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SAVINGS MOBILIZATION/LOAN DIVERSIFICATION ASSIGNMENT
FOURTH REPORT ON THE BOLIVIAN MUTUALS
PREPARED FOR THE USL International INC.
Roman Ortega-Cowan, Consultant
MARCH 25TH. 1986

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DURATION: FEBRUARY 17TH. / MARCH 18TH. 1986
 LOCATION: BOLIVIA, SOUTH AMERICA.

SCOPE OF WORK

- 1: "Continue to work with the individual Mutuals to develop specific savings mobilization and loan diversification plans, and
- 2: Design, prepare and present regional seminars/round table discussions in Cochabamba, La Paz and Trinidad. The purpose of these round table discussions is to encourage the Savings and Loan managers to expand their savings mobilization and loan diversification efforts. Representatives of the Mutuals must be guided in the sharing of ideas and provided with new ideas regarding successful S&L operations. These seminars are to expand on the goals and objectives established by the Mutuals in the Presidents and General Managers meeting of November '85. Each Mutual should leave with specific targets & timetables for achieving these targets."

WORK ACCOMPLISHED

1: Continuity of discussion and selective specific performance testing on savings mobilization and loan diversification was accomplished.

Absence of professionally compiled market data hinders a faster market penetration by the Industry. Aiming limited products and services towards inadequately identified targets will continue to slowdown the recovery of lost market share. Notwithstanding, the system's real growth reversal is evidenced by the gains of market share as follows:

PERIOD	SUBJECT	A&P SYSTEM (S&L)	OTHER SYSTEMS	TOTAL
MAR 85	Loans	0.24%	99.76%	100.00%
JULY 85	"	0.29%	99.71%	100.00%
SEPT 85	"	0.61%	99.39%	100.00%
JAN 86 *	"	2.03%	97.97%	100.00%
MAR 85	Savings	1.54%	98.46%	100.00%
JULY 85	"	1.89%	98.11%	100.00%
SEPT 85	"	2.06%	97.94%	100.00%
JAN 86 *	"	2.49%	97.51%	100.00%

* Jan 20 1986

(data sources: Cacem, Asoban and Central Bank of Bolivia)

Although the overall performance of the industry is modestly positive, the posted gain ratio -when projected as a trend- is insufficient to support minimum growth needs. To introduce a signal supportive of short and long term scenarios anticipated in the external debt refinancing cycle, the S&L Industry is to post by Dec 31 1986 a 141.3% real Savings growth; moreover, 2,698.1% real growth must be experienced in the Mortgage Portfolio.

1985 performance analysis at individual Mutual level (attached exhibit a) is self explanatory.

Cacem's intention to address economically collapsed, non-performing units is further discussed below, under "editorial observations". This critical commitment is a primary factor in the recovery of the system.

DELINQUENCIES: A more detailed and comprehensive analysis of the system's delinquencies was conducted (attached exhibit c).

There is 23.87% delinquency ratio in the system. Mutual Paititi leads with 71.11% Mutual La Primera 49.28% La Promotora 49.03% Manutata 34.99% and in contrast Mutual Guapay 0%

In the case of Mutual La Primera, most all delinquent loans are in foreclosure. The Board of Directors has been reluctant to enforce and follow through with the legal process. As observed in previous reports, the legal establishment in Bolivia is extremely slow. Management has suggested a write-off program and has established a specific reserve for this purpose. However, I have cautioned against writeoff's due to "lost documentation". Under this caution and the recommendation to search and secure certified copies from the Courts, a number of files have been restored. Most delinquent loans are secured by first mortgages. The property values exceed the loan balance, accrued interest and legal costs.

Paititi indicated all delinquent loans would be paid in full by March 31, 1986.

CACEM must regulate this subject and exercise extreme control over disbursements to noncompliant units.

At individual Mutual level, collection efforts are proper but in my opinion not really enforced. When questioned, management cites the collection policy and assures its compliance. I very much doubt the effectiveness of policy enforcement.

Previously, when I requested the delinquency portfolio status, all "old loans" (some 10 years in arrears) were not provided. Also loans under foreclosure were not usually provided.

In summary, we have now a detailed picture of the delinquent portfolio and its status. We have worked with management to insist early resolution to this subject.

Cacem management was alerted of our concern and pledged full cooperation to our effort.

