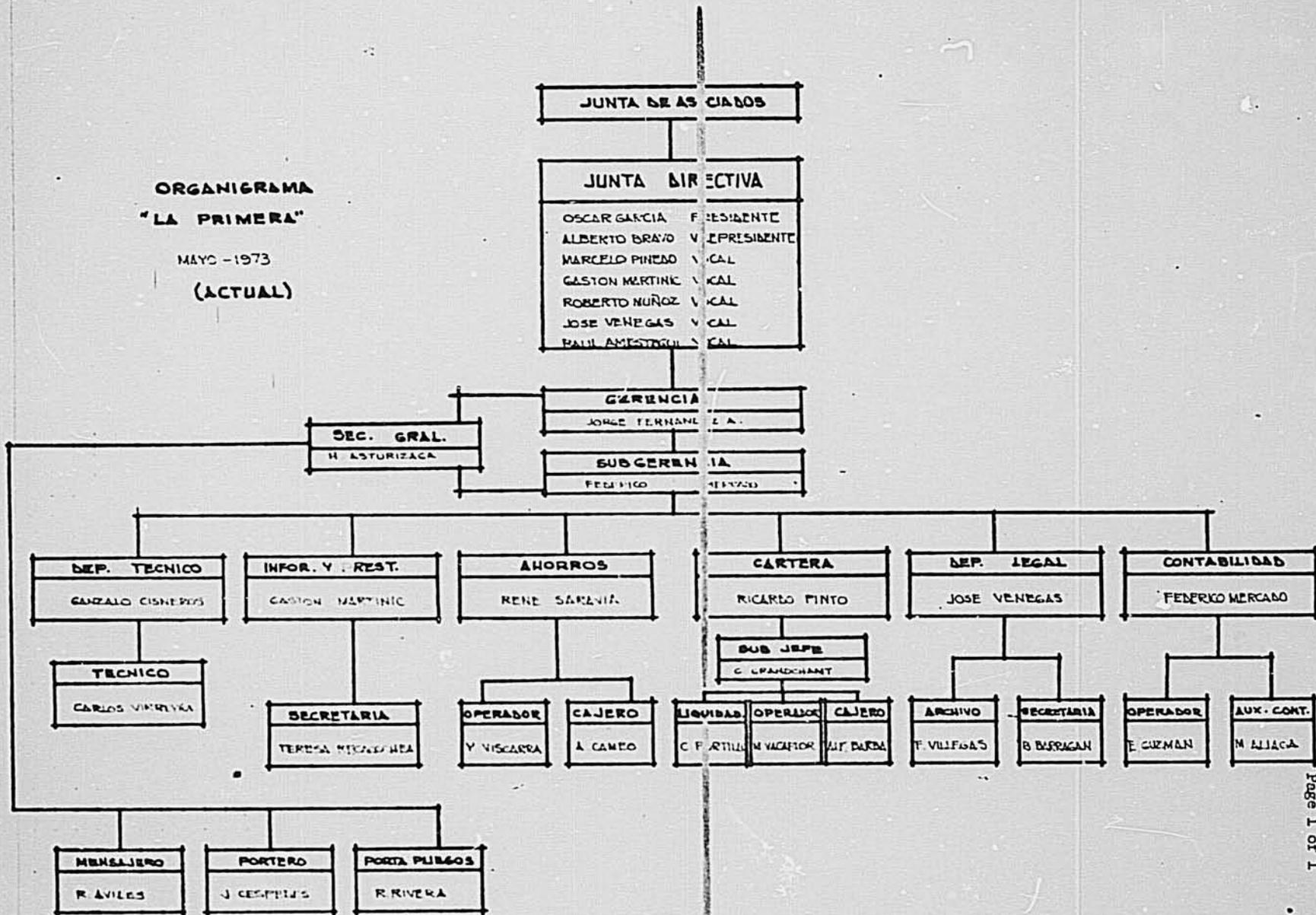


* MEMBROS ELEGIDOS POR ASAMBLEA DE TODOS LOS
PRESIDENTES DE LAS ASOCIACIONES - CADA 3 AÑOS.
1 REPRESENTANTE DEL MINISTERIO DE FINANZAS.

**ORGANIGRAMA
"LA PRIMERA"**

MAYO - 1973

(ACTUAL)



Past USAID/B Assistance to The Bolivian Savings & Loan System

<u>Loan No.</u>	<u>Date</u>	<u>A m o u n t</u>	<u>To (Institution)</u>	<u>First Disbursement</u>	<u>Last Disbursement</u>
Loan 3	04.17.64	* 200,000	La Primera	02.05.65	08.17.65
24-920-494 60006	08.01.65	* 500,000	La Primera	08.30.65	11.18.66
511-LCL-1009	06.02.67	* 1,000,000	Caja Central	06.27.67	11.12.68
511-LCL-1024	01.17.69	* 500,000	Caja Central	05.20.69	03.06.70
511-HG-003	09.05.69	US\$ 3,600,000	Caja Central	10.31.69	07.26.72
511-HG-004	09.26.72	US\$ 6,000,000	Caja Central		

* Local currency loan expressed in dollar equivalent at \$b12.00 = \$1.00 exchange rate in effect during disbursement period.

TECHNICAL ASSISTANCE

PIO/T 70164	US\$ 6,000
PIO/T 80072	US\$ 2,600
Geane B. Gill	Insurance Specialist
November 1967	Thirty days
PIO/T 70163	US\$ 6,333
Everett Mitchell	Advertising Specialist
February 1968	2 months
PIO/T 70165	US\$ 2,515
Herbert Basedow	Accounting Specialist
February 1968	2 months
PIO/T 80122	US\$ 8,000
PIO/T 70162	US\$40,147
Marlo Schram	S&L Specialist
July 1968	December 1970
Invitational Travel	US\$ 2,000
Dallas Benewitz	Mortgage Specialist
April 1972	40 days
TOTAL T.A.	US\$67,595

CAJA CENTRAL OPERATING BUDGET: 1973-74

<u>Budget Items</u>	1973 Estimated Budget	1974 Estimated Budget
Salaries	1,244,000	1,650,000
Salaries Board of Director's members	187,500	216,000
Supervision and Advisory Services	60,000	69,000
Personnel Services	10,000	12,000
Promotion and Advertising	150,000	172,500
Public and International Relations	120,000	138,000
General Office Expenses (including Depreciations and Write-Offs)	300,000	345,000
Auditing and Accounting Services	70,000	80,500
Financial Expenses	6,906,415	6,819,250
Insurance	180,000	207,000
Technical Services	100,000	115,000
Conventions and Seminars	80,000	92,000
Surplus		226,143
TOTAL BUDGET	9,407,915	10,242,403

CAJA CENTRAL

BALANCE SHEET

AS OF DECEMBER 31, 1972

PESOS BOLIVIANOS

ASSETS

LIABILITIES

CASH

Cash on Hand and in Banks	413,814
Time Deposits	1,518,022
Insurance Reserve Deposits	<u>661,168</u>

Accounts Payable	94,241
Taxes on Personal Services	4,912
Interest Payable	117,299
Purchased Mortgages Payable	<u>2,600,000</u>

2,593,004

2,816,452

RECEIVABLES

Accounts Receivable	2,151,491
Insurance Premiums Receivable	<u>343,886</u>

Legal Reserves on Savings Deposits	1,778,433
AID Local Currency Loans Payable	17,620,564
FHLBNY 511-EG-003 Loan Payable	71,666,551
Caja Central Mutual Capitalization	214,397
Insurance Capitalization Fund	1,000,000
Donation Fund	144,833

2,495,377

PREPAID AND DEFERRED ASSETS

Prepaid Insurance and Commissions	404,520
Installation and Organization Expenses	209,600
Materials Inventory	50,114
Operating Expenses	<u>1,444,331</u>

Insurance Reserves	1,331,104
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2,108,565

INVESTMENTS

Loans	12,771,000
Mortgages Purchased	47,205,431
Readjustment Compensation Fund	<u>29,503,353</u>

Reserve for Social Benefits	225,329
Reserve for Exchange Fluctuation	271,066
Savings Fund Reserve	16,510
Surplus	19,876

89,479,784

FIXED ASSETS

Building	225,063
Furniture and Fixtures	227,330
Vehicles	80,216
	532,609
Less - Reserves for Depreciation	(132,308)
Add - Revaluation of Assets	<u>28,084</u>

