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INTERNATIONAL CONSULTING DIVISION



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**FINAL REPORT**

**AGRIBUSINESS AND ARTISANRY PROJECT  
LA PAZ, BOLIVIA  
(Project No. 511-0472)**

**PRESENTED TO:**

**U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT  
LA PAZ, BOLIVIA  
(Contract No. 511-0472-C-00-4069-00)**

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## TABLE OF CONTENTS

## FINAL REPORT - AGRIBUSINESS AND ARTISANRY PROJECT

	<u>Page</u>
SECTION I      INTRODUCTION	1
SECTION II     BACKGROUND	2
A.   The A & A Project Objectives	2
B.   Technical Assistance Scope of Work	2
1.   Background	2
2.   Scope of Services	3
3.   Changes in Scope of Work	4
C.   Chemonics' Technical Assistance Work Plan - Contractor Level of Effort	5
SECTION III    IMPLEMENTATION	7
A.   Technical Assistance to the BCB	7
1.   Evaluation of Development Department of the BCB	7
2.   Recommendations to the BCB	8
3.   Execution and Follow-up	8
B.   Technical Assistance to the ICIs	9
1.   Development of Work Plan - ICIs	9
2.   Follow-up - ICIs	10
C.   Training	12
1.   Seminars to Senior and Middle Management	12
2.   Credit Analysis Seminars	12
D.   Impact Analysis	13
E.   Manuals	14
SECTION IV    ASSESSMENT OF BOLIVIAN BANKING SECTOR NEEDS	15

TABLE OF CONTENTS

FINAL REPORT - AGRIBUSINESS AND ARTISANRY PROJECT  
(continued)

	<u>Page</u>
SECTION V	
SUMMARY OF PROBLEMS ENCOUNTERED	16
A. Bank Strikes	16
B. BCB Failure to Provide Contractor with Logistic Support	16
C. Lack of Commitment to Training of Trainers Program	16
SECTION VI	
CONCLUSIONS AND RECOMMENDATIONS	18

## SECTION I

### INTRODUCTION

This document constitutes the final report on the technical assistance (TA) rendered by Chemonics International Consulting Division to the Agribusiness and Artisanry Project under Contract No. 511-0472-C-00-4069-00, sponsored by USAID /Bolivia. The report summarizes the project background, accomplishments and problems experienced by the contractor, and recommendations concerning future actions to strengthen the Bolivia banking system.

Following the introduction, Section II provides background information about the nature of the Agribusiness and Artisanry Project, the scope of services and the work plan.

Section III is the heart of the final report. It discusses in detail the technical assistance rendered by the contractor to the Central Bank of Bolivia (BCB) and the Intermediate Credit Institutions (ICI), its execution and follow-up.

Section IV provides highlights of the additional needs of the Bolivian banking system as we perceive it.

In Section V entitled "Summary of Problems Encountered," we analyze certain problems arising from BCB inability to provide logistic support during the course of project implementation.

Chemonics sincerely hopes that the information contained in this report provides a complete and accurate summation of the technical assistance activity of the Agribusiness and Artisanry Project, and that the recommendations made will be useful for the further development of the Bolivian banking system.

## SECTION II

### BACKGROUND

#### A. The A & A Project Objectives

The Agribusiness and Artisanry (A & A) project was initiated in January 1978 and scheduled to terminate on December 1983. As stated in the project paper, the project was designed to provide an integrated package of financing and technical assistance for agribusiness and artisanry subloans in Bolivia.

The multiple purposes of the project were:

- to increase the net income and standard of living of small farmers and the rural poor;
- to establish a system of promoting and financing agribusiness and artisanry activities;
- to benefit the poor through expansion of markets for small farmer goods and services.

In 1983 the PACD was extended to August 1986. Although the basic objectives of the project remained unchanged, the project revision stressed the enhanced role of private agribusiness and artisanry enterprises in the Bolivian economy, in increasing the income and standard of living of small to medium-sized farmers and other poor. It also stressed the need to improve the capacity of the country's commercial banking system to meet agribusiness financing requirements.

#### B. Technical Assistance Scope of Work

##### 1. Background

The revised project called for: increasing the responsibilities of the Central Bank's regional offices in project review and loan approval; and improving the project development and loan analysis capabilities of participating ICIs, as a means of reducing over-centralization of decision-making within the Central Bank and poor performance by ICIs in loan processing analysis and monitoring.