Lending Diversification efforts: Noticeable results observed at Mutual El Progreso, Oruro.

2: REGIONAL SEMINARS/ROUND TABLE WERE CONDUCTED AT:

<u>Location</u>	<u>Date</u>	<u>Institutional Participation</u>
La Paz	Feb 21-22	La Primera, La Paz, Guapay, and El Progreso.
Cochabamba	Feb 28 Mar 1	La Promotora, La Plata, Potosi and Tarija
Trinidad	Mar 9-10	Paititi, Manutata, La Frontera. (* unable to participate: Pando) * bad weather.

Varied themes occupied these round tables; speakers included Cacem officials, Mutual Presidents, Board Members, Management and Supervisory staff plus USAID representatives and USAID's short and long term consultants.

1986 specific goals and objectives were outlined, timetables and methodologies discussed and growth benchmarks established. The system is programmed to gain 141.3% in savings and 2,698.1% in lending. Attached exhibit b provides detail information per Mutual.

* * * * *

EDITORIAL OBSERVATIONS:

The programmed growth, in my opinion, is achievable by the system. There are markets incapable of producing expected benchmark growth stated. Discussion on this subject were ample and comprehensive (conducted with Mr. Eduardo Frias of Cacem). Other markets are indeed capable of supporting greater than planned growth but Mutuuls servicing the area are not equipped to reap the benefits.

The failure ratio can be anticipated by previous performance records -exhibit a-.

Cacem is much aware of the system's predicament. In essence, Cacem has known the flaws I have been suggesting but has not acted to correct them -prudently so- due in part to the chaotic political and economic conditions prevailing in Bolivia.

Concurrently, Cacem as a system would very much like to maintain its profile of

"12 private sector institutions represented throughout the Country Closing a unit is not a favorite thought at Cacen, even if a given Mutual is and has been "economically and operationally dead" for months.

Regardless of above commentary, in recent days I have seen a willingness at Cacen not observed before. In my opinion, there is a resolve to action evidenced by conversational level planning to address failed inoperative and inefficient Mutuals. Closing a Mutual may be possible in this newly observed attitude. Very feasible -and expected- is to see reorganizational moves sponsored by Cacen and the elimination of directorial/managerial deficiencies at Mutual level.

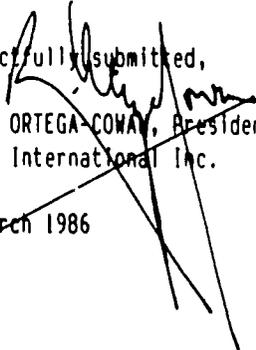
Conflict of interests continue to be observed. Mutual Promotora's over 100% liquidity ratio on deposit with a commercial bank whose attorney serves as President of the Mutual is an example. Interest on this deposit was observed at 2% below existing commercial bank market rates in the area, much lower of its true potential as lending capital. Cacen must exercise prudent control over these inconsistencies.

* * * * *

SPECIFIC RECOMMENDATIONS:

- 1) All previously documented recommendations, especially those of December 15 1986.
- 2) Follow-up delinquency trends and counsel with Mutual Boards as required. (via Cacen's Internal Audit Department).

NOTE: To augment the recommendation list is, in my opinion, not prudent at this time. There have been numerous previous observations. Cacen is under staffed. In order to follow through with recommendations it is necessary to consider the amount of hours required for implementation. Until such time adequate staff is present further written recommendations will serve as a good collections of things and actions which could have been but not exercised by those in need.

Respectfully submitted,

ROMAN ORTEGA-COWAN, President
Lotus International Inc.