TOTAL LIABILITIES AND RESERVES

428,385

97,105,115

97,105,115

TOTAL ASSETS

CAJA CENTRAL
BALANCE SHEET
AS OF DECEMBER 31, 1971
Pesos Bolivianos

<u>ASSETS</u>					
<u>CASH</u>					
Cash on Hand and in Banks	1,738,825			Accounts Payable	72,612
Time Deposits	1,355,303			Payable to Employees Fund	121,859
Insurance Reserve Deposits	<u>609,567</u>			Interest Payable	62,477
		3,703,694		Purchases Mortgages Payable	<u>500,000</u>
					756,948
<u>RECEIVABLES</u>					
Accounts Receivable	940,694			Legal Reserves on Savings Deposits	1,291,227
Insurance Premiums Receivable	<u>185,295</u>			AID Local Currency Loans Payable	17,815,889
		1,125,989		FHONY 511-HG-003 Loan Payable	25,531,250
<u>PREPAID AND DEFERRED ASSETS</u>					
Prepaid Insurance and Commissions	424,537			Caja Central Mutual Capitalization	205,261
Installation and Organization Expenses	255,800			Insurance Capitalization Fund	863,049
Materials Inventory	47,081			Donation Fund	144,833
Operating Expenses	<u>1,161,152</u>			Insurance Reserves	542,963
		1,868,570		Reserve for Social Benefits	170,837
<u>INVESTMENTS</u>					
Loans	12,071,000			Reserve for Exchange Fluctuation	4,513
Mortgages Purchased	<u>27,849,000</u>			Savings Fund Reserve	16,510
		39,920,000		(Deficit)	(283,179)
<u>FIXED ASSETS</u>					
Building	225,063				
Furniture and Fixtures	202,702				
Vehicles	80,216				
	<u>507,981</u>				
Less - Reserves for Depreciation	(89,360)				
Add - Revaluation of Assets	<u>23,227</u>				
		<u>441,848</u>			
TOTAL ASSETS		<u>47,060,101</u>		TOTAL LIABILITIES AND RESERVES	<u>47,060,101</u>

CAJA CENTRAL

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 1972
(In Pesos Bolivianos)

INCOME

Interest on Loans	726,344	
Interest on Time Deposits	121,522	
Interest on Mortgages Purchased	4,165,576	
Other Income	<u>510,038</u>	5,523,480

EXPENSES

Salaries of Employees	864,233	
Services of Directors	131,925	
Supervisory and Advisory Services	33,197	
Personal Services Contract	4,430	
Promotion and Advertising	98,907	
Public Relations	68,349	
Accounting and Auditing	23,107	
Technical Services	86,169	
Conventions and Seminars	83,338	
General Office Costs	117,460	
Depreciation of Fixed Assets	48,400	
Amortization of Installation Costs	<u>26,200</u>	
		<u>1,585,715</u>
NET INCOME FROM OPERATIONS		3,937,765

INSURANCE ACTIVITIES

Interest on Insurance Reserves	58,920	
Allocation of Insurance Premiums	<u>327,157</u>	
Less:		386,077
Commissions Paid	42,258	
Interest on Mortgages Being Liquidated	40,978	
Medical Examinations	1,806	
Other Costs	<u>47,303</u>	
		<u>132,436</u>
		<u>253,641</u>
Financial Costs:		4,191,495
Interest on Loans		<u>4,171,529</u>
Surplus for the Period		<u><u>12,877</u></u>

CAJA CENTRAL

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 1971
(In Pesos Bolivianos)

INCOME

Interest on Loans	744,219	
Interest on Time Deposits	247,198	
Interest on Mortgages Purchased	1,802,656	
Other Income	<u>210,962</u>	3,005,035

EXPENSES

Salaries of Employees	680,494	
Services of Directors	132,352	
Supervisory and Advisory Services	55,771	
Personal Service Contract	3,902	
Promotion and Advertising	125,405	
Public Relations	52,881	
Accounting and Auditing	17,100	
Technical Services	63,391	
Conventions and Seminars	5,358	
General Office Costs	100,980	
Depreciation of Fixed Assets	45,900	
Amortization of Installation Costs	26,200	
Social Charges	<u>130,772</u>	1,460,506
		<u>1,544,529</u>
NET INCOME FROM OPERATIONS		

INSURANCE ACTIVITIES

Interest on Insurance Reserves	56,628	
Allocation of Insurance Premiums	<u>177,026</u>	
		233,654
Less:		
Commissions Paid	44,678	
Medical Examinations	9,727	
Other Costs	<u>28,026</u>	
		<u>82,431</u>
		151,223
		<u>1,695,752</u>
Financial Costs:		
Interest on Loans		<u>1,978,931</u>
Deficit for the Period		<u>(283,179)</u>