To improve and strengthen the administrative and technical capabilities of the Central Bank and the ICIs, additional grant funds were budgeted for a technical assistance contract.

The RFP to provide the assistance to the A & A project was issued in February of 1984. The technical assistance request called for a long-term advisor (12 months) and 24 months of short-term work in various specialized financial fields. Chemonics' proposal was presented on April 20, 1984. The contract was signed on July 6, 1984, and Mr. Hilario Hooker, as long-term advisor, arrived in La Paz on September 7, 1984.

As a result of several factors, specifically bank strikes and social unrest, which will be explained in more detail later in this report, the original completion date of this contract--August 31, 1985-- was first extended to November 30, 1985, and finally to January 31, 1986.

## 2. Scope of Services

In general terms the initial scope of services required under this contract included:

- The development of new procedures for analysis and disbursement of credit and loan portfolio management by the BCB and ICIs
- The incorporation of improved procedures into an operating manual
- The design and presentation of a formal training course to present new procedures to banking officials
- The design of a continuing on-the-job training program on the subject
- The development of a system of development credit analysis units within the ICIs
- The development and implementation of an adequate accounting and loan delinquency system for the ICIs
- The development and implementation of a statistical system to enable ICIs, BCB and USAID to monitor loan activities and their impact on small producers

The scope of work stated that the course in credit analysis should be presented to approximately four BCB regional offices and six ICIs. It also stated that the course in portfolio management and the structuring of development credit analytical units should involve approximately six ICIs.

### 3. Changes in the Scope of Work

#### a. Initial Changes

After Mr. Hilario Hooker arrived in Bolivia, a work plan was prepared. This plan followed closely the approach suggested in Chemonics' technical proposal for the contract scope of work. Two basic changes were suggested by USAID. Although these changes were outside the original scope of work, Chemonics agreed that they were valuable and added depth to the TA program, but required some additional work on the part of our team members. The first change was in portfolio management and the structuring of development credit analytical units. These were broadened to include marketing, budgeting and cost accounting. This change was suggested in order to increase the scope of the TA beyond the development departments to impact the ICIs as whole, integrated units. The second change expanded the project targets beyond the agribusiness and artisanry program to cover all existing BCB refinancing lines.

#### b. Change in Impact Evaluation Assignment

As mentioned earlier, the contract scope of work called for the development of a statistical system to monitor loan activities and their impact on small producers. However, because of time and budget constraints, the scope of this task was reduced mid-way through the contract period. Instead of designing and installing the system, Chemonics was advised to limit its work to the preparation of guidelines necessary for an eventual socio-economic impact evaluation of the project.

In December of 1985, Dr. Dale Adams of Ohio State University was hired to design the system. Upon his arrival in Bolivia, Dr. Adams expressed concern over the approach to designing guidelines, as suggested in the Project Paper and the contract. According to these documents, the system should try to measure the impact of the project on the economic performance of the borrowers caused by loans, e.g., changes in product output, in incomes, in yields, in employment, etc.

Dr. Adams pointed out that these traditional credit studies have attracted increasing criticism and mentioned the following major weaknesses in credit-input studies:

- They are costly to do.
- These evaluations usually ignore the effects of fungibility.

- It is virtually impossible to know what would have happened without the loan--the counter-factual problem.
- Most credit impact studies ignore the wear-and-tear of a credit project on the financial system.

For these reasons, it was suggested by Dr. Adams and accepted by USAID, that the guidelines focus on the supply side of finance, that is, how the project affected the ability and willingness of the ICIs to serve borrowers and savers, and how it affected the performance of the financial market in Bolivia during the period covered by the A & A project.

C. Chemonics Technical Assistance Work Plan - Contractor Level of Effort

The work plan proposed to USAID closely followed the approach presented in Chemonics' technical proposal dated April 20, 1984. Modifications were later made conforming to the changes in the scope of services already mentioned.

In summary, Chemonics' initial work plan contemplated providing technical assistance advisors for 36 total work-months and in the technical fields listed below:

<u>Advisors</u>	<u>Work-months</u>
Long-term	12
Loan Portfolio Management	5
Organization & Management	5
Banking Policies and Procedures	3
Manual Design & Preparation	2.5
Training	4.5
Impact Analysis	3
Home Office	<u>1</u>
TOTAL	36.0

The required total of 36 work-months was increased to 39 when the contract completion date was extended for three additional months. We are pleased to state that we were able to provide technical assistance for a total of 40.00 work-months, slightly above the amount contracted.