28 March 1986

EXHIBIT A
1985 GOALS vs PERFORMANCE ANALYSIS

EVALUACION DE LAS METAS DE 1985

ORGANOS:	LA PRINERA	LA PAZ	EL PROGRESO	OMAPAY	LA PROMOTORA	LA PLATA	POTOSI	TARIJA	PAITITI	MANUTATA	PANDO	FRONTERA	CONSOLIDADO
PROGRAMADO:	881.4	68.8	21.0	44.5	47.5	17.7	15.1	28.5	7.2	6.1	2.9	13.0	453.6
EJECUTADO:	194.3	63.6	20.4	40.5	35.2	13.2	15.1	25.1	5.7	4.8	2.5	11.8	462.3
%	7.1%	-7.6%	160.0%	-8.9%	-25.0%	-25.4%	0.3%	-11.0%	-21.0%	-21.5%	-15.5%	-9.3%	1.9%
PARTICIP. PROGRAM.:	40.0%	15.2%	4.6%	9.0%	10.5%	3.9%	3.3%	6.3%	1.6%	1.3%	0.6%	2.9%	100.0%
PARTICIP. EJECUT.:	42.0%	13.7%	10.9%	8.0%	7.6%	2.9%	3.3%	5.9%	1.2%	1.0%	0.5%	2.6%	100.0%
CARTERA:	LA PRINERA	LA PAZ	EL PROGRESO	OMAPAY	LA PROMOTORA	LA PLATA	POTOSI	TARIJA	PAITITI	MANUTATA	PANDO	FRONTERA	CONSOLIDADO
PROGRAMADO:	28.9	17.1	31	9.5	3.9	17.3	10.3	45.9	49.9	5.9	5.7	9.2	271.7
EJECUTADO:	92.5	43.6	49	32	3.6	18.8	13.8	32.8	41.8	3.6	4.4	7.3	356.4
%	220.1%	135.0%	98.1%	447.4%	-4.9%	-27.4%	33.0%	-28.6%	-17.9%	-39.2%	-23.5%	-21.0%	31.2%
PARTICIP. PROGRAM.:	10.6%	6.3%	11.4%	3.5%	1.3%	3.0%	2.3%	10.1%	11.0%	1.3%	1.3%	2.0%	59.9%
PARTICIP. EJECUT.:	26.0%	12.2%	13.0%	14.6%	1.2%	2.3%	3.0%	7.1%	8.9%	0.8%	0.7%	1.6%	77.1%

EXHIBIT B
1986 GOALS AND PROJECTIONS

NETAS PARA LA GESTION DE 1986

NETAS 1986	LA PRIMERA LA PAZ	EL PROGRESO GUNPAY	LA PROMOTORA	LA PLATA	POTOSI	TARIJA	PAITITI	ORINOTATA	PUNO	FRONTERA	CONSOLIDADO		
VENTA DE INVERSIONES	772.9	514.1	45.3	238.2	189.3	88.3	153.5	4.4	212.0	1.1	6.1	16.6	2,241.7
CAPT. DE AHORROS	238.1	105.8	37.0	61.0	68.8	21.2	26.4	21.2	26.5	21.2	10.6	10.6	653.4
PRESTAMOS	1,965.8	1,470.7	244.8	676.4	393.2	397.3	867	894.8	1,133.9	306.8	390.5	674.3	9,615.0
INDIC. TOTAL	751.7	514.5	51.7	195.6	161.5	40	89.7	62.9	157.3	62.9	34.8	16.6	2,234.2
RESULTADO:	105.0	120.3	-23.8	-22.5	-9.6	-69	-169.8	-190.9	-157.1	-134.1	-103.1	-10.3	-624.9
TIEMPO VENT. INVERS.	5	5	4	4	4	1	1	1	2	2	2	1	---

RELACIONES PROYECTADAS A DIC.31 DE 1986:

	LA PRIMERA LA PAZ	EL PROGRESO GUNPAY	LA PROMOTORA	LA PLATA	POTOSI	TARIJA	PAITITI	ORINOTATA	PUNO	FRONTERA	CONSOLIDADO		
CRECIM. AHORROS	122.5%	166.5%	73.4%	130.5%	195.2%	160.6%	174.3%	84.3%	466.0%	442.4%	432.6%	89.9%	141.3%
CRECIM. CARTERA	2,125.2%	3,373.2%	499.6%	1,300.8%	10,569.9%	3,666.6%	6,289.4%	2,119.4%	2,748.0%	14,120.9%	8,954.6%	9,283.3%	2,698.1%
PARTIC. AHORROS	18.8%	15.2%	7.8%	9.1%	9.3%	3.1%	3.7%	4.2%	2.9%	2.3%	1.2%	2.0%	100.8%
PARTIC. CARTERA	26.6%	15.2%	2.9%	7.3%	6.0%	4.1%	8.8%	7.3%	11.8%	5.1%	4.0%	6.8%	107.0%