BOLIVIAN SAVINGS AND LOAN SYSTEM

STATEMENTS OF CONDITION

AS OF DECEMBER 31, 1977

PESOS BOLIVIANOS

ASSETS	La Primera (La Paz)	La Promotora (Cochabamba)	Guapay (Santa Cruz)	El Progreso (Oruro)	Tarija (Tarija)	Potosi (Potosi)	La Plata (Sucre)	La Paz (La Paz)	Patiti (Trinidad)	Totals
CASH										
Cash on Hand and in Demand Deposits	265,330	34,711	97,221	158,081	21,460	34,200	5,531	73,775	2,482	1,004,791
Savings Deposits	6,253,536	2,049,626	2,318,133	27,747	420,668	515,861	501,242	22,163	46,431	12,155,407
Legal Reserve on Deposit	641,173	86,037	97,613	150,734	60,501	43,898	26,203	142,071	14,762	1,292,992
	<u>7,159,039</u>	<u>2,470,374</u>	<u>2,512,967</u>	<u>330,562</u>	<u>502,629</u>	<u>593,959</u>	<u>562,976</u>	<u>237,909</u>	<u>66,675</u>	<u>17,451,190</u>
LIABILITIES										
Projects in Progress	743,556	-	2,043,132	429,979	196,973	247,517	130,000	2,030,276	-	5,821,433
Short Term Loans	422,436	95,535	30,541	137,096	25,597	-	-	-	-	720,498
Interest and Commissions	149,135	169,706	169,706	112,545	26,468	-	-	240,228	-	1,265,414
Other Receivables	39,754	76,209	13,006	7,582	127,632	68,647	450	72,000	47,790	717,866
Insurance Premiums	-	13,729	7,237	-	-	-	868	-	-	21,834
	<u>2,015,921</u>	<u>344,209</u>	<u>2,271,642</u>	<u>687,562</u>	<u>311,073</u>	<u>316,164</u>	<u>131,318</u>	<u>2,342,504</u>	<u>47,790</u>	<u>8,555,705</u>
SHORT TERM LOANS										
Completed Projects	24,071,261	7,034,643	6,296,891	7,932,261	2,420,493	1,403,736	1,904,925	3,207,601	-	54,297
In Process	1,578,255	2,760,000	1,434,000	1,607,000	1,263,100	509,000	-	1,323,000	-	11,272
In Arrears	57,397	36,992	75,345	-	-	-	-	-	-	16,734
	<u>25,706,913</u>	<u>9,831,640</u>	<u>7,806,236</u>	<u>9,539,261</u>	<u>3,683,593</u>	<u>1,912,736</u>	<u>2,429,925</u>	<u>4,530,601</u>	<u>-</u>	<u>65,734,795</u>
INVESTMENTS										
Land	756,631	-	-	-	-	-	-	-	-	756,631
Taja Central Shares	70,000	36,712	33,211	74,473	1,809	-	-	-	-	216,205
Telephone Company	20,412	1,000	4,177	1,164	-	3,600	4,200	2,277	-	59,530
	<u>857,053</u>	<u>37,712</u>	<u>37,388</u>	<u>76,637</u>	<u>1,809</u>	<u>3,600</u>	<u>4,200</u>	<u>2,277</u>	<u>-</u>	<u>1,032,435</u>
FIXED ASSETS (NET)	<u>857,053</u>	<u>45,051</u>	<u>73,923</u>	<u>68,841</u>	<u>26,986</u>	<u>31,931</u>	<u>45,548</u>	<u>17,294</u>	<u>59,048</u>	<u>751,647</u>
DEPRECIATION AND DEFERRED ASSETS	<u>37,448</u>	<u>14,266</u>	<u>12,866</u>	<u>5,731</u>	<u>1,076</u>	<u>53,914</u>	<u>16,011</u>	<u>212,890</u>	<u>27,300</u>	<u>381,516</u>
FIXED ASSETS (GROSS)	<u>894,501</u>	<u>59,317</u>	<u>86,789</u>	<u>74,572</u>	<u>28,062</u>	<u>85,845</u>	<u>61,559</u>	<u>229,184</u>	<u>86,348</u>	<u>1,133,163</u>
TOTAL ASSETS	<u>16,140,413</u>	<u>12,745,361</u>	<u>12,738,228</u>	<u>10,735,594</u>	<u>4,897,146</u>	<u>3,004,013</u>	<u>3,361,175</u>	<u>7,421,127</u>	<u>206,313</u>	<u>51,249,350</u>
LIABILITIES										
CURRENT										
Free Savings Deposits	8,770,798	1,079,464	803,601	1,806,121	780,532	369,787	745,047	2,465,098	164,184	16,980,632
Other	1,127,492	1,078,113	1,445,668	751,993	470,728	241,449	324,186	272,098	1,226	8,013,203
	<u>11,520,290</u>	<u>2,157,577</u>	<u>2,249,269</u>	<u>2,558,114</u>	<u>1,251,260</u>	<u>611,236</u>	<u>1,069,233</u>	<u>2,737,196</u>	<u>165,410</u>	<u>24,993,835</u>
LONG TERM										
Required Savings Deposits	5,434,599	1,812,530	1,491,330	1,940,897	769,200	445,647	465,100	899,260	33,600	13,288,163
Long Term Loans	15,317,503	8,234,319	8,801,129	2,060,216	2,844,628	1,222,660	1,812,458	3,478,596	7,003	48,768,512
	<u>20,752,102</u>	<u>10,046,849</u>	<u>10,292,459</u>	<u>4,001,113</u>	<u>3,613,828</u>	<u>1,668,307</u>	<u>2,277,558</u>	<u>4,377,856</u>	<u>40,603</u>	<u>62,056,675</u>
DEFERRED INCOME	<u>1,421,704</u>	<u>31,452</u>	<u>31,452</u>	<u>9,131</u>	<u>9,131</u>	<u>-</u>	<u>-</u>	<u>6,115</u>	<u>-</u>	<u>1,468,421</u>
RESERVES AND PROVISIONS	<u>1,674,473</u>	<u>84,531</u>	<u>69,552</u>	<u>49,500</u>	<u>9,500</u>	<u>24,470</u>	<u>14,394</u>	<u>-</u>	<u>-</u>	<u>1,926,410</u>
LEGAL RESERVE	<u>69,154</u>	<u>15,740</u>	<u>3,600</u>	<u>33,153</u>	<u>2,496</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>124,239</u>
ACCUMULATED SURPLUS	<u>324,700</u>	<u>116,289</u>	<u>1,809</u>	<u>127,957</u>	<u>900</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>246,955</u>
SURPLUS FOR THE YEAR	<u>28,730</u>	<u>28,347</u>	<u>-</u>	<u>65,727</u>	<u>14,011</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>430,812</u>
TOTAL LIABILITIES AND SURPLUS	<u>16,140,413</u>	<u>12,745,361</u>	<u>12,738,228</u>	<u>10,735,594</u>	<u>4,897,146</u>	<u>3,004,013</u>	<u>3,361,175</u>	<u>7,421,127</u>	<u>206,313</u>	<u>51,249,350</u>
INCOME										
Interest Earned	3,674,240	968,311	548,379	960,210	379,520	211,728	157,985	494,763	-	6,995,136
Commissions Earned	348,049	170,630	143,255	150,553	55,245	26,146	31,070	283,730	-	1,170,998
Other	40,000	332	1,064	14,846	-	-	935	17,344	-	75,461
	<u>4,062,289</u>	<u>1,139,273</u>	<u>692,698</u>	<u>1,125,609</u>	<u>434,765</u>	<u>237,874</u>	<u>159,990</u>	<u>795,837</u>	<u>-</u>	<u>8,241,595</u>
EXPENSES										
Administrative Expenses	1,514,259	281,205	373,372	279,809	122,963	115,545	142,256	533,337	-	3,422,746
Interest Paid	1,746,738	686,867	331,630	365,973	294,598	155,277	95,460	333,977	-	4,095,560
Other	20,000	142,874	13,602	11,190	3,203	13,672	3,695	29,798	-	299,798
	<u>3,280,997</u>	<u>1,110,946</u>	<u>718,604</u>	<u>656,972</u>	<u>420,764</u>	<u>284,494</u>	<u>241,411</u>	<u>897,112</u>	<u>-</u>	<u>8,818,404</u>
SURPLUS (DEFICIT) FOR THE PERIOD	<u>28,730</u>	<u>28,347</u>	<u>(23,186)</u>	<u>65,727</u>	<u>14,011</u>	<u>(44,510)</u>	<u>(61,326)</u>	<u>(74,252)</u>	<u>-</u>	<u>229,371</u>

	La Paz	Oruro	Cochabamba	Santa Cruz	Potosí	Potosí	La Paz	Oruro	Trinidad	Total
ASSETS										
CASH										
cash on hand and in transit	16,451	70,451	149,978	79,727	6,127	29,166	61,036	5,834	81,679	804,035
savings Deposits	6,547,774	348,277	346,364	154,954	111,958	70,006	19,692	153,242	50,861	8,399,068
Legal Reserves	1,345,155	53,692	100,770	133,138	71,533	43,899	149,476	26,200	16,389	1,778,431
	7,748,124	1,272,420	596,112	367,819	291,518	143,071	230,204	215,278	148,949	10,901,534
RECEIVABLES										
Projects in Progress	6,430,000	830,933	1,354,980	5,164,582	411,208	1,769,121	5,135,247	303,849	408,795	21,842,326
Short Term Loans	733,540	408,278	127,859	311,657	-	145,670	-	35,719	93,740	1,856,649
Interest and Commissions	701,364	160,363	247,940	436,231	23,495	-	-	-	16,877	1,732,940
Other Receivables	492,129	6,453	1,636,739	1,556,591	11,531	77,685	373,749	13,236	37,400	4,311,199
Insurance Premiums	-	-	31,686	-	-	-	-	-	-	31,686
	8,356,033	1,410,627	3,482,204	7,562,777	779,234	1,992,476	5,508,996	352,804	556,458	29,660,833
MORTGAGE LOANS										
Completed Projects	28,948,461	10,295,082	12,370,272	13,313,309	4,627,207	3,354,402	9,621,531	3,429,944	1,108,854	86,978,462
In Process	2,654,775	707,600	435,325	2,314,284	2,459,335	369,682	1,423,889	448,800	241,550	11,191,530
Active	370,432	-	106,796	-	-	-	-	-	-	431,230
In Arrears	31,094	-	-	-	-	-	-	-	-	31,094
	32,113,762	11,002,682	12,912,393	15,627,593	7,126,542	3,724,084	11,045,420	3,878,744	1,350,404	98,513,706
INVESTMENTS										
Land	863,844	-	-	-	-	-	-	-	-	863,844
Caja Central Shares	70,000	74,473	36,712	33,211	-	-	-	-	-	214,396
Telephone Company	53,636	3,164	3,900	4,177	6,967	12,304	4,200	9,944	97,652	140,000
Anticretic Contracts	977,430	77,637	40,812	37,388	70,000	12,304	4,200	79,504	1,312,132	1,023,078
	598,741	88,588	47,657	76,189	3,260	44,218	40,534	42,303	53,888	1,023,078
FIXED ASSETS (NET)										
DEFERRED CHARGES AND PREPAID ASSETS	41,500	2,340	12,223	64,578	-	71,489	150,000	16,665	34,144	291,341
ACCUMULATED DEPRECIATION	-	-	-	-	-	-	19,832	171,197	151,029	151,029
NET VALUE FOR THE YEAR	-	-	-	-	-	-	170,171	65,627	62,598	299,600
TOTAL ASSETS	49,001,999	14,934,298	17,034,138	23,676,134	8,152,544	6,082,205	17,177,661	4,746,900	2,266,025	142,978,303
LIABILITIES										
CURRENT										
Free Savings Deposits	13,118,135	2,101,017	1,274,572	1,694,806	886,791	449,626	2,640,564	801,477	392,846	23,562,116
Other	5,272,124	524,274	400,113	2,744,134	131,110	760,974	1,711,170	260,400	194,669	13,564,948
	18,390,259	2,625,291	1,774,685	4,438,940	1,017,901	1,210,600	4,351,734	1,061,877	587,515	37,127,064
LONG TERM										
Tied Savings Deposits	159,583	40,700	109,654	94,900	27,300	672,955	33,000	18,100	69,780	1,255,992
Long Term Loans	15,029,113	7,659,999	11,046,766	13,348,500	4,420,095	3,044,639	8,627,364	2,506,621	1,266,209	70,950,361
Reserve Fund and Compensation Fund	7,647,346	1,101,520	3,812,167	4,680,426	1,777,400	3,296,745	1,034,106	362,521	28,312,005	104,517,928
	27,187,377	15,999,177	14,968,527	17,423,826	6,324,800	4,722,277	12,856,305	3,762,827	1,650,510	1,469,224
925,951	-	-	350,809	-	37,229	-	109,439	-	-	-
DEFERRED INCOME										
RESERVE FUND PORTIONS	2,101,602	56,173	135,874	121,365	19,274	31,200	54,742	22,106	-	2,631,536
RESERVE FUND	101,624	40,431	16,298	1,608	6,581	-	6,939	-	-	177,711
APPROPRIATED SURPLUS										
SURPLUS FOR THE YEAR	416,201	103,714	131,341	49,342	14,912	16,248	-	-	-	369,509
	-	65,450	4,953	47,847	33,431	-	-	-	-	663,001
TOTAL LIABILITIES AND SURPLUS	49,001,999	14,934,298	17,034,138	23,676,134	8,152,544	6,082,205	17,177,661	4,746,900	2,266,025	142,978,303
INCOME										
Interest Earned	4,251,678	669,645	1,407,759	436,383	696,033	240,454	1,332,352	349,335	96,942	9,483,811
Commissions Earned	302,015	110,537	114,674	164,581	115,591	160,271	126,244	55,313	67,080	1,258,409
Other	300,000	11,720	72,539	5,040	-	13,200	29,766	17,229	15,073	469,767
	5,253,693	791,902	1,594,972	606,004	811,624	413,925	1,488,362	421,577	179,095	11,212,087
EXPENSES										
Administrative Expenses	2,035,283	322,083	453,864	336,747	244,771	222,229	687,763	205,935	173,587	4,712,832
Interest Paid	2,101,377	409,220	1,106,425	221,660	533,470	162,304	1,005,972	239,636	43,746	5,192,215
Other	200,000	11,720	72,539	5,040	-	-	-	-	-	271,289
	4,336,660	743,023	1,632,828	563,447	778,241	384,533	1,693,735	445,571	217,333	10,176,336
SURPLUS (DEFICIT) FOR THE PERIOD	416,201	65,450	4,953	47,847	33,431	16,248	(170,371)	(65,627)	(62,598)	369,509

