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SAVINGS MOBILIZATION/LOAN DIVERSIFICATION ASSIGNMENT
THIRD REPORT ON THE BOLIVIAN MUTUALS
PREPARED FOR THE USL International INC.
Roman Ortega-Cowan, Consultant
DECEMBER 15TH. 1985

Contract # 511-0582-C-00-4216-00
Project # 511-0582

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DURATION: NOVEMBER 2 - DECEMBER 3 1985.
LOCATION: BOLIVIA, SOUTH AMERICA.

SCOPE OF WORK

- 1: ASSIST the 12 Mutuals of the Bolivian Savings and Loan System in the development of individual marketing plans including specific targets and timetables.
- 2: ASSIST the individual Mutuals with employee training in customer service and cross-selling.
- 3: Develop operating criteria for consumer and "family needs" related loans; Identify specific loan demand in the markets of each mutual.
- 4: Review each Mutual's loan application and approval mechanism; make recommendations specifically regarding evaluation and approval, borrower qualification, collateral and guarantees and collection procedures.
- 5: ASSIST the Mutual's staff in the identification of new loan and savings markets.

WORK ACCOMPLISHED and EDITORIAL NOTES

A visitation program was scheduled. Lic. Jorge Ayllon and Architect Antonio Reyes -of CACEN- participated with Robert Boni and the author. All shops were visited except Mutual Pando Inclement weather and lack of transportation (accessible by air only) prevented us from visiting this unit although several attempts were made.

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1: Marketing plans formulated during my previous visit were reviewed. Due to continued unstable economic conditions, management has been reluctant to implement recommendations discussed in previous working sessions. Management prudence -in the short-run- could be justified as the country's economy is not settled and is still extremely volatile. Monetary stabilization, being far from reality is threatened by a growing parallel market -which theoretically should not exist-.

Most of the mutuals continue using available newspaper and radio medias. None have adopted a formal personal call plan; however, at Mutual Guapay the new management is completing an overall ambitious marketing plan which includes business canvassing and solicitation. This is also true at Mutual El Progreso.

Specific savings, lending targets and timetables -as planned in July '85- were again discussed. Management's failure to adopt and pursue our recommendations was charged to the perception that the market for S&L services and products is extremely soft.

Expected savings growth levels, interest rate scenarios, competitive posture and marketing attitudes were analyzed and further discussed with management. LOAN PORTFOLIO GROWTH vis-a-vis liquidity was once again explored. Short term lending rates and desired spreads were reviewed.

Renewed discussion on market analysis and penetration techniques as well as lending portfolio management were also the subject of ample review. LENDING targets and timetables -as discussed in July- were audited. Some of the largest institutions continue to engage in speculative investments, failing to fulfill their Lender's role. Emphasis was given to recommending the adoption of "maintenance of value policies". These exercises mirrored our July's efforts, but no specific follow-up on our recommendations was observed.

NOTE: The -preliminary- five year proforma financial plan supported by USAID, assumes a maintenance of value modus operandi as a prerequisite to the system's external debt refinancing. CACEM must provide specific performance and standardized forms on the subject. Maintenance of value could be -if not properly structured- detrimental to the system. Discussions on this subject were conducted with Cacem's President and the Management team -Architects Frias and Reyes-.

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2: Employees are generally well trained in customer service techniques. Shorter cross-training periods were suggested during my last visit; no changes have been instituted on the subject. Some managers indicated such change "take time to plan". It is obvious that industry leaders are reluctant to evolve, deferring the adoption of aggressive sales policies to the future, when they feel the economy would be stable and the national markets receptive. This is a comfort zone many feel prudent at this time. Concurrently, employees follow the leadership's example. As expected there are a few exceptions but as an industry, the attitude is that of "wait and see and do nothing in between", but hope external funds -disaster funds- arrive as planned.

Disaster funds -representing a significant inflow factor in the individual S&L financial planning- are consistently late in arriving, substantially damaging our credibility and feeding the awkward scenario in which new projections and recommendations are not taken seriously enough to motivate a change in the operational status-quo.