Changes were made to the level of effort assigned to individual tasks as shown below:

<u>Advisors</u>	<u>Work-months</u>
Long-term	17.00
Loan Portfolio Management	5.26
Organization & Management	5.63
Banking Policies and Procedures	2.49
Manual Design & Preparation	2.32
Training	6.36
Impact Analysis	.69
Home Office	<u>.25</u>
TOTAL	40.00

The team leader's time was increased to 17 months, the number of months assigned to training was also increased to 6.36 months, impact analysis study was reduced to less than one month, and home office only used .25 work months of the billable time assigned. These numbers represent our final level of effort provided to the project.

## SECTION III

### IMPLEMENTATION

Section III contains five sub-sections, providing a summary of the work accomplished in different task areas. They include: work at the BCB level; technical assistance to the ICIs; training; impact analysis; and manual description and content.

#### A. Technical Assistance to the BCB

##### 1. Evaluation of the Development Department of the BCB: Organization and Systems

After an analysis was made of the BCB Development Department, its organizational structure, portfolio management system, and credit approval process, the long-term advisor concluded that a complete reorganization of the unit was required. This conclusion was based on observations of several administrative bottlenecks and technical weaknesses.

Even though some administrative channels had been designed to transfer the loan approval process to the ICIs, it was Chemonics' finding that almost all loans were still processed and approved by BCB personnel. The large number of these loans, 8,500 of them in 1983 and approximately 20,000 in 1984, had a tremendous negative impact on the Development Department's efficiency and on the ability of the overall system to provide financing in an orderly and timely manner.

Given the size of the Bolivian economy, the \$45.0 million in assets handled by the Development Department made it, without a doubt, one of the largest financial institutions in the country. However, due to the heavy administrative burden of loan processing and approvals, little or no effort was being made by the Department to accomplish the following:

- budget and establish financial goals for the different refinancing lines administered by the Department;
- analyze the economic effects of present credit programs;
- develop new programs to cope with future economic needs;
- compile, prepare, and publish badly needed loan statistics (except for those related to loan balances of refinancing lines, which were in fact published).

- improve organizational structure, therefore showing weaknesses in the chain of command to regional offices as well as lack of coherence in overall structure.

## 2. Recommendations to the BCB

To cope with these deficiencies, a complete revamping of organizational structure was recommended.

Our recommendations called for the creation of a semi-autonomous unit within the BCB to be organized as a second story bank with authority at a national level. This unit would be charged with:

- promoting, evaluating, and supervising all existing refinancing lines;
- planning and developing new programs, and;
- generating appropriate statistics and administering existing lines.

In order to operate efficiently, this new department would be given as much independence as possible from the rest of the BCB administrative structure. The recommended chain of command links the Development Department to the BCB through its President, General Manager and the Manager of the Financial Division of the Bank only. To improve the decision-making process, Chemonics recommended that the department have its own accounting system and some autonomy in personnel administration at certain levels.

The document presented to the BCB contained specific suggestions and guidelines to transfer the responsibility of the loan approval process to the ICIs. It also contained the entire newly designed administrative structure needed to implement the recommended changes, including a detailed list of the key functions of the new unit's most important officers.

## 3. Execution and Follow-up

The above recommendations were presented to the BCB in April of 1985. Although the overall reorganization package was well received at different levels of the BCB, these recommendations have not yet been implemented, for reasons discussed below.

From the beginning of the project there were frequent strikes that slowed down contract activities. In the specific case of the BCB, from April 1985 through August 1985, the number of strikes increased considerably. During that period the BCB was struck by 5 strikes affecting a total number of 26 working days. This internal turmoil downgraded drastically the BCBs' operational capacity and its ability to make decisions.

After the August 1985 national elections, labor tensions eased considerably, specifically because of the enactment of a state of siege by the new government. However, this did not provide much help to the decision-making process at the BCB. During this period, labor problems were replaced by tensions caused by personnel changes and political pressure from the government to take control of the institution. There was also talk of transferring the Development Department from the BCB to other governmental entities. This tense and unstable political climate rendered it impossible to obtain decisions on the suggested administrative and technical changes.

