68

PD-AAX-127
54174

BOLIVIA AGRIBUSINESS AND ARTISANRY PROJECT (No. 511-0472)

FINAL REPORT ON CONTRACTOR ACTIVITIES: 1987/88 (Contract No. 522-0472-C-00-7064-00)

Submitted to:

U.S. Agency for International Development
La Paz, Bolivia

Submitted by:

Checchi and Company Consulting, Inc.
1730 Rhode Island Avenue, N.W.
Washington, D.C. 20036

in association with:

Abt Associates, Inc.
55 Wheeler Street
Cambridge, Massachusetts 02138

February 1, 1988

TABLE OF CONTENTS

		Page
Section I	OVERVIEW	1
	A. Project Background and Objectives	1
	B. Project Organization	2
	C. Changes in Contractor's Scope of Work	2
	D. Implementation Problems	3
Section II	SUMMARY AND EVALUATION OF CONTRACT ACTIVITIES	5
	A. Training	5
	B. Policy Research and Seminars	9
	C. Savings Mobilization -- Research on Informal Finance	16
Section III	GENERAL CONCLUSIONS AND RECOMMENDATIONS	20

Section I

OVERVIEW

Section I

OVERVIEW

A. Project Background and Objectives

The Agribusiness and Artisanry (A&A) Project was initiated in 1978 to provide an integrated package of assistance aimed at encouraging private investment in Bolivian agribusiness and artisanal enterprises. The project consisted of a $9 million facility within Bolivia's Central Bank (BCB) for refinancing loans by intermediate credit institutions (ICI's) to private sector borrowers, and a technical assistance program to promote use of the refinancing facility and assist borrowers with subloan preparation. A 1983 amendment to the Project Agreement made an additional $ million available for credit refinancing and expanded the scope of the assistance program to include upgrading the technical and administrative capabilities of BCB and ICI personnel. From 1984 to early 1986, technical assistance and training in credit analysis and banking operations were provided to six ICI's; however, actions planned to strengthen BCB operations could not be implemented due to political problems and the instability of the Bolivian economy.

The economic situation continued to deteriorate until the adoption, shortly after the inauguration of the Paz Government in August 1985, of a comprehensive program of policy and structural reforms designed to create a more favorable environment for private sector investment in the economy. While the salutary impact of the reform measures was almost immediate, it was clear that Bolivia's movement toward economic recovery would be difficult to sustain without a healthy banking system able to respond fully to private sector needs for financial intermediation.

In 1986, the completion date for the A&A Project was extended through January 1988 to ensure that critically needed technical assistance services remained available until such time as a new project to strengthen Bolivia's financial markets could be approved. The assistance was to focus on three areas:

(1) Improvement of ICI operations through technical assistance and training;

(2) Policy formulation and implementation through a program of studies and seminars aimed at decision-makers within Bolivia's financial sector; and

(3) Pilot activities to pave the way for a major savings mobilization component envisioned for the follow-on Strengthening Financial Markets Project.

All assistance was to be provided within the context of the overall A&A Project objective: establishing a well-functioning system for the promotion and financing of agribusiness and artisanry investments which bring real benefits to poor farmers and rural laborers.

B. Project Organization

In January 1987, Checchi and Company signed a one-year contract with the Agency for International Development to furnish the technical assistance called for under the 1986 A&A Project amendment. The Checchi contract provided for 52 person-months of services including those of a full-time, resident Advisor (12 person-months) to help plan and oversee project implementation and advise the ICI's on operational improvements. The remaining 40 person-months of assistance were to be allocated among the three subproject components: ICI training and technical assistance; policy development; and pilot savings mobilization. Specialized technical expertise in financial sector policy development and savings mobilization was to be supplied to Checchi through a subcontract with Abt Associates, Inc.

Checchi's resident Advisor, Mr. Ugo Melloni, arrived in La Paz in early January, 1987, and established a project office in space provided by the Bolivian bankers' association (ASOBAN). In February, key short-term advisors joined Mr. Melloni to develop work plans for the three project components and to contribute their ideas on the Financial Markets Strengthening Project, which was then in the early stages of project preparation.

In March, the decision was made to restructure the assistance team and to withdraw Mr. Melloni from the project. Following a meeting in Miami attended by key Checchi and Abt Associates personnel and USAID/Bolivia and Bolivian Government representatives, final agreement was reached on the project reorganization and work plan. Acting on this agreement, Checchi hired Mr. Rene Urquidi, a U.S. citizen resident in Bolivia, to manage the La Paz office and coordinate project field activities. Mr. Urquidi performed these two roles very effectively throughout the remainder of the contract period, the termination of which coincided with the Project Agreement Completion Date (PACD) of January 9, 1988.

C. Changes in Contractor's Scope of Work

The scopes of work for each of the three project components underwent substantial changes during the initial months of the Checchi contract. These changes reflected in part the need to respond to USAID and Bolivian banking system priorities as these

became known to project personnel, and in part the need to achieve consistency with emerging plans for the follow-on Financial Markets Strengthening Project.

To set the stage for a more extensive set of training activities planned for the Strengthening Financial Markets Project, the scope of work for the ICI technical assistance and training component was revised in favor of presenting a pilot program of formal training courses rather than direct technical assistance to individual banks. It was also decided that the opportunity for training should be made available to all functioning ICI's and not just to the six banks named in the Checchi contract.

The policy research and seminars component was refined after consensus was reached on the topics for the seminars and on the internationally-recognized experts who would be asked to prepare and present research papers on these topics under fixed price agreements. The requirement to organize an overseas observational tour for influential ICI leaders, which had been included in the original scope of work, was deleted in the revised version.

In lieu of pilot demonstration projects, it was decided that activities under the savings mobilization component should be designed to produce background information on forces at work in Bolivia's informal financial system and on institutions expected to be the focus of savings mobilization efforts under the Strengthening Financial Markets Project. This shift in emphasis from project implementation to field research created a need to increase the contract budget to cover the fees and expenses of local researchers.

A revised budget and level of effort allocation reflecting the above changes in the contract scope of work was submitted to the Regional Contracting Office in May 1987, and resubmitted in September. A contract amendment incorporating these changes and increasing the proposed level of effort to 70 person-months was signed in early December.

D. Implementation Problems

One year is not much time to carry out an assignment as complex and ambitious as the A&A Project, in an environment still recovering from a period of economic chaos and in a sector still undergoing a painful consolidation process. From the start, it was recognized that the Checchi contract was to be a "bridge" between earlier efforts to assist Bolivia's banking system and the planned Financial Markets Strengthening Project. The contractor was expected to be flexible, and to respond quickly to changing priorities.

During the early months of the contract period, progress was impeded by factors including:

(1) The fact that the resident Advisor had to spend time locating and establishing a project office which had not been allowed for in his preliminary work plan.

(2) The need to ensure consistency of the A&A Project work plan with plans for the Strengthening Financial Markets Project, the design phase of which did not get underway until late February.

(3) The withdrawal of Checchi's resident Advisor, which brought field activities to a standstill until agreement could be reached on a new project organization and a Field Coordinator could be employed.

(4) Changes in