Cross-Selling techniques were tested and specific suggestions given to improve present minor flaws.

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3: We have developed, assisted by Cacem's economist, Mr. George Ayllon, an operating criteria for consumer and "family need" lending. Concurrently, the market loan demand identification has been fully discussed at individual Mutual level.

Management and staff are, with few exceptions, scholastically adequate and with sufficient parallel experience in the residential lending field to further develop our recommendations into a sound consumer lending apparatus, much of which was discussed and planned during my July visit. Notwithstanding, at Industry and Regulator's level, Boards and Management teams have failed to pursue most of our recommendations, offering the excuse of unstable markets not receptive to our services. The products and services committee -accountable at Cacen's level- operated a few weeks and then ceased to exist. Regulations have not been updated to promote the sales oriented profile the Industry should adopt. Weakness or absence of specific operational regulatory performance ratios -and enforcement thereof- continue to play a negative role in planning the ideal evolutionary behavior of the System. CACEM's influence could -and must- be substantially improved in this area.

In July (85) to help Mutuials identify specific "family need" and "consumer" loan demand at each market place, mini-surveys were conducted, which positively verified the presence of adequate consumer markets -at national levels- in the "family need" plus "commercial" spectrums as well. With four exceptions -Santa Cruz, Tarija, Oruro and Sucre- no individual institutional effort has been exercised to penetrate these markets or at least to commence personnel training and customer conditioning in preparation and anticipation of reaping benefits from potentials identified, when economic stability is achieved.

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4: Customer's Loan application process was reviewed during my last visit and found it adequate. Streamlining document preparation had been suggested. discussions on this subject were again conducted encouraging the use of pre-printed forms.

As we recommend short term lending, not all managers are ready to assume the inherent risk management responsibility. Managers, Presidents and Board of Directors were again encouraged to further delegate lending powers. Brief analysis of risk management were conducted.

Borrowers evaluation loan approval process continue to be too restricted, The screening-lending exercise continues to be the province of Managers, Board of Directors and some lending officers -with limited authority-. Customer repayment ability verification is weak and usually underwritten by the manager, based on his personal knowledge of the applicant's socioeconomic status. This further limits the Mutual's lending scope potential. Much discussion plus specific recommendations were given on this subject.

Document preparation (Mortgage processing) continues to be awkward, wasteful and MUST be streamlined as recommended previously -July '85-. This subject is of a universal nature, CACEM should assume responsibility and standardize this item for the entire system, addressing simultaneously the "maintenance of value requirement" as a mortgage and note covenant.

Collateral analysis and guarantees are properly addressed when processing a loan application. Title indentation or mortgaging of collateral is performed satisfactorily. In Bolivia real estate mortgaging -Roman Code Legal structure- is cumbersome and time consuming, therefore discouraged in short term consumer lending.

Collection procedures continue to be well enforced. Loans in arrears are

promptly addressed. Delinquency ratio is low. The legal recovery system is very slow, therefore the system relies heavily on personal contact collections.

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5: Identification of new savings and lending market potentials and brief instructions as to how capture said markets was, once again, exercised. However this practice appears NOT SUFFICIENT TO REALIZE AND DELIVER EXPECTED GOALS. The system lacks the basic discipline of know-how to AGGRESSIVE marketing. Some individuals within the institutions instinctively identify market opportunity potentials but as an industry there is EXTREME COMPLACENCE; absence of active leadership prevents the needed breakthrough to actualize our goals. This flaw is remediable, there exist the need of strong LOCAL involvement in this area, -enters CACEN-. Consulting and working out a plan at each individual Mutual is not sufficient to realize attainable programmed goals. It appears that once the consultant is not present, enthusiasm diminishes and plans are deferred or not carried out. Cacen has failed to provide continuity to our efforts as their representative has not traveled to provide essential time at each Mutual to ensure compliance with recommended mode of operations, continuity in training and performance accountability.