Chemonics feels that the changes we recommended are still viable and badly needed. We are currently negotiating an additional extension of our contract to be financed by local PL 480 funds. If approved, we could possibly contribute to the implementation of this essential part of the project. If our contract is not renewed under this arrangement, we certainly hope that USAID personnel will be able to continue this effort.

#### B. Technical Assistance to the ICIs

Since technical assistance was to be provided to six different banking institutions that were already going concerns and which reflected differences in size, management style, and organizational structure, Chemonics decided it was not viable to develop a general diagnosis of the banking system needs from which could be determined recommendations for each individual bank. Instead we decided that the best method would be to select from among all ICIs, one bank to be used as a "pilot case." After working intensively with the "pilot case" bank, we could develop the most appropriate approach to be applied individually to the rest of the selected ICIs.

##### 1. Development of Work Plan - ICIs

At our pilot bank we became better acquainted with the organizational structure of a typical Bolivian bank, its strengths and weaknesses, and we were able to delineate more precise guidelines for our work. In the end, we decided to concentrate on the areas of:

- portfolio management
- Development Department organization
- marketing, budgeting, management, cost accounting, and
- management information systems

Technical assistance was provided to the following six ICIs: Banco de Cochabamba, Banco Hipotecario, Banco Boliviano Americano, Banco Nacional de Bolivia, Banco Santa Cruz de la Sierra, and Banco de la Union. At each ICI, our team carefully analyzed the above areas of concentration and developed a document with specific, tailor-made recommendations to improve their bank systems. Copies of these documents including the one prepared for the BCB were delivered to USAID/Bolivia.

The areas of marketing, budgeting, cost accounting, and management were complemented by a two-day seminar. These seminars were given to senior and mid-management personnel of each ICI and were well received. Attendance ranged from 15 to 20 people per bank, including the general manager, and in some cases, members of the board.

## 2. Follow-up Activities - ICIs

Recommendations to the ICIs suggested specific actions in different technical fields. After completion of the first phase of project implementation, the work plan called for follow-up activities in areas identified as needing improvement. A follow-up program, taking into consideration each ICI's specific needs and preferences, was designed in May of 1985 by Chemonics' Team Leader. The table on the following page presents a brief description of the follow-up activities programmed with the ICIs, and the level of task completion as of December, 1985.

The chart shows that 5 out of the 6 ICIs selected for TA participated in the follow-up program. The exception was the Banco Boliviano Americano which was unable to take advantage of the service because of a combination of factors, including: a very prolonged strike during April and May, 1985, and; the loss of key personnel in three consecutive months which left their staff too weak to keep up with day-to-day business plus simultaneous work on strategic organizational structure changes.

The other banks agreed to work on most of the recommended changes. All five ICIs planned to introduce cost accounting and break-even analysis in their systems and to improve their marketing and budgeting procedures. Three requested assistance for the development of their internal credit procedures and manuals and one for the reorganization of the Development Department.

As the chart shows, by December of 1985, the program was far from being completed. At that date, although all five banks had initiated the process of developing a cost accounting and break-even analysis system, only one had implemented it. In marketing and budgeting, only two had begun work, and only one, the Banco de la Union, was able to put it into operation. Progress in other areas of the follow-up program was less than in those highlighted here.

FOLLOW-UP ACTIVITIES SUMMARY

	Cost Accounting				Marketing				Credit Procedures				Development Department			
	Break-even Analysis				Budgeting				Manuals				Reorganization			
Banks	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Cochabamba	x	x	x		x				x				x	x	x	
Hipotecario	x	x	x		x				x							
Nacional	x	x	?	?	x	x	?	?								
Sta. Cruz	x	x	x		x											
Union	x	x	x	x	x	x	x	x	x	x						
Bol. Americano	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

- 1 = Initial follow-up program
- 2 = Decision to begin work taken
- 3 = Guidelines and procedures completed
- 4 = System implemented
- ? = Doubts about implementation stage

Chemonics feels that given the period of political instability, hyperinflation and constant labor unrest during which these tasks were performed, the level of effort was quite high. This assessment is significant because it is well known that even under normal conditions, it usually takes time for companies or banks to implement changes. In retrospect, it is our opinion that the time available for the completion of this follow-up work was insufficient, and that it would substantially benefit the banking system and the Bolivian private sector if additional time were provided to continue this important task.