BOLIVIAN SAVINGS AND LOAN SYSTEM
ANALYSIS OF OPERATING COSTS
FOR THE YEARS 1972 AND 1971

PESOS BOLIVIANOS

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	La Primera (La Paz)	La Primera (Cochabamba)	Guapay (Santa Cruz)	El Progreso (Oruro)	Tarija	Potosi	La Plata (Sucre)	La Paz	Paititi (Trinidad)	Totals
Salaries and fees	1,364,765	366,641	176,745	140,572	150,728	75,504	185,913	463,277	131,732	3,105,867
Social Benefits	271,512	36,287	63,873	34,309	27,584	11,548	25,274	93,329	11,702	575,418
Advertising	53,643	8,316	4,780	9,300	4,496	2,850	-	10,097	13,643	107,125
Legal Expenses	4,216	1,722	-	7,329	15,350	4,200	-	610	1,232	34,659
Office Supplies	51,387	9,928	2,581	14,753	4,276	1,580	2,423	7,415	7,701	102,044
Office Equipment	50,047	6,715	2,068	773	1,565	893	5,026	797	6,640	74,524
Auditing Services	1,000	5,000	6,000	-	3,000	-	1,000	-	-	18,000
Rent	56,722	11,048	21,000	18,000	4,800	-	9,800	64,200	-	185,570
Taxes and Licenses	6,932	-	-	2,274	-	-	-	-	-	9,206
Insurance	2,778	8,242	30,943	-	-	-	3,180	-	-	45,143
Communications and Postage	1,141	3,201	726	902	1,585	1,330	3,706	5,548	1,363	19,502
Bonuses to Personnel	26,182	4,093	3,558	2,740	677	986	1,492	-	6,965	46,693
Depreciation & Amortization	96,187	10,047	7,265	11,523	2,923	119,972	6,197	34,503	6,749	295,366
Travel and Per Diem	29,382	2,504	15,218	6,950	4,402	3,820	5,559	-	1,404	69,249
Charges to Reserves	220,415	550	-	-	-	-	-	-	-	220,965
Other	17,989	9,590	2,000	22,658	23,384	13,025	796	34,110	5,342	128,894
Interest on Loans and Savings	<u>2,181,377</u>	<u>1,106,425</u>	<u>221,660</u>	<u>405,220</u>	<u>533,371</u>	<u>162,309</u>	<u>237,840</u>	<u>979,849</u>	<u>47,220</u>	<u>5,875,371</u>
	<u>4,437,675</u>	<u>1,590,309</u>	<u>558,407</u>	<u>727,303</u>	<u>728,241</u>	<u>398,017</u>	<u>488,206</u>	<u>1,695,755</u>	<u>241,693</u>	<u>10,913,586</u>

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Salaries and Fees	1,046,403	275,580	241,238	178,658	89,397	84,100	105,680	367,210	-	2,388,256
Social Benefits	205,591	66,125	45,648	28,309	10,302	16,661	17,909	56,826	-	447,561
Advertising	81,045	16,618	9,880	6,801	1,954	2,650	1,250	12,379	-	134,167
Legal Expenses	7,259	-	-	1,460	721	3,500	960	6,329	-	20,229
Office Supplies	32,297	11,565	13,646	4,317	3,583	2,090	2,186	7,488	-	77,172
Office Equipment	50,000	14,105	9,105	8,880	627	1,366	1,300	4,895	-	90,878
Auditing Services	18,000	5,000	5,000	-	2,360	1,000	-	-	-	31,360
Rent	50,419	7,300	21,000	16,400	4,800	-	7,800	72,000	-	179,719
Taxes and Licenses	959	-	-	-	-	-	-	-	-	959
Insurance	4,022	-	-	-	-	-	3,367	-	-	7,389
Communications and Postage	13,985	1,528	3,620	911	800	1,102	963	-	-	22,909
Bonuses to Personnel	20,341	2,774	9,321	2,734	802	845	2,196	-	-	49,013
Depreciation & Amortization	49,501	-	25,925	18,574	622	3,548	6,309	-	-	104,479
Travel and Per Diem	14,661	2,255	621	4,181	1,990	4,320	1,135	-	-	29,143
Charges to Reserves	276,060	1,593	-	7,808	1,752	-	-	-	-	287,213
Other	26,688	19,656	2,060	14,926	6,556	6,025	4,872	4,905	-	90,688
Interest on Loans and Savings	<u>1,797,788</u>	<u>686,867</u>	<u>331,640</u>	<u>35,973</u>	<u>290,588</u>	<u>155,277</u>	<u>95,459</u>	<u>333,077</u>	<u>-</u>	<u>4,060,659</u>
	<u>3,647,609</u>	<u>1,110,946</u>	<u>718,684</u>	<u>6,9,932</u>	<u>421,054</u>	<u>282,484</u>	<u>251,386</u>	<u>870,109</u>	<u>-</u>	<u>8,012,294</u>