A systemwide orchestrated marketing/advertising program with CACEN's full participation would enhance our efforts but it is imperative to provide ON SITE DIRECT SUPERVISION AND CONTINUED DIRECTION -at each Mutual level- if our plans are to be carried out at each market place. The system is permeated with an aura of defeat that must be overcome.

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CAUTION: -re: The system's external debt refinancing exercise under USAID's consideration.
Market ability to support savings/lending growth levels stated.

As contributor to the overall proforma five year financial plan for the system, I cautioned that unless renewed dedication and personal professional commitment is pledged and delivered by the industry's leadership, it will be difficult to realize programmed goals.

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EDITORIAL OBSERVATIONS:

The system continues to understate its TRUE net worth. Savings reserves are NOT funded nor its accruing liability reflected in financial statements.

Mutuals continue to be reluctant to liquidate investments -or dollar reserves- to fund short term lending programs; non-earning assets are cautiously regarded as a "HEDGE AGAINST INFLATION". This occurs to the extent of many Mutuals dangerously practicing a dependence on savings inflows to satisfy operational-administrative overheads. Larger Mutuals -La Paz and La Primera- continue to invest most all their liquidity in the building speculative market, maintaining a strong posture as land developers and housing projects investors and negligible lending operators within the system.

CACEN's failure to address ailing Mutuals continues to be of concern to me.

The industry needs a revival. Most institutions are insolvent and the System's working force -in my opinion- is not motivated nor fully dedicated to institutional recovery, therefore it is a no-competing force in the market place. As presently structured, this is a complacent, quasi ineffective group -mainly small bureaucracies- existing on the expectation of external -foreign, mainly USAID's- cash inflows while missing the opportunity of income generation from its own market place.

Notwithstanding, this negative behavioral characteristic, while threatening the attainable recovery of the industry, is, in most instances reversible. Less than six years ago, The Bolivian A & P (S & L) Mutual System was recognized as the "model" housing provider in Latin America. Its leadership -in most cases- is still on board; perhaps it is time to review this area and suggest changes as deemed prudent.

The recent Bolivian economic rollercoaster has created a most peculiar condition for the Country's working class; it has truly devastated worker's trusts, believes and hopes the economy is capable of recovery, that financial stability would be resumed and that national confidence in the free enterprise will again be a reality. Against this scenario, the financial institution working force has literally surrendered. In Sucre -Mutual La Plata- a labor conflict is being arbitrated by Union and the Department of Labor. Further unrest is possible.

Salaries -particularly in the S & L system- have failed to grow and follow hyperinflationary trends. This condition accounts for the observed trait which finds the S & L employee working -for other employer(s) or doing business for themselves- supplementing their income from sources other than the Mutuals, while hoping -but not really working 100%- for the recovery of the system

To the detriment of expected operational performance, the majority of the Mutuals staff and officers are engaged in such activities. Additionally, at Board's and high office levels there exists conflicts of interests which directly interfere with the ability of institutions to competitively operate in their respective markets. These known practices are controllable -with fair compensation policies, stringent work ethics accountability and other methods.-

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Our testing the market place -in early July '85- indicated that (while the official rate of exchange was: one US dollar = \$b75,000, vis-a-vis a parallel market of one US dollar = \$b 1.4 MM) consumable goods and services were being priced on speculative expectations that the parallel market would have climbed to: one US dollar = \$b2.5 MM, reacting to an anticipated official rate hike of: one US dollar = \$b 1MM by the end of August.

During this visit -Nov. '85- consumer good prices had held up as indexed in early July '85 -as explained above- and further increased by 15% to 35%.

The official rate -Nov. 30, '85- has grown to: one US dollar = \$b 1.39MM vis-a-vis a parallel market of: one US dollar = \$b 1.8 MM. Thus, the parallel market has fallen 28% short of reaching the one US dollar = \$b 2.5 MM forecasted by merchants in July '85. (Forecasts were obtained by us from merchants canvassed and interviewed in early July; they were rationalizing their price increases.