### C. Training

Formal training was offered at two different levels: senior and middle management; and credit officers.

#### 1. Seminars to Senior and Middle Management

As expressed earlier, seminars focused on marketing, budgeting, management, and cost accounting. Courses were presented at the six previously selected banks with the attendance of 15 to 20 people at each bank. Courses stressed market analysis, loan targeting, personnel performance and compensation, budgeting, and cost accounting. Students were provided with teaching materials, tests, and simulations of real work cases.

#### 2. Credit Analysis Seminars

Three credit analysis courses were presented, one in Santa Cruz, one in Cochabamba, and the last in La Paz. These seminars used text materials and cases related to the basic finance tools required in the loan analysis and approval process, including several cases of formal project feasibility analysis. Each two week seminar consisted of 70 hours of active classroom work.

Credit officers attended the following seminars, distributed by banks as follows:

<u>ICIs</u>	<u>Number of Credit Officers</u>
Banco Central de Bolivia	33 <sup>1/</sup>
Banco de Cochabamba	5
Banco Hipotecario	8
Banco Nacional de Bolivia	5
Banco Sta. Cruz de la Sierra	4
Banco de la Union	7
Banco Boliviano Americano	8
Banco de Credito Oruro	5
Banco de La Paz	2
Banco de Inversiones	1
Banco de Potosi	4
Banco Mercantil	2
Banco Progreso	5
Banco Big Beni	4
Fenacre	6
Banco Popular del Peru	4
Others	<u>10</u>
TOTAL	113

#### D. Impact Analysis

The contract called for the development and implementation of a statistical system to enable ICI, BCB, and USAID to monitor loan activities and their impact on the small producer. As expressed earlier, the focus of the study shifted from an evaluation of the impact of the A & A project on the borrower-demand side of finance to an evaluation of how the project affected the ability of the financial intermediaries to serve borrowers and savers, i.e., the supply side of finance.

The guidelines divided the proposed evaluation into two parts. The first part suggested the methodology for drawing description statistics from the A & A loan application forms and for tabulating this information. The second part focused on documenting the performance of ICIs participating in A & A lending. The main questions addressed in trying to evaluate the performance of the Bolivian financial markets relate to: increased number of borrowers; amounts of loans; aggregate savings mobilized; and transaction costs.

<sup>1/</sup>Includes attendance of credit officers from BCB regional offices at Tarija, Oruro, Cobiija, and Trinidad.

## E. Manuals

The contract scope of work calls for development of new procedures for the analysis and disbursement of credit by the BCB and the ICIs, and the incorporation of these procedures into operating manuals to be utilized by banking officials. Based on Chemonics' analysis of the ICIs' weaknesses and needs, and the expanded scope of work mentioned earlier, the focus of these manuals was also broadened. In addition to procedures for the analysis and disbursement of credit and loan portfolio management, the manuals also cover chapters relating to practical tools applied to cost accounting, strategic planning, marketing, budgeting and management.

At this writing, the manuals are in the final stages of production. We anticipate their completion by the end of March 1986. We suggest that they be distributed to all Bolivian financial intermediaries.

## SECTION IV

### ASSESSMENT OF BOLIVIAN BANKING SECTOR NEEDS

The Bolivian banking system is formed by the Banco Central de Bolivia and the national banking system, which is composed of private and public commercial and specialized banks. At the present time the private commercial banking system is made up of thirteen private national and several foreign banks.

Since A & A technical assistance was addressed only to the BCB and six private ICIs, seven additional private ICIs are in need of this type of assistance. This was evident when in October of 1985, steps were taken to negotiate another extension of Chemonics' contract, in this case with PL480 funds, to provide assistance to six more private banks.

As mentioned previously, the banking system has been badly beaten by hyperinflation. It is evident that in order to survive the crisis and at the same time increase efficiency and reduce costs per transaction unit, the banking sector needs to introduce as rapidly as possible drastic changes in its operating system which in the final analysis means taking steps towards mechanization. This does not mean that mechanization is the answer to all problems, but it is something that will surely be needed in the future.

It is also important to note that even though short-term technical assistance can be beneficial, we feel that a more permanent and structural solution is needed to solve basic management problems. One suggestion is the strengthening of the local Banking Institute curriculum, which currently provides courses in basic accounting and clerical subjects. We suggest the introduction of higher level training courses in areas such as strategic planning, cost accounting, marketing, budgeting and other related fields.

