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LINDA A. GARVELINK

FINANCIAL ANALYST

PRIVATE SECTOR DIVISION

U. S. AGENCY FOR INTERNATIONAL DEVELOPMENT

LA PAZ, BOLIVIA

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The following is a report on the activities and duties I performed as a Financial Analyst for the USAID Mission in Bolivia from May 23, 1983 to October 15, 1983 under Contract Number 511-0000-S-00-3027.

I. SCOPE OF WORK

Contractor will work as a Financial Analyst for various projects in the Private Sector Division and will perform the following duties and tasks:

1. Verify and/or prepare economic and financial analyses for feasibility studies to be presented for Agribusiness and Artisanry (A&A) project;
2. review, revise and simplify reporting requirements for A&A project;
3. review, revise and simplify loan information forms used by the Banco Central de Bolivia (BCB) rediscount lines;
4. design procedures and forms that will be used to permit FENACRE to function as an Intermediate Credit Institution (ICI);
5. perform economic and financial analyses for the A&A project paper amendment and assist with other sections of the amendment as needed;
6. provide suggestions on export promotion, improved marketing, technology transfer, and improved productivity and suggest ways to incorporate these areas into the new private sector loan;
7. coordinate training for private sector participants with Mission training office;
8. participate in design and execution of Private Sector project evaluation;
9. assist head of section in the design, implementation and development of various projects related to the private sector.

II. DUTIES PERFORMED WITHIN THE SCOPE OF WORK

A. Agribusiness and Artisanry Project (511-T-060)

My first task in relation to the A&A project and project amendment was to complete an analysis of the interest rate spread to the ICIs (Intermediate Credit Institutions). A question was raised as to the actual demand for A&A project funds--if an amendment of \$10 million was obtained could the funds be placed. One aspect of demand is the ICIs' willingness to use these funds in their loan portfolios. To encourage the use of development funds, the return on the ICIs' resources must be greater than or, at the very least, equal to the return they receive on commercial loans.

To obtain the information necessary to perform a valid analysis of the return to ICIs on their commercial loan portfolios, contacts were made within the Bolivian private sector banking community, specifically with Banco de Boston, Banco Hipotecario, Banco Boliviano Americano and BIG Beni. Additional information was obtained from the Banco Central de Bolivia (BCB). Through these contacts many informal banking practices, such as prepaid interest, compensating balances and significant one-time commissions, were brought to light. Each of these influences the return the ICIs actually receive on their loaned funds. Because of all these considerations, the analysis could not be a simple comparison of the nominal interest rate of commercial loans to the spread received on the A&A funds. Furthermore, the effect of leverage obtained from the ICIs' limited participations in development loans had to be included in the calculations.

The analysis revealed rates of return much higher than what the nominal rates indicate. In addition, the effect of leverage only partially

offsets the benefits of commissions, compensating balances and prepaid interest. In response to these conditions, the A&A project amendment was designed with a sliding scale of interest rate spreads related to the percentage of the ICI's participation in the loan.

Secondly, I helped prepare the economic and financial analyses presented in the A&A amendment. Of the eleven pre-feasibility and feasibility studies prepared and analyzed for possible inclusion in the project paper, I carried out the financial analysis for five. In addition, I coordinated the efforts of four other team members to assure consistency in the completion of all the financial analyses. I also assisted the LAC/DR economist, Douglas Chiriboga, with the economic analysis of this project.

To obtain data for these pre-feasibility studies and the economic analysis and to update the somewhat outdated feasibility studies, I traveled to Cochabamba twice. There I interviewed the management of IMBA Ltda. (Industria Molinera y Ealanceado de Alimentos), CIARave (Complejo Industrial Avícola Rivera Hermanos), Hacienda "Santa Rosa" Grossberger Ltda., Curtiembre Orienta Ltda., and Avícola M.A.C. and met with representatives of the Cochabamba branch of the Banco Central and the Agropecuaria Nacional. I also met with the general manager of the Banco de Crédito Oruro to discuss the general availability of commercial bank funds for development loans. In La Paz, I interviewed the owner/manager of La Lana Ltda., another company possibly eligible for A&A financing. Furthermore, I functioned as the (USAID) liaison with the La Paz office of the BCB. Through the BCB's various regional offices and its Development Department in La Paz, USAID received approximately 35 subproject recommendations for funding under the A&A.

amendment indicating the significant demand for development funds that now exists in Bolivia. Based on all the field information, I evaluated these private sector projects and made recommendations to the team leaders regarding selections for inclusion in the project paper. The A&A project amendment was signed with the Government of Bolivia on September 24, 1983.