A thriving Bolivian parallel market is a measure of economic instability. In the past, the "cambistas" or free-lance blackmarket money exchangers operated

in one specific area of town or city; in the case of La Paz, Camacho street was "the" place of action. Now -since the latest presidential election, August '85- the proliferation of "cambistas" is alarmingly noticeable. Money exchange activities are observed in all major arteries of cities and towns.

The attached profile reflects the basic problem of the Bolivian economy. It is obvious that industrial production and productivity is lacking. Areas worthy of exploitation and capable of significant financial contribution are not serving the economy. See "additional data."

In 1985 -January through October- of 208 working days, the industry worked 168. However, other working sectors worked even less. Labor disputes and strikes accounted for this statistic. Undisturbed by this scenario, Cacen worked normally.

Obviously consumer's ability to save continues to deteriorate. Borrowers repayment capacity shrinks as the cost of living soars. Aggravating this condition, salaries have been -temporarily- frozen, literally depressing the family's microeconomy to unreasonable levels, further compressing the already limited Bolivian living standard and raising the level of national unrest.

The new Government is committed to correct these economic deficiencies.

The foregoing scenario -presented and defended by Industry Leaders- lends credence to management's insistence that markets are soft, not comfortable with our services, reluctant and institutionally out of reach.

There are also the views from independent observers. RE: The Wall Street Journal October 25, '85 "The Americas" by Julio H. Cole -copy attached-. The proverbial IF, on market order and democracy compatibility in the region is just about the degree of credibility placed upon Bolivia's ability to economic recovery.

Although the above is informative when perspective used, its argument is insufficient to negate the existence, however selective of market opportunities for savings and loan products in Bolivia.

There is a market for Savings; Mutual La Primera is a good example. It has captured the lion's share of the short term savings certificate market; they followed our -Jan/Feb '85- recommendations on the subject. This Mutual however, does not place these funds in short term loans but in real estate development investments.

There is a market for short term consumer lending. This potential has not been tapped. The universal cry is for USAID's help in order to fund lending programs; savings growth -as its vehicle- is not an issue. The industry conceptually equates HAVING LOANABLE FUNDS to generating deposits, instead of the other way around. The exception are Mutuales La Primera and in recent weeks, Mutual El Progreso. It therefore follows that, unless funding is provided by external sources -mainly USAID- Management's position is that of defeat.

This is a reality in our challenge.

CONCLUSION: Our priority challenge as consultants should be the industry's leadership motivation to bring about philosophical changes and modus operandi evolution. Although scholastically generally well equipped, the industry -in my opinion- is not capable of change from within. Its leadership -through recent experiences- have learned to "take it easy", too easy perhaps. Planning for an uncertain future is not a preoccupation at leadership levels. Management loss of trust in the economy lessens their ability to recognize present opportunity and viable markets thus failing to overcome the existing inertia. Personal productivity effort is not generally channeled, pledged or dedicated to the recovery of the industry; as there is no perceived challenge nor reward for potential achievers, employees attitudes mirror Management's.

Above challenge can only be met by restructuring the system. From the Regulator -CACEM- on down to each operational phase at individual Mutual level. With full -on site- participation by intermediate term consultants in the Savings and Loan operational field, coordinating efforts with a Financial Analyst and an experienced S & L accountant.

We should note that Mr. George Ayllon -Cacen's Economist- resigned. Cacen's President indicated the position was not going to be filled. In my opinion, the the vacancy must be immediately filled with an equally capable candidate.

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SPECIFIC RECOMMENDATIONS :

1) A team of three -USAID's/USL Intl.- Consultants in Operational, Financial Analysis and Accounting fields to evaluate, recommend and IMPLEMENT structural changes for the system at large.

a) Follow-through with the formation of a training traveling management team -with Cacen's managerial level personnel- to implement structural and operational modifications at Mutual's level.

b) A product-services development and implementations committee to be fully operational. (Mixed membership, Cacen-Mutuals personnel.)

c) The Economist's vacancy at Cacen to be filled immediately.