BOLIVIAN SAVINGS AND LOAN SYSTEM

CASH FLOW PROJECTIONS 1973 - 1982

Pesos Bolivianos 000's

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
SOURCES OF CASH										
Cash available at beginning of year	9,911	7,700	17,393	49,573	47,437	48,199	37,230	32,389	33,116	24,061
Amortization of current mortgage portfolio										
Interest	12,112	18,001	20,111	20,176	19,703	19,168	18,553	17,837	17,083	16,233
Principal	1,754	2,568	3,143	3,596	4,068	4,610	5,222	5,908	6,676	7,560
Amortization of Short Term Loans										
Interest	5,583	2,292	-	-	-	-	-	-	-	-
Principal	748	376	-	-	-	-	-	-	-	-
Insurance Premiums on Current Portfolio	1,997	2,188	2,168	2,152	2,128	2,108	2,084	2,048	2,024	1,988
Accounts Receivable at 12/31/72	3,653	-	-	-	-	-	-	-	-	-
Management Fee - San Miguel	268	-	-	-	-	-	-	-	-	-
Los Pinos Receivable	6,776	-	-	-	-	-	-	-	-	-
Los Pinos Recuperation	-	-	6,604	-	-	-	-	-	-	-
Housing Guaranty 511-HG-003	7,800	7,500	7,400	7,200	7,000	6,700	6,400	6,200	6,000	5,700
Interest on Liquidity Requirement - 8%	324	218	290	379	484	602	729	862	1,005	1,156
(1) Free Savings Increase - Net	3,498	7,047	11,277	13,897	16,312	18,455	19,862	20,859	22,430	23,553
Central Bank Loan	34,000	6,000	-	-	-	-	-	-	-	-
AID Loan										
For Mortgage Lending	-	40,000	30,000	20,000	-	-	-	-	-	-
For Technical Assistance and Equipment	-	13,860	12,460	3,680	-	-	-	-	-	-
(2) 12% Interest From Contractors and New Mortgages	-	4,800	3,600	7,200	4,800	7,200	7,200	7,200	9,600	9,600
Closing Fees on New Mortgages - 3%	-	1,200	900	1,800	1,200	1,800	1,800	1,800	2,400	2,400
Insurance Premiums on New Mortgages	-	400	700	1,300	1,700	2,300	2,900	3,500	4,300	5,100
Amortization of New Mortgages @ 12%	-	2,677	7,363	13,387	20,080	26,744	34,806	42,838	52,204	62,914
Total Sources of Cash	<u>88,424</u>	<u>116,827</u>	<u>123,409</u>	<u>144,340</u>	<u>124,912</u>	<u>137,886</u>	<u>136,786</u>	<u>141,441</u>	<u>156,938</u>	<u>160,265</u>
UTILIZATION OF CASH										
Current Liabilities	7,200	2,149	-	-	-	-	-	-	-	-
Disbursements of Current Mortgage Loans	34,741	17,487	1,642	-	-	-	-	-	-	-
(3) Savings Liquidity Requirement - 8%	280	564	902	1,112	1,305	1,476	1,589	1,669	1,794	1,984
Interest on Current Long Term Debt	816	782	746	708	848	975	914	853	789	722
Amortization of Current Long Term Debt	747	782	817	855	1,096	1,336	1,381	1,426	1,475	1,526
Interest on 511-HG-003	5,965	5,884	5,796	5,701	5,598	5,485	5,363	5,230	5,086	4,924
Amortization of 511-HG-003	934	1,015	1,103	1,198	1,301	1,414	1,536	1,669	1,813	1,970
(6) Los Pinos Land Costs	11,000	-	-	-	-	-	-	-	-	-
Dividends										
5% of Tied Savings at 12/31/72	62	62	62	62	62	62	62	62	62	62
8% of Total Other Savings	2,165	2,737	2,639	4,751	6,056	7,532	9,121	10,790	12,584	14,463
(4) Administrative Costs	9,699	10,221	12,630	12,736	13,947	15,276	16,731	18,326	20,074	21,990
Mortgage Disbursements										
AID Loan Funds	-	40,000	30,000	20,000	-	-	-	-	-	-
Reinvestments	-	-	-	40,000	40,000	60,000	60,000	60,000	80,000	80,000
Other AID Loan Disbursements										
Training	-	1,200	1,200	1,000	-	-	-	-	-	-
Equipment	-	1,800	1,800	-	-	-	-	-	-	-
Technical Assistance	-	660	660	680	-	-	-	-	-	-
Savings Promotion	-	3,000	3,000	2,000	-	-	-	-	-	-
Office Improvements	-	6,200	5,800	-	-	-	-	-	-	-
Liquidity Reserve	-	1,000	-	-	-	-	-	-	-	-
AID Loan Interest	-	1,091	1,939	2,400	2,400	2,400	2,400	2,400	2,400	2,400
Central Bank Loan Interest	2,040	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400
(5) Life and Disability Insurance - 1%	-	400	700	1,300	1,700	2,300	2,900	3,500	4,300	5,100
Total Utilization of Cash	<u>80,724</u>	<u>99,434</u>	<u>73,836</u>	<u>96,903</u>	<u>76,713</u>	<u>100,656</u>	<u>104,397</u>	<u>108,325</u>	<u>132,777</u>	<u>137,451</u>
Sources of Cash	88,424	116,827	123,409	144,340	124,912	137,886	136,786	141,441	156,938	160,265
Cash Surplus	<u>7,700</u>	<u>17,393</u>	<u>49,573</u>	<u>47,437</u>	<u>48,199</u>	<u>37,230</u>	<u>32,389</u>	<u>33,116</u>	<u>24,061</u>	<u>22,914</u>

BASIC ASSUMPTIONS MADE IN
CASH FLOW PROJECTIONS .

1. The Free Savings Increase - Net is based on the assumption that the S&L system will capture a greater share of the overall savings deposit market and in 1982 will have garnered 12% of the projected market, or approximately \$180 million (US\$ 9 million).
2. Building Contractors are provided 100% working capital financing during the mortgage financed construction period at a rate of 12%. The assumption is that this practice will continue at the current interest level.
3. The current liquidity requirement is established by law at 8% of savings. The projections assume that the 8% level will remain in effect and the projections provide for an increase to the liquidity reserve at 8% of the projected net savings increase.
4. Projected administration costs are based on data provided by the CAJA CENTRAL and estimates developed by a consultant from the National League of Insured Savings Associations.
5. The CAJA CENTRAL provides life and disability insurance coverage to S&L mortgage holders at an annual rate of 1% on the face value of the mortgage for the life of the loan. The projections reflect the premium collections and a corresponding deposit into an insurance reserve for the payment of claims and to cover the costs of administering the insurance program.
6. Not included in these projections are the gross revenues and attendant costs applicable to the Los Pinos project, which in 1976 will generate an estimated gross income of \$153,000 to the two administering associations and will decline to an estimated of \$107,000 by 1986. Approximately 35% of the gross revenue will be expended in administering the project.

It should be noted that these net revenues will not be available to the system, but are restricted to the two associations in La Paz. For this reason it has been agreed to limit their participation in the AID loan program to a total of 30%, even though the relative demand for housing in La Paz is greater than the other cities in which S&L's are located.

BOLIVIAN SAVINGS AND LOAN SYSTEM

GENERATION OF REINVESTMENT FUNDS

FROM AMORTIZATION OF NEW MORTGAGE LOANS

Pesos Bolivianos 000's

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
<u>Mortgage Lending Levels</u>									
AID Loan Funds	40,000	30,000	20,000	-	-	-	-	-	-
Reinvested Funds	-	-	40,000	40,000	60,000	60,000	60,000	80,000	80,000
	<u>40,000</u>	<u>30,000</u>	<u>60,000</u>	<u>40,000</u>	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>	<u>80,000</u>	<u>80,000</u>
1974	2,677	5,355	5,355	5,355	5,355	5,355	5,355	5,355	5,355
1975	-	2,008	4,016	4,016	4,016	4,016	4,016	4,016	4,016
1976	-	-	4,016	8,032	8,032	8,032	8,032	8,032	8,032
1977	-	-	-	2,677	5,355	5,355	5,355	5,355	5,355
1978	-	-	-	-	4,016	8,032	8,032	8,032	8,032
1979	-	-	-	-	-	4,016	8,032	8,032	8,032
1980	-	-	-	-	-	-	4,016	8,032	8,032
1981	-	-	-	-	-	-	-	5,350	10,710
1982	-	-	-	-	-	-	-	-	5,350
	<u>2,670</u>	<u>7,363</u>	<u>13,387</u>	<u>20,080</u>	<u>26,744</u>	<u>34,806</u>	<u>42,838</u>	<u>52,204</u>	<u>62,914</u>

CAJA CENTRAL
PROJECTED BALANCE SHEET
As of December 31, 1982

(In \$b. 000's)

ASSETS

Cash on hand and in Bank Deposits	9,356
Receivables	2,500
Prepaid and Deferred Assets	2,000
Investments - Loans from S&L's	219,000
Mortgage Portfolio	32,205
Fixed Assets (Net)	<u>1,428</u>
Total Assets	<u>266,489</u>

LIABILITIES

Current	250
Long Term Debt	224,703
Reserves and Surplus	<u>41,536</u>
Total Liabilities, Reserves and Surplus	<u>266,489</u>

CAJA CENTRAL
PROJECTED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1982
(In \$b. 000's)

INCOME

Interest on Loans	12,861	
Interest on Time Deposits	1,871	
Interest on Mortgages Purchased	<u>5,195</u>	19,927

ADMINISTRATIVE EXPENSES

Net Income from Operations	<u>5,497</u>	14,430
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FINANCIAL COSTS

5,606

SURPLUS FOR THE PERIOD

8,824

Note: This projection does not reflect surpluses generated from insurance activities.