E. Participant Training

In coordinating training opportunities for private sector participants, my duties were to identify and contact candidates and then make recommendations to the Mission Training Officer. I identified two candidates from the private sector whom the Mission nominated for the Multinational Marketing Management Program sponsored by the International Marketing Institute and held in Cambridge, Massachusetts from June 20 - July 29, 1983. Additionally, I obtained information for the Caja Central regarding the housing course offered annually under the auspices of the George Washington University in Washington, D.C. during the month of October. It is likely that CACEN will request Mission assistance in sending one or two of its employees to this seminar in FY 1984.

C. Private Sector Project Committee

As an active member of the Private Sector Project Committee, I was involved in decisions regarding the reporting requirements and loan information forms to be used in the implementation and monitoring of the A&A project. I also participated in discussions regarding the Federación Nacional de Cooperativas de Ahorro y Crédito de Bolivia's (FENACRE) position as an ICI. Furthermore, the action check list meetings of the project committee provide a forum for on-going evaluation of all private sector projects and activities. In these meetings we also discussed suggestions for export promotion, improved

marketing techniques, technology transfer and improved productivity as these ideas should be included in the private sector strategy and related projects and loans.

III. DUTIES BEYOND THE SCOPE OF WORK

A. Initial Design of Agroindustry Development Project (511-0572)

In addition to my prescribed duties, the acting head of the Private Sector Division, T. David Johnston, asked me to do some of the preliminary design work for the Mission's Agroindustry Development Project which is scheduled for funding in FY 1984.

The Agroindustry Development project is being designed to establish a private sector development facility and an industrial technology transfer institute. The project's overall objective is to expand the role of the private sector in agroindustry by means of increased access to credit and current production technologies. One aspect of the project, the one I am working on, is to provide loan and technical assistance for the formation of a private sector, second story bank, i.e. a rediscount credit facility. This facility will not engage in commercial credit activities nor will it lend directly to sub-borrowers; rather it will be structured to make rediscounted loans to local private banks and other intermediary credit institutions. The specific capital structure has not definitely been determined but the entity is expected to be capitalized by subscriptions from local banks, private businessmen and/or industrial and commercial chambers. The other aspect of this project, in which I have not yet been involved, is the creation of a feasibility study and technical information center.

Regarding the rediscount credit institution aspect of the project, I drafted the original scope of work and skill requirements for the three contractors who are presently analyzing the Banco Industrial, S.A. (BISA) and other possible institutions to determine the best type of mechanism for the new rediscount facility. I coordinated negotiations with BISA management regarding the scope of work for and the qualifications of the contractors.

In addition to coordinating the Mission's search for the consultants, I took responsibility for selecting the candidates (five out of a total of twelve) for the entire A&A project committee to review. The committee decided to interview four of the candidates I presented to them, eliminating only the one who would have had to have been brought in from Santa Cruz. During the interviews it was my responsibility to explain the project to each candidate and to begin the question and answer session. The original plan for the rediscount facility analysis team was one development banking expert who would function as the team leader and a locally hired financial analyst who would have contacts within the Bolivian private banking community and a good knowledge of Bolivian banking laws. However, based on the personal interviews, the project committee decided to hire two financial analysts, Kathy Brault and Mauricio Urquidi, whose skills and experience complemented each other.

Applications for the development banking expert were solicited through AID/Washington. Due to time constraints, I contacted Peter Bittner by telephone and he recommended five candidates. The resumé of each candidate was reviewed by the project committee; the Mission Director also participated in this selection process. A decision was made to offer the position to

Onofre Torres with a total of five weeks work in Bolivia and four weeks consultation from his Miami office.