2) Cacen Management to adopt guidelines encouraging lending authority delegation, portfolio diversification and dynamic activity on the following areas.

a) Mutual Presidents to be accountable for timely implementation.

b) Business call programs to be designed and utilized pursuing savings and lending opportunity markets as discussed during our visits.

c) Cross-Selling techniques should continued to be used. Managers to be responsible for the maintenance of such mode of operation.

d) A telephone/mail campaign must be tried to activate the dormant/inactive savings portfolio. Board of Directors must take an active role on this subject and hold management responsible for performance and results.

e) Regulations and guidelines on dormant-inactive savings portfolios interest payments should be reviewed.

f) These dormant-inactive portfolios must be consolidated -as previously recommended-.

3) MUTUALS MUST REPORT THE ACTUAL MARKET VALUE OF THEIR INVESTMENT PORTFOLIOS AND ALL OTHER ASSETS. Where no competent appraisals are possible, the value should be determined by competent personnel and be subject to verification by Cacem's Auditor. -Some progress was observed in this area during Nov.'85- but additional emphasis is suggested.

4) Cacem should review its "mortgagee" position and control over assets owned by Mutuals. Plant facilities, buildings and equipment plus real estate investments should actually be legally indented in favor of Cacem, (by recorded instrument; regulatory right to invade is not sufficient in this environment) as security for present and future advances.

5) Concurrently, CACEM SHOULD :

a) Revise -ENFORCE- regulatory provisions on minimum Mutual's performance standards, addressing specific ratios on liquidity to savings, savings to loan portfolios, investments to net worth etc; limiting-discouraging-penalizing excessive speculative investing practices in housing projects, land developing and similar activity should be the tenor of such regulatory profile. Promoting and also rewarding short term consumer lending should be considered.

b) WITH PRIORITY ADDRESS AILING AND FAILING MUTUALS AND ACT ON THIS ACCRUING LIABILITY. After adjusting each Mutual's true net worth, those technically collapsed Mutuals should be closed.

c) ERADICATE MANAGERIAL INEFFICIENCIES. Obvious examples : Manutata, Tarija, Paititi and Potosi.

d) PURSUE INOPERATIVE BOARDS and CHALLENGE THEM TO AN -accountable- OPERATIONAL EVOLUTION. Obvious examples: Paititi and Manutata.

e) Schedule and offer the Mutuals seminars -to include line employees- on risk management, market identification techniques and lending portfolio diversification, to maintain the Mutual's interest and momentum on subjects planned with this author.

f) Streamline mortgage processing documentation by standardizing forms and uniform interpretation of lending powers. Most Mutuals CONTINUE TO REQUEST clear instructions-guidelines to lending powers existing under Ministerial Resolution 1432.

THIS RECOMMENDATION WAS ADVANCED IN JULY. At this time, it should include specific guidelines addressing "maintenance of value".

g) Addressed the regulatory 8% savings portfolio reserve fund.

CACEM'S AUDITOR to report all exceptions to the Board of Directors for final disposition. Payment, nor accruing of this reserve item CONTINUES TO BE inadequately accounted for systemwide.

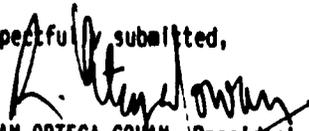
The Savings 8% regulatory reserve provision could be lowered should it be deemed excessive. However, prudent level reserves MUST BE ENFORCED. Cacem's and each Mutual financial statements should reflect its liability position on the subject.

- h) Institution's agencies must be cost analyzed and justified their existence purely on profitability. Agencies not profitable should be closed.
- i) Cacem's income fee structure should be updated to reflect flexible uniformity within the system while insuring adequate income levels capable of supporting much needed operational know-how, on site support at individual Mutual level.

Additional recommendations will be in order after the system's behavioral pattern is adjusted as recommended above.

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Respectfully submitted,



ROMAN ORTEGA-COWAN, President
Lotus International Inc.