## SECTION V

### SUMMARY OF PROBLEMS ENCOUNTERED

Throughout this report we have mentioned certain problems during project implementation which tended to slow down the achievement of the contractor's scope of work. This chapter presents a summary of the major problems encountered.

#### A. Bank Strikes

One of the major problems that created a lot of uncertainty and considerably reduced Chemonics' ability to carry out the project was the constant general and banking strikes that occurred during implementation.

In spite of this, Chemonics was able to successfully comply with its contractual scope of work, through hard work and perseverance during normal working periods, and with the assistance of management of the ICIs willing to cooperate when the banks were under strike and closed.

#### B. BCB Failure to Provide Contractor with Logistic Support

Another major source of concern and increase of cost was the absence of logistic support by the BCB. According to the contract, the Government of Bolivia, through the BCB, would supply the following: a) office space and equipment; b) secretarial and clerical services, and; c) official in-country travel, excluding air transportation.

The office space provided proved to be inadequate, lacking the privacy needed for proper concentration, and with the exception of desks, there was no provision for equipment such as typewriters and filing cabinets although they were requested several times. It should also be noted that secretarial services were not provided consistently and that official transportation was rarely made available. With contracting officer approval we hired a secretary and paid for transportation services when needed. Because of these unanticipated logistic support costs, the contract budget was severely burdened.

#### C. Lack of Commitment to Training of Trainers Program

Finally, Chemonics' work plan included provisions for the "training of trainers" (TOT), which meant that several gifted students would be selected to receive additional or supplemental work in training processes and techniques that would enable the contractor to leave behind a training capacity after the departure of the technical assistance team.

Chemonics' plan was to gradually increase the teaching participation of local personnel by phasing out the participation of expatriate advisors as selected locals improved their skills. The TOT approach was only partially completed because of lack of cooperation by the BCB. We obtained no collaboration on the designation of trainees/trainers for the seminars on marketing, or budgeting and management.

We were more fortunate with the courses on credit analysis. In each of these courses, at least two members of the BCB staff were designated as trainees, and the training did take place. However, since each of these courses took place in different locations (Santa Cruz, Cochabamba and La Paz) the trainees required transportation and per diem expenses to attend the seminars which were held outside of their city of residence. Despite our efforts, these were not provided, so the trainees only went half-way through the training process, and were therefore unable to gain the additional experience that more exposure to teaching would have provided them.

## SECTION VI

### CONCLUSIONS AND RECOMMENDATIONS

In this report we have presented the project background, implementation achievements, recommendations and conclusions with respect to the technical assistance provided to the A & A Project. At this point, we would like to offer a summary of the main points.

As previously stated in this report, we strongly believe that the Development Department of the BCB requires reorganization. This department plays a pivotal role in channeling funds to the Bolivian banking system. For a number of reasons explained earlier, our recommendations have not yet been implemented. If higher levels of efficiency are to be obtained in the funds channeling process in Bolivia, we feel that the suggested changes should be taken to heart.

Although there were implementation problems and delays as a result of frequent strikes, the technical assistance provided to the ICIs was successfully completed. We feel that our work will have a lasting impact on the banks assisted. Changes are already taking place, but as experience shows, it usually takes time for structural changes to take hold. We believe that the time allotted to follow-up activities was insufficient and that it would greatly benefit the overall effort if additional technical assistance were provided in this critical field in order for more tangible results to be realized from the already completed work. Also it is important to remember that this technical assistance was provided to only six ICIs out of the thirteen private national banks that exist in Bolivia. The task will not be completed without strengthening the internal structures of these other banks to some degree.

Another important area that needs attention in order to ensure a lasting technical assistance impact is improvement of the BCB training capacity with the "trainers/trainees" that worked with us during the implementation of the credit seminars. Although the training process was not completed, teaching materials exist and several of the trainees need only additional exposure to the "case method" in order to be able to do a reasonable job.

Finally, we feel that the manuals should be distributed to all Bolivian intermediaries, not only to the BCB and the commercial banks. These manuals cover, in detail, very important aspects related to the banking business. If consulted and applied consistently, they should be of great help for the advancement and improvement in managerial expertise of the Bolivian banking system.