BOLIVIAN SAVINGS AND LOAN ASSOCIATION

PROJECTED STATEMENT OF CONDITION

(As of December 31, 1982).

(In \$b. 000's)

ASSETS

Cash on Hand and in Banks	37,426	
Receivables	2,417	
Mortgage Loans	433,842	
Investments	1,700	
Fixed Assets (Net)	15,023	
Deferred Charges and Prepaid Assets	<u>1,750</u>	
Total Assets		<u>492,158</u>

LIABILITIES

Current	180,750	
Long Term	219,000	
Deferred Income	1,500	
Reserves and Surplus	<u>90,905</u>	
Total Liabilities, Reserves & Surplus		<u>492,158</u>

INCOME

Interest Earned	75,468	
Commissions Earned	<u>1,800</u>	
		77,268

EXPENSES

Administrative Expenses	16,493	
Interest and Dividends	<u>27,321</u>	
		<u>43,814</u>
Surplus for the Period		<u>33,454</u>

BOLIVIAN SAVINGS AND LOAN SYSTEM

UNCLASSIFIED

ANNEX C

Exhibit 7

Page 1 of 2

CASH FLOW PROJECTIONS 1973 - 1982

Values Bolivianos 000's

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Available at beginning of year	9,911	7,700	14,636	41,406	51,827	48,626	32,228	21,928	17,196	10,822
Amortization of Current Mortgage Portfolio										
Interest	12,112	18,001	20,111	20,176	19,703	19,168	18,553	17,837	17,083	16,233
Principal	1,754	2,568	3,143	3,596	4,068	4,610	5,222	5,908	6,676	7,560
Amortization of Short Term Loans										
Interest	5,583	2,292	-	-	-	-	-	-	-	-
Principal	748	376	-	-	-	-	-	-	-	-
Insurance Premiums on Current Portfolio	1,997	2,188	2,168	2,152	2,128	2,108	2,084	2,048	2,024	1,988
Accounts Receivable at 12/31/72	3,653	-	-	-	-	-	-	-	-	-
Management Fee - San Miguel	268	-	-	-	-	-	-	-	-	-
Los Pinos Receivable	6,776	-	-	-	-	-	-	-	-	-
Los Pinos Recuperation	-	-	6,604	-	-	-	-	-	-	-
Housing Guarantee 511-HG-003	7,800	7,500	7,400	7,200	7,000	6,700	6,400	6,200	6,000	5,700
Investment on Liquidity Requirement - 8%	324	218	290	379	484	602	729	862	1,005	1,156
Free Savings Increase - Net	3,498	7,047	11,277	13,897	16,312	18,455	19,862	20,859	22,430	23,553
Central Bank Loan	34,000	6,000	-	-	-	-	-	-	-	-
AID Loan										
For Mortgage Lending	-	18,500	37,000	36,500	18,000	-	-	-	-	-
For Technical Assistance and Equipment	-	4,160	4,160	1,680	-	-	-	-	-	-
Other Loan										
For Mortgage Lending	-	10,000	5,000	5,000	-	-	-	-	-	-
For other activities	-	9,700	8,300	2,000	-	-	-	-	-	-
12% Interest from contractors on new mortgages	-	3,420	5,040	7,380	6,960	7,200	7,200	7,200	9,600	9,600
Closing fees on new mortgages - 3%	-	855	1,260	1,845	1,740	1,800	1,800	1,800	2,400	2,400
Insurance premiums on new mortgages	-	285	705	1,320	1,900	2,500	3,100	3,700	4,500	5,300
Amortization of new mortgages @ 12%	-	1,908	6,626	13,554	21,552	29,450	37,482	45,514	54,885	65,595
Total Sources of Cash	<u>88,424</u>	<u>102,718</u>	<u>133,720</u>	<u>158,085</u>	<u>151,674</u>	<u>141,219</u>	<u>134,660</u>	<u>133,856</u>	<u>143,799</u>	<u>149,907</u>

UTILIZATION OF CASH

Deposit Retention Incentive 21-9%	5,015	2,149	-	-	-	-	-	-	-	-
Current Liabilities	7,260	-	-	-	-	-	-	-	-	-
Disbursements of Current Mortgage Loans	34,741	17,487	1,642	-	-	-	-	-	-	-
Savings Liquidity Requirement - 8%	280	564	902	1,112	1,305	1,476	1,589	1,669	1,794	1,884
Interest on current long term debt	816	782	746	708	848	975	914	853	789	722
Amortization of current long term debt	747	782	817	855	1,096	1,336	1,381	1,426	1,475	1,526
Interest on 511-HG-003	5,965	5,884	5,796	5,701	5,598	5,485	5,363	5,230	5,086	4,929
Los Pinos land costs	11,000	-	-	-	-	-	-	-	-	-
Dividends										
5% of Tied Savings at 12/31/72	62	62	62	62	62	62	62	62	62	62
8% of total other savings	2,165	2,737	2,639	4,751	6,056	7,532	9,121	10,790	12,584	14,468
Administrative Costs	9,699	10,621	12,630	12,736	13,947	15,276	16,731	18,326	20,074	21,990
Mortgage disbursements										
AID loan funds	-	18,500	37,000	36,500	18,000	-	-	-	-	-
GOB loan funds	-	10,000	5,000	5,000	-	-	-	-	-	-
Reinvestments	-	-	-	20,000	40,000	60,000	60,000	60,000	80,000	80,000
Other AID loan disbursements										
Training	-	1,200	1,200	1,000	-	-	-	-	-	-
Equipment	-	1,800	1,300	-	-	-	-	-	-	-
Technical Assistance	-	660	660	680	-	-	-	-	-	-
Savings Promotion	-	500	500	-	-	-	-	-	-	-
Other GOB loan disbursements										
Savings Promotion	-	2,500	2,500	2,000	-	-	-	-	-	-
Office Improvement	-	6,200	5,800	-	-	-	-	-	-	-
Liquidity Reserve	-	1,000	-	-	-	-	-	-	-	-
AID Loan Interest	-	453	1,276	2,400	2,400	2,400	2,400	2,400	2,400	2,400
Central Bank loan interest and amortization	2,040	2,400	5,135	8,135	8,135	8,135	8,135	8,135	-	-
GOB loan interest	-	501	1,401	2,100	2,400	2,400	2,400	2,400	2,400	2,400
Life and disability insurance	-	285	705	1,320	1,900	2,500	3,100	3,700	4,500	5,300
Amortization of 511-HG-003	934	1,015	1,103	1,198	1,301	1,414	1,536	1,669	1,813	1,977
Total Utilization of Cash	<u>80,724</u>	<u>88,052</u>	<u>92,314</u>	<u>105,258</u>	<u>103,048</u>	<u>108,991</u>	<u>112,732</u>	<u>116,990</u>	<u>122,277</u>	<u>127,521</u>
Cash Surplus	<u>7,700</u>	<u>14,666</u>	<u>41,406</u>	<u>51,827</u>	<u>48,626</u>	<u>32,228</u>	<u>21,928</u>	<u>17,196</u>	<u>10,822</u>	<u>12,286</u>

(Based on a GOB Loan of \$2 million)

BOLIVIAN SAVINGS AND LOAN SYSTEM

GENERATION OF REINVESTMENT FUNDS

FROM AMORTIZATION OF NEW MORTGAGE LOANS

Pesos Bolivianos 000's

Mortgage Lending Levels

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
AID Loan Funds	18,500	37,000	36,000	18,000	-	-	-	-	-
COB Loan Funds	10,000	5,000	5,000	-	-	-	-	-	-
Reinvested Funds	-	-	20,000	40,000	60,000	60,000	80,000	80,000	80,000
	<u>28,500</u>	<u>42,000</u>	<u>61,000</u>	<u>58,000</u>	<u>60,000</u>	<u>60,000</u>	<u>80,000</u>	<u>80,000</u>	<u>80,000</u>
1974	1,908	3,815	3,815	3,815	3,815	3,815	3,815	3,815	3,815
1975	-	2,811	5,622	5,622	5,622	5,622	5,622	5,622	5,622
1976	-	-	4,117	8,233	8,233	8,233	8,233	8,233	8,233
1977	-	-	-	3,882	7,764	7,764	7,764	7,764	7,764
1978	-	-	-	-	4,016	8,032	8,032	8,032	8,032
1979	-	-	-	-	-	4,016	8,032	8,032	8,032
1980	-	-	-	-	-	-	4,016	8,032	8,032
1981	-	-	-	-	-	-	-	5,355	10,710
1982	-	-	-	-	-	-	-	-	5,355
	<u>1,908</u>	<u>6,626</u>	<u>13,544</u>	<u>21,552</u>	<u>29,450</u>	<u>37,482</u>	<u>45,514</u>	<u>54,885</u>	<u>65,595</u>