The consultants began their work on September 26, 1983. Since that time, I have functioned as their liaison within the USAID. I monitor their progress, assist them with the solution of operational and administrative problems, and accompany them to any meetings at which a Mission representative is required.

B. Management Training Project (511-0574)

Mr. Johnston, the acting division chief, also assigned me to do some of the preliminary research for developing a network of Junior Achievement (JA) organizations within Bolivia. To better understand how JA groups are organized in developing countries and to secure advice from individuals running successful JA programs, I contacted Junior Achievement organizations in El Salvador, the Philippines and Mexico. I also contacted Mr. Tito Hoz de Vila and Mr. Roberto Peña, two successful Bolivian businessmen who are very interested in developing a Junior Achievement program in Bolivia. I supplied them with the information we received from the director of the El Salvador program. The Mission expects to develop a Junior Achievement program as a component of the Mission's Management Training Project which will receive initial funding in FY 1984.

C. Disaster Emergency Program (P.L. 480, Title II and Title III, Monetized Rice)

I assisted T. David Johnston with the evaluation of the rice distribution budget submitted to the USAID by the Empresa Nacional del Arroz (ENA).

ENA is Bolivia's national rice company that was selected by the Mission to oversee the distribution of 44,000 metric tons of rice contributed by the U.S. Government under the P.L. 480 Title II and Title III supplemental programs. ENA submitted the budgets just prior to the negotiations of a fair handling charge for the company. The budgets ENA's management presented were basically only outlines; no back-up details were included to verify how the costs were estimated. Time was limited, I was given only three hours to review the budgets and to somewhat verify the figures. I contacted various people with experience in warehousing and food distribution to get their opinions of the costs presented by ENA. Many questions still remained unanswered at the beginning of the negotiation session; therefore, I was assigned to work with ENA's assistant general manager, Sr. Genaro Saenz Figueroa, and the firm's accountant to prepare proper documentation of the estimated costs. The task was difficult because the company could only provide a few written estimates, calculations and other support for their budget figures. Most of their estimates were based on bargaining sessions with the owners of various supply houses who refused to put the terms of the final agreement into writing. Other estimates were made solely based upon educated guesses. None of the methods ENA used to prepare their budget were scientific budgeting methods.

After the final negotiations between ENA and the Mission, represented by T. David Johnston, Arnulfo Peñaloza and me, a handling charge of \$b480 per quintal was established. In my opinion, based on the limited information available, the limited time available to recalculate the situation and ENA's generally unsubstantiated costs estimates, ENA should be able to function comfortably with this price. I recommend that any requests for

increases in this handling charge, be documented with reliable, accurate and substantial details.

D. Caja Central de Ahorro y Préstamo para la Vivienda (CACEN):
Housing Guarantee Project (511-HG-007) and the Potable Water
and Sanitation Project (511-W-068)

Since September 1983 I have functioned as the project manager for the Mission's housing programs. My most urgent tasks are 1) helping CACEN comply with the conditions precedent (CPs) for the new HG loan and companion grants, and 2) helping them meet the CPs of the centrally funded Potable Water and Sanitation project.

IV. RECOMMENDATIONS AND COMMENTS

The Bolivian business community lacks a ready supply of trained business leaders; managers at all levels are needed. Furthermore, Bolivia needs industrial technicians and skilled workers to develop modern manufacturing and processing techniques. In my opinion, the Junior Achievement program is an excellent way to introduce young people to business and technical careers. Participation in a JA company will provide them practical experience in product design, development and promotion as well as the financial, personnel and decision-making aspects of running a company.

Finally, one of the most difficult obstacles I have encountered in my work is the lack of readily available statistics and general accounting data. Feasibility studies, financial analyses, and project evaluations are difficult to perform because of drastic inconsistencies in the accounting methods used by various firms. Background data necessary for reasonable and valid forecasts and projections are frequently based on managers' memories or other

informal information channels. In my opinion, Bolivia desperately needs an enforced uniform system of accounting and reporting standards.

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