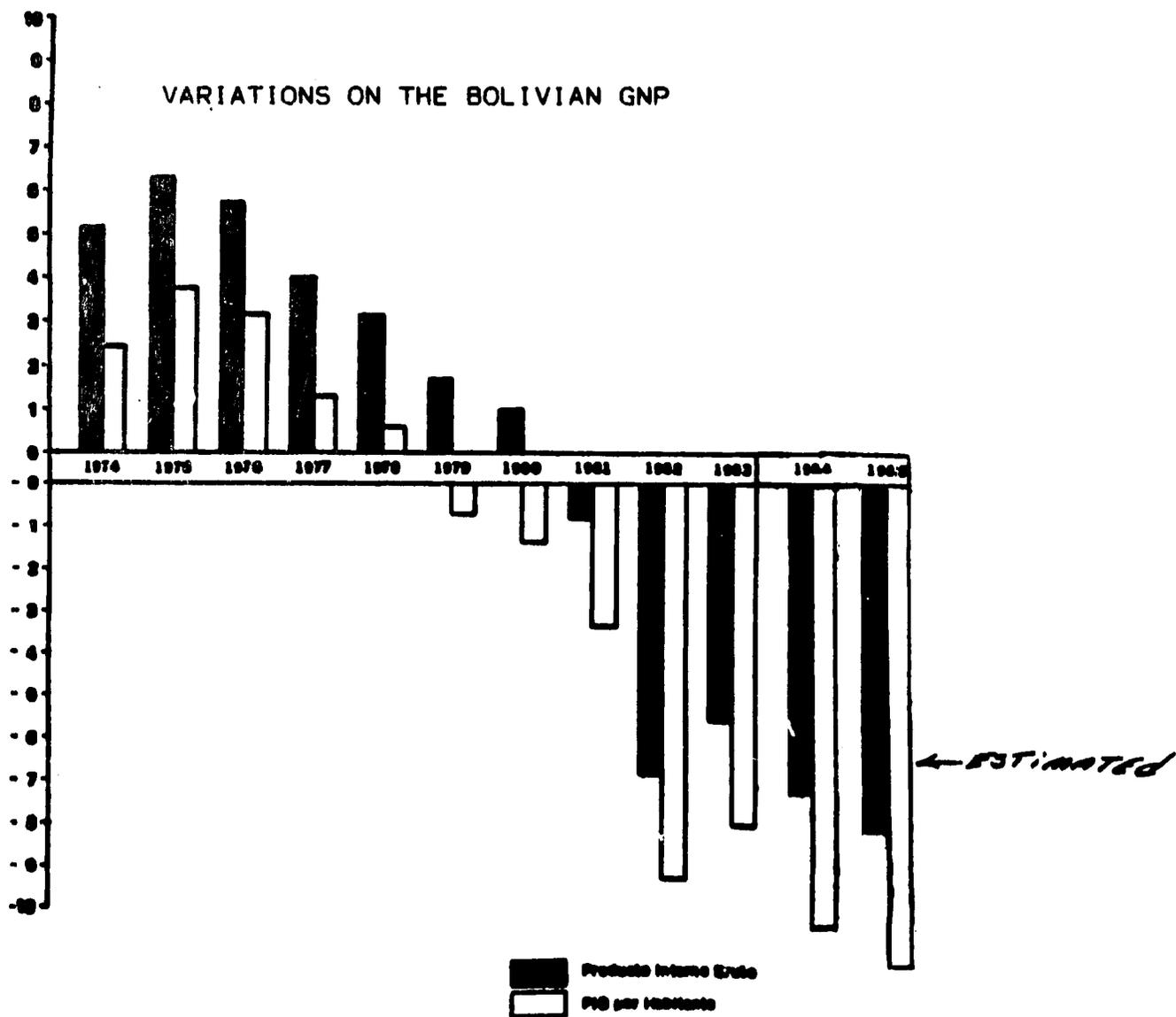
15 December 1985

OTHER DATA

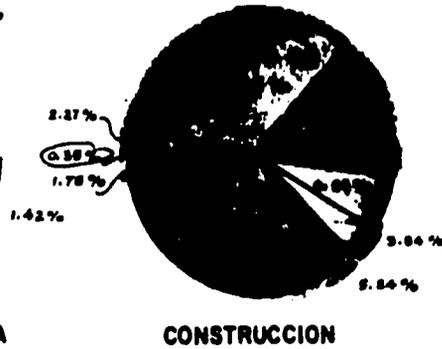
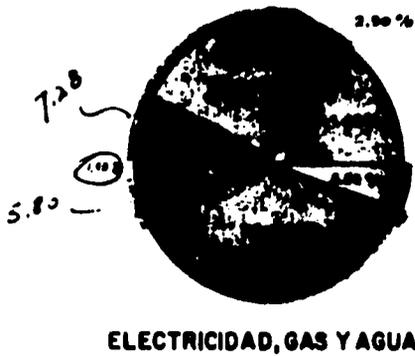
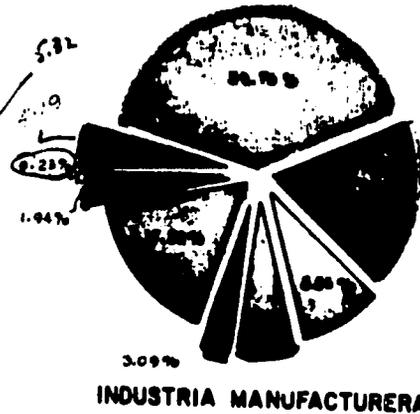
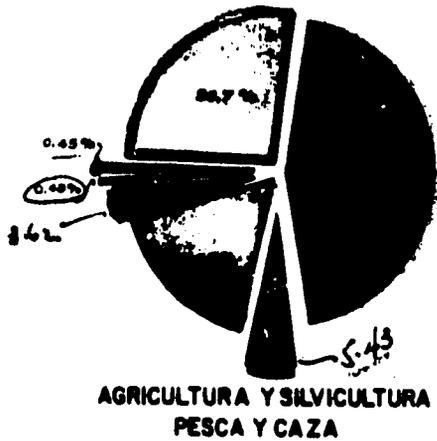
attachment to USL Intl. Report dated 15 Dec. '85

3 copies of Consultant's working sheets.

**BOLIVIA: VARIACIONES ANUALES DEL
PRODUCTO INTERNO BRUTO