PROJECTS READY FOR FINANCING AS OF May 20, 1973

<u>Association</u>	<u>City</u>	<u>Name of Project</u>	<u>No. of Units</u>	<u>Cost of Project (\$b.)</u>	<u>Completion time in months</u>
"LA PRIMERA"	La Paz	Edificio "Busch"	14	1.872.934	9
		Edificio "Los Indios"	16	2.211.879	10
		Edificio "Florida"	8	1.128.880	6
		Edificio "Uyuni"	16	2.311.504	8
		Edificio "Villalobos"	104	15.392.000	24
		Edificio "Guatemala"	40	5.880.000	16
		Edificio "Calacoto 22"	8	1.200.000	10
		Edificio "Catacora"	8	1.200.000	10
		Edificio "Aspiazu"	20	3.400.000	16
		Particulares	100	8.000.000	12
"LA PAZ"	La Paz	Edificio "Libertador"	11	1.870.000	7
		Edificio "Esperanza"	18	1.512.000	7
		Edificio "México"	17	2.748.101	12
		Edificio "20 de Octubre"	60	10.861.356	18
		Edificio "San Martín de Porres"	16	1.325.440	10
		Edificio "Sucre"	24	3.840.000	10
		Edificio "La Unión"	40	6.400.000	12
		Particulares	60	6.000.000	12
"LA PROMOTORA"	Cochabamba	Urbanización "El Castillo"	40	2.400.000	8
		Urbanización "Muyurina"	16	1.562.200	12
		Edificio "Bolívar"	24	3.710.400	10
		Particulares	35	2.947.000	12
		Urbanización "Los Tajibos"	100	11.527.000	10
"GUAPAY"	Santa Cruz	Urbanización "El Sirari"	100	11.308.000	11
		Urbanización "Guapay 2"	20	2.300.000	6
		Particulares	30	2.982.000	12
"TARIJA"	Tarija	Urbanización "Las Américas"	23	3.200.703	8
		Particulares	30	1.860.000	12
"POTOSI"	Potosí	Edificio "26 de Infantería"	10	866.000	10
		Urbanización "Santa Mónica"	8	732.800	8
		Edificio "Av. del Maestro"	20	2.580.000	9
		Edificio "Renovación 2"	12	1.788.000	9
		Particulares	25	1.200.000	12
"LA PLATA"	Sucre	Edificio "Charcas"	20	1.960.000	8
		Particulares	20	1.440.000	12
"EL PROGRESO"	Oruro	Edificio "Pagador"	6	1.120.700	10
		Urbanización "Armonía"	16	1.790.800	7
		Particulares	20	1.800.000	12
"PAITITI"	Trinidad	Particulares	15	1.200.000	12
		Particulares	15	1.200.000	12
		TOTAL in \$b.	1,185	138.629.697	
		TOTAL in US\$		6.931.490	1/

1/ Converted at 20:1

CHECKLIST OF STATUTORY CRITERIA

(Alliance for Progress)

The following abbreviations are used:

- FAA - Foreign Assistance Act of 1961, as amended.
App.- Foreign Assistance and Related Agencies Appropriations Act, 1972.
MMA - Merchant Marine Act of 1936 as amended.

COUNTRY PERFORMANCE

Progress Towards Country Goals

1. FAA 208; 251 (b)

A. Describe extent to which country is:

(1) Making appropriate efforts to increase food production and improve means for food storage and distribution. ~~Bolivia is making appropriate~~ Bolivia is making appropriate efforts with respect to food production, storage, and distribution. AID Loan 511-L-042 will contribute to these efforts.

(2) Creating a favorable climate for foreign and domestic private enterprise and investment. The GOB program emphasizes creation of a favorable climate for selected foreign and domestic private enterprise and investment. They are seeking special exemptions within the Andean Common Market for certain investments.

(3) Increasing the public's role in the developmental process. The Government continues to take an active role in the developmental process, and in so doing to increase popular participation.

(4)(a) Allocating available budgetary resources to development. The Government appears to be allocating as much as it is able to development.

(b) Diverting such resources for unnecessary military expenditure (See also Item No.16) and intervention in affairs of other free and independent nations. (See also Item No.14).

The Government does not make unnecessary military expenditures and does not intervene in the affairs of other nations.

(5) Willing to contribute funds to the project or program.

The GOB, through the Central Bank, recently loaned the Caja Central the equivalent of \$2,000,000 to allow the Caja to expand its mortgage lending activity.

(6) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure

The Government is making these efforts.

toward respect for the rule of law, freedom of expression and of the press and recognizing the importance of individual freedom, initiative, and private enterprise.

(7) Adhering to the principles of the Act of Bogotá and Charter of Punta del Este.

The Government adheres to these principles.

(8) Attempting to repatriate capital invested in other countries by its own citizens.

Bolivia has urged repatriation of capital invested in other countries by its own citizens, and is considering active measures to accomplish such repatriation.

(9) Otherwise responding to the vital economic, political, and social concerns of its people and demonstrating a clear determination to take effective self-help measures.

The Government appears to be doing this in an increasingly effective manner.

B. Are above factors taken into account in the furnishing of the subject assistance? Yes.

Treatment of U.S. Citizens

2. FAA. 620(c). If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government? Not applicable.

~~3. FAA. 620(d). If assistance is to government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? Not applicable.~~

to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

4. FAA. 620(o); Fishermen's Protective Act. 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters. Not applicable.

a. has any deduction required by Fishermen's Protective Act been made?

b. has complete denial of assistance been considered by AID Administrator?

Relations with U.S. Government and Other Nations

5. FAA. 620(d). If assistance is for any productive enterprise which will compete in the U.S. with U.S. enterprise, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan? Not applicable.
6. FAA. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action, of U.S. property? The Government of Bolivia has taken adequate measures to prevent the damage or destruction by mob action of U.S. property whenever possible.
- ~~7. FAA 620(i). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, in convertibility or confiscation, has the AID administration within the past year considered denying assistance to such government for this reason?~~ The Government has instituted the investment guaranty program.
8. FAA. 620(q). Is the government of the recipient country in default on interest or principal of any AID loan to the country? Bolivia is not in default in payment of principal and interest on any AID loan within the meaning of FAA 620(q).
9. FAA. 620(t). Has the country severed diplomatic relations with U.S.? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? Bolivia has not severed diplomatic relations with U.S.
10. FAA. 620(u). What is the payment status of the country's U.N. obligations? Bolivia paid \$47,671 in September 1972; therefore it is not delinquent within the meaning of 620(u). However, it remains approximately two years in arrears on its assessed contributions.

If the country is in arrears, were such arrearage taken into account by the AID Administrator in determining the current AID Operating Year Budget?

11. FAA. 620(a). Does recipient country furnish assistance to Cuba, or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba?
No, the recipient country does not furnish assistance, nor fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba.
12. FAA. 620(b). If assistance is to a government, has Secretary of State determined that it is not controlled by the international Communist movement?
Bolivia is not controlled by the international Communist movement according to the Secretary of State.
13. FAA. 620(f). Is recipient country a communist country?
No, Bolivia does not have a Communist Government.
14. FAA. 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the U.S. or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?
No. Bolivia is not engaged in these activities.
15. FAA. 620(n). Does recipient country furnish goods to North Viet-Nam or permit ships or aircraft under its flag to carry cargoes to or from North Viet-Nam?
No, the recipient country does not furnish goods to North Viet-Nam nor permit ships or aircraft under its flag to carry cargoes to or from North Viet-Nam.
16. FAA. 481. Has the Government of the recipient country failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in
The GOB is actively cooperating with USAID public safety advisors BNDD representatives and other international agencies to take such steps as may be necessary to control drug traffic in Bolivia.

such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?

Military Expenditures

17. FAA. 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources is spent on military equipment? How much is spent for the purchase of sophisticated weapons system?

(Consideration of these points is to be coordinated with the Bureau for Regional Coordinators ~~and~~ Military Assistance Staff (PRC/RC)).

15.8% of FY 73 (Calendar year 1973) GOB budget is designated for military expenditure. An estimated \$900,000 was targeted for equipment expenditure, but we have no figures on how much of that represented foreign exchange expenditure. There were no purchases of sophisticated weapons systems.

