

QUARTERLY REPORT  
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Submitted by Robert Boni  
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## QUARTERLY REPORT

Bolivia

3rd. Quarter July-Sept. 1985

By Robert Boni

The Bolivian Savings & Loan System appears to be stabilizing and getting "back to basics" more than it has in the past 12 months. The new economic measures introduced at the end of August appear to be generating a measure of financial stability in the country that has not been seen for some time. With this underpinning of financial constancy the mutuals are able to resume their traditional role of financial intermediary. Hopefully, if this financial climate persists, the mutuals will be able to expand their activities of encouraging savings formation and, at the same time, making funds available for badly needed loans.

### Savings Mobilization

The third quarter of 1985 saw another very significant jump in savings deposits of the system. From a level of 72 billion pesos at the end of June, total deposits at the end of September had grown to roughly 350 billion pesos. While this growth rate was somewhat lower than that of the second quarter, it must be remembered that the last part of August and the first three weeks of September were essentially lost to the mutual system. This is because the country was swept with partial and general strikes. These strikes, coupled with the financial uncertainty generated by the government's new economic measures, resulted in a dramatic slowdown of financial activity of all sorts. Nonetheless, the system was essentially able to continue increasing savings deposits at a

rate substantially exceeding the rate of increase in the parallel dollar rate. In terms of the parallel dollar, the system's deposits increased from roughly \$90,000 to over \$300,000.

Granted that much of this increase was in credited interest, it nevertheless shows that there has been a real growth in savings deposits in the system. In terms of market share, the system has stopped its downward flight and has begun to increase share slightly. Estimated market share for the end of September was 2.3% of the total savings deposits, up from roughly 1.8% at the end of June. While this is a modest change, it points out that the mutuals are aware of the need to increase and are making an effort to do so.

There are, perhaps, a number of reasons for the continued savings growth. One is the more aggressive advertising for savings some of the mutuals are conducting. More basically, however, is the realization by most of the mutuals that they will have to depend more and more on their own resources in order to survive. Therefore, they are regarding savings as the one sure source of funds available to them. To gain these savings they realize that they have to compete with other financial institutions and, in fact, they are beginning to do so successfully. It is important that the newly developed momentum for savings acquisition be continued and encouraged.

### Lending

In the June report it was noted that much more had to be done in the area of making loans. At that time, loan volume in the System amounted to

roughly 10,000 million pesos. As of the end of September this volume had increased to almost 80,000 million pesos. However much more, as in June, has to be done. The ratio of loans to savings is still only 22%, far too small to assure any kind of profitable operation. However, there are a few favorable indications. Whereas at the end of June there were only two mutuals with loans/savings ratios in excess of 80%, at the end of September there were five. At least three of these five appear to be operating in the black if repayment of foreign debt is not considered. This trend toward profitable operation through lending will continue. The system is about to receive an additional disbursement of funds from US AID in the amount of 55,000 million pesos. This money is designated to be lent out, most likely as short-term loans. Further, the mutuals must match the funds lent out on a peso-for-peso basis. This assures, as much as anything can be assured, that the loan portfolio of the system will more than double in the next few months.

There appears to be no question of demand for loans; the mutuals that are making loans report that they can lend every bit of money they acquire, nor does it appear that there is a high risk of bad debts; loan losses appear to be less than 2% of portfolio in several of the mutuals examined. The hesitancy of the mutuals to make loans is being overcome as they gain experience in making successful loans. However, it will still require a concerted, hard effort, including much on-site pressure at the mutuals in order to generate the size loan portfolio that will mean profitable system-wide operations.

### Consultant Visits

As anticipated, there were a number of consultant visits during the third quarter. The visits included the following personnel and scopes of work.

Dr. Eugene Brady.-

Dr. Brady was in Bolivia for two months during July and August. While he was here he did a number of tasks, including:

1. Analyzing and determining the requirements for disbursement of funds from US AID.
2. Performing a profitability study of investments in housing projects vs. short-term lending.
3. Performing breakeven studies on each mutual.
4. Advising on improvements in CACEN's weekly reports.
5. Reviewing economic conditions and relating his analysis to the mutual system.

Mr. John Magill.-

Mr. Magill was in the country for three weeks. During this time he performed a study of the EDP needs of CACEN, including:

1. Preparing specifications for computer hardware.
2. Identifying and describing the kinds of software needed to meet the needs of CACEN.
3. Reviewing the feasibility of joint use of a computer for both CACEN and the two La Paz-based mutuals.

Roman Ortega-Cowan.-

Mr. Ortega-Cowan was in Bolivia for six weeks. Much of this time was spent in visits to the outlying mutuals. This was an important effort because what is needed is more time spent on site in the mutuals. His work included the following activities:

1. Identifying particular problem areas in each mutual.
2. Reviewing financial plans with each mutual.
3. Assisting the financial planning advisor with development of global financial plans at CACEN.

Dr. Pedro Lasa.-

Dr. Lasa was in Bolivia for two weeks in August. During that time he was heavily involved in the preparation of a five-year financial projection for the system. He also conducted a review, in conjunction with CACEN's attorney, of the legislation governing the S&L system.

The mutual visits by consultants have been found to be especially useful. These had to be curtailed in September due to social conditions. Nevertheless, the pattern established in July and August will be continued now that conditions have once again normalized.

#### Problem Areas.

Other than the two major ongoing problems of generating more savings and lending these funds out at a profit, there are other less dramatic issues that need to be addressed. The need for educational programs of value to

the employees was cited in the last quarterly report. This continues to be a need. A list of course topics was developed and sent to US AID. It is planned that at least one class be given during the current quarter. The reluctance of a large sector of the mutual system to engage in short-term lending is another problem that must be overcome. In some cases, certain mutuals are currently tied into apartment building programs that they cannot drop immediately. However, at the same time there seems to be a mistrust of short-term lending as a means of generating profits. Another problem that besets the mutual system is a wage scale that is, in many cases, abysmally low. There is the instance of a manager in one mutual earning less money than the messenger of a neighboring bank. This needs to be corrected, and hopefully will be as the system returns to profitability. The area of incentive compensation is a related subject that should be developed in order to properly reward employees for good performance.

#### Plans for October-December

During the fourth quarter of 1985 there will be continued emphasis on branch visits. Two short-term consultants are scheduled, Dr. Pedro Lasa and Mr. Roman Ortega-Cowan. Dr. Lasa will be here to help with planning activities. Mr. Ortega-Cowan will once again be used to provide an on-site presence at the mutuals.

A meeting of the presidents and managers of all the mutuals is to be held in late October. The purpose of this meeting is to exchange ideas and, more important, to develop plans for 1986. This will be an important

effort and, if done successfully, will help each mutual develop objectives for 1986 that are realistic.

Ongoing attention will be paid to the matter of maintaining good communications and information flow between the mutuals and the Caja Central and among all of the mutuals. One concrete example of this emphasis will be the acquisition of several radios to supplement the telephone system in those areas of the country where communications are difficult.

Finally, the country's economic situation will be monitored on a continuing basis and changes will be related to the system's need to change as conditions change.