Y DEL PIB POR HABITANTE**



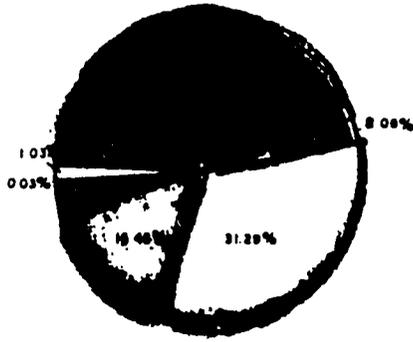
BREAKDOWN OF INDUSTRIES AND OTHER PRODUCING ESTABLISHMENTS
BOLIVIA PARTICIPACION PORCENTUAL DE ESTABLECIMIENTOS
POR RAMA DE ACTIVIDAD



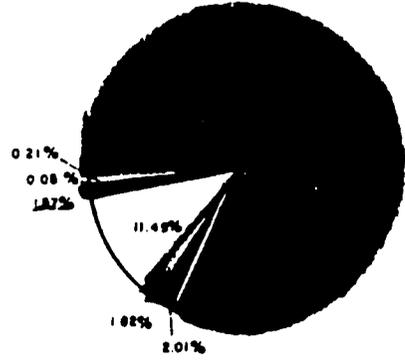
- CHUQUISACA
- LA PAZ
- COCHABAMBA
- ORURO
- POTOSI
- TARIJA
- SANTA CRUZ
- BENI
- PANDO