CONDITIONS OF THE LOAN

General Soundness

18. FAA. 201(d). Information and conclusion on reasonableness and legality (under laws of country and U.S.) of lending and relending terms of the loan.
19. FAA 251(b), 251(e). Information and conclusion on activity's economic and technical soundness. If the loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds \$100,000, has country submitted to AID an application for such funds together with assurance to indicate that funds will be used in an economically and technically sound manner?

The loan terms are reasonable and consistent with United States and Bolivian laws.

The borrower has made an application for loan funded assistance in this activity and there have been assurances that the funds will be used in an economically and technically sound manner.

20. FAA. 251(b). Information and conclusion on capacity of the country to repay the loan including reasonableness of repayment prospects.
- There are reasonable prospects for repayment by the Borrower as discussed in Section II.B. of the Financial Analysis.
21. FAA 611(a)(1). Prior to signing of loan will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?
- Since the loan funds are to be administered by the Caja Central, acting as an ICI, plans for eligible subprojects will not be required. However, the Caja Central does not make subloans to the S&L system without reviewing the FHA Insurance Applications which indicate whether the house meets FHA standards. (See Section II.A., Institutional Analysis.) The cost of this loan program in the U.S. has been established and is considered to be reasonably firm. (See Section II.B.)
22. FAA. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purposes of loan?
- No further legislative action in Bolivia is required for implementation of this project.
23. FAA. 611(e). If loan is for capital assistance and all U.S. assistance to project now exceeds \$1 million has Mission Director certified the country's capability effectively to maintain and utilize the project?
- Yes. (See Annex A, Exhibit 1.)
24. FAA. 251(b). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.
- Financing for this activity is not available from other free-world sources, including private sources within the United States, on feasible terms.

Loan's Relationship to Achievement
of Country and Regional Goals

25. FAA. 207; 251(a). Extent to which assistance reflects appropriate emphasis on: (a) encouraging development of democratic economic, political and social institutions; (b) self-help in meeting the country's food needs; (c) improving availability of trained manpower in the country; (d) programs designed to meet the other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and voluntary agencies; transportation and communication; planning and public administration; urban development; and modernization of existing laws.
- This loan will contribute currently to all these objectives with the exception of (b).
26. FAA. 209. Is project susceptible of execution as part of regional project? If so, why is project not so executed?
- This project could not be carried out as part of a regional project since it is designed specifically to promote a self-sustaining savings and loan system within Bolivia.
27. FAA. 251(b)(3). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realizable long-range objectives.
- With an emphasis on urban housing development this activity will be complementary to Bolivia's rural community development program "Plan de Emergencia" and "Economic Development Plan". As such, it will contribute to the long-range objectives of the GOB of providing adequate housing to the people of Bolivia.
28. FAA. 251(b)(7). Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.
- This project should contribute to the achievement of self-sustaining growth in the S&L system since it will provide sufficient seed capital to allow for a continuing and expanding Mortgage Loan Program.

29. FAA. 281(a). Describe extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private, and local governmental institutions.
- This loan is aimed at the stated objective through its support of the developmental efforts of private institutions and the participation of the people of the country in the developmental process.
30. FAA. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation ~~in governmental and political processes~~ essential to self-government.
- The loan directly recognizes these factors in the development of its assistance to the S&L system by enabling the system to be more responsive to and capable of providing for the needs and desires of the people of the country.
31. FAA. 601(a). Information and conclusions whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.
- The loan will be effective in the area described in (c), since it is designed to create a self-sustaining savings and loan system.
32. FAA. 619.— If assistance is for newly independent country, is it furnished through multilateral organizations or plans to the maximum extent appropriate?
- Not applicable.—

33. FAA. 251(h). Information and conclusion on whether the activity is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its annual review of national development activities. Activity is consistent with such findings and recommendations.
34. FAA. 251(g). Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America. Not applicable.
35. FAA. 209; 251(b)(8). Information and conclusion whether assistance will encourage regional development programs, and contribute to the economic and political integration of Latin America. The loan will provide no direct assistance to regional development programs. However, the Caja Central maintains membership and actively participates in activities of the Interamerican Savings and Loan Association.

Loan's Effect on U.S. and AID Program

36. FAA. 251(b)(4); 102.
Information and conclusion on possible effects of loan on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving the U.S. balance of payments position. The loan will have no foreseeable unfavorable effect on the United States economy. Some U.S. commodities will be imported.
37. FAA. 601(b). Information and conclusion on how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise). There will be U.S. private sector participation in this project since a portion of the loan proceeds will be used to purchase technical services and some commodities from U. S. sources.

38. FAA. 601(d). If a capital project are engineering and professional services of U.S. firms and their affiliates used to the maximum extent consistent with the national interest? Professional advisory services of U. S. firms will be used to the maximum extent consistent with the needs of the project.
39. FAA. 602. Information and conclusion whether U. S. small business will participate equitably in the furnishing of goods and services financed by the loan. U.S. small business will be invited to participate when appropriate.
40. FAA. 620(h). Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries? No, the loan will not promote or assist the foreign aid projects or activities of the Communist Bloc countries.
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- ~~FAA. 601(d)~~ If technical assistance is financed by the loan, information and conclusion whether such assistance will be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs. Some technical assistance will be provided by private sector groups on a contract basis. It is not contemplated that Federal agencies will be utilized.
42. FAA. 252(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurement from private sources. The entire amount of the loan will go to private enterprise through intermediate credit institutions.

Loan's Compliance with Specific Requirements

43. FAA. 201(d). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter? Yes
44. FAA. 608(a). Information on measures to be taken to utilize U. S. government excess personal property in lieu of the procurement of new items The Mission will ensure that the Borrower is apprised of the availability of excess U.S. Government property and that the Borrower purchases that property which fits its needs.
45. FAA. 604(a). Will all commodity procurement financed under the loan be from U.S. except as otherwise determined by the President? Yes, Code 941, U. S. and Bolivian sources will be used for procurement.
46. FAA. 604(b). What provision is made to prevent financing commodity procurement in bulk at price higher than adjusted U. S. market price? Any bulk commodities which may be procured will be subject to the bid procedure.
47. FAA. 604(d). If the host country discriminates against U.S. marine insurance companies, will loan agreement require that marine insurance be placed in the U.S. on commodities financed by the loan? In the unlikely event that Bolivia discriminates against any U.S. marine insurance company, commodities purchased with loan funds will be insured against risks with a U. S. company as required by this section.
48. FAA. 604(e). If off-shore procurement of agricultural commodity or product is to be financed is there provision against such procurement when the domestic price of such commodity is less than parity? Not applicable.
49. FAA. 611(b). If loan finances water or water-related land resources construction project or program, is there a benefit-cost Not applicable.

computation made, insofar as practicable, in accordance with the procedures set forth in the Memorandum of the President dated May 15, 1962.

50. FAA. 611(c). If contractors for construction are to be financed, what provision will be made that they be let on a competitive basis to maximum extent practicable? Not applicable
51. FAA. 620(g). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property? Assistance will not be used to compensate owners for appropriated or nationalized property.
52. FAA. 612(b); s 636(h). Describe ~~the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services.~~ to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services. The Central Bank has contributed \$2 million in pesos to the project. No Bolivian pesos owned by the U.S. are available for financing this project.
53. App. 104. Will any loan funds be used to pay pensions, etc., for military personnel? No loan funds will be used to pay pensions for military personnel.
54. App. 106. If loan is for capital project, is there provision for AID approval of all contractors and contract terms? Since the loan funds will be reloaned by the S. & L. Associations AID will not approve contractors or contract terms.
55. App. 108. Will any loan funds be used to pay U. S. assessments? No.
56. App. 109. Compliance with regulations on employment of U. S. and local personnel for funds obligated after April 30, 1964 (Regulation 7) Will comply.

57. FAA. 636(1). Will any loan funds be used to finance purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States, or any guaranty of such a transaction?
- No. Any motor vehicles needed will be imported from the United States, unless other procurement is authorized.
58. App. 401. Will any loan funds be used for publicity or propaganda purposes within U. S. not authorized by the Congress?
- No funds will be used for publicity purposes within the U. S.
59. FAA. 620(k). If construction of production enterprise, will aggregate value of assistance to be furnished by U.S. exceed \$100 million?
- Not applicable.
60. FAA. 612(d). Does the U.S. own excess foreign currency and, if so, what arrangements have been made for its release?
- U. S. does not own excess foreign currency in Bolivia.
61. MMA. 901.b. Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed with funds made available under this loan shall be transported on privately owned U. S. flag commercial vessels are available at fair and reasonable rates.
- Regulation will be complied with.