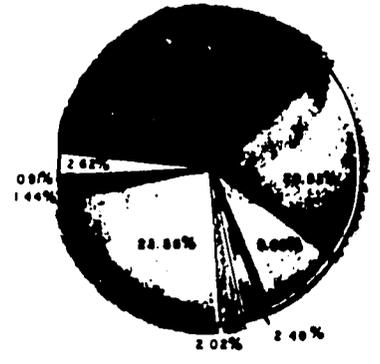
BOLIVIA PARTICIPACION PORCENTUAL DE TRABAJADORES WORKFORCE % OF PARTICIPATION by activity within Departments (Provinces) POR RAMA DE ACTIVIDAD



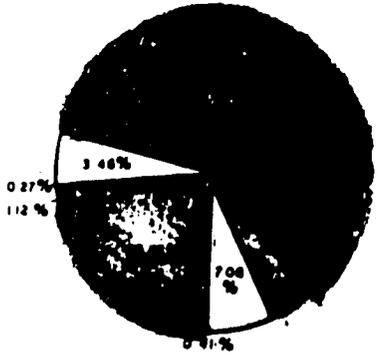
**AGRICULTURA Y SILVICULTURA
 PESCA Y CAZA**



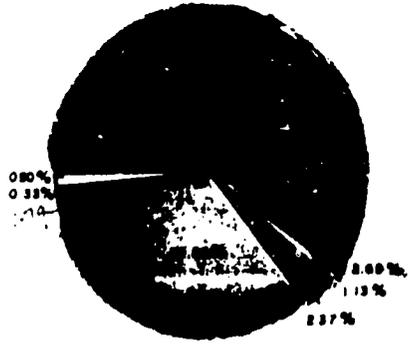
**EXPLOTACION MINAS Y
 CANTERAS**



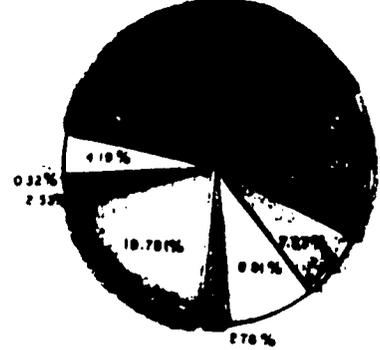
INDUSTRIA MANUFACTURERA



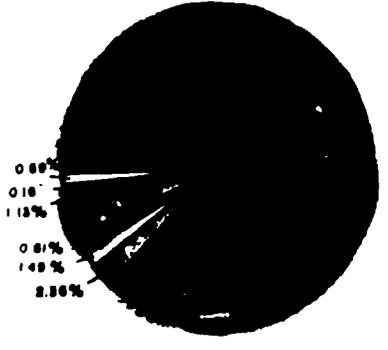
ELECTRICIDAD, GAS Y AGUA



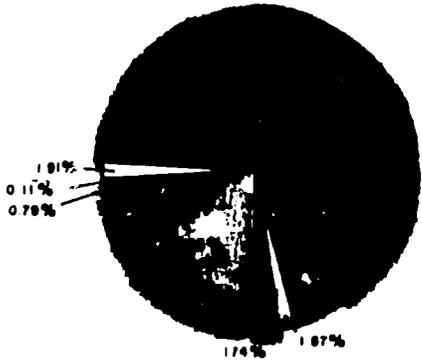
CONSTRUCCION



**COMERCIO RESTAURANTES
 Y HOTELES**



**TRANSPORTE, ALMACENAMIENTO
 Y COMUNICACION**



**ESTABLECIMIENTOS FINANCIEROS
 SEGUROS Y BIENES INMUEBLES**



**SERVICIOS COMUNALES
 SOCIALES Y PERSONALES**

- | | | | | | |
|------------|--|--------|--|------------|--|
| CHUQUISACA | | ORURO | | SANTA CRUZ | |
| LA PAZ | | POTOSI | | BENI | |
| COCHABAMBA | | TARIJA | | PANDO | |

R.Ortega-Cowan, Consultant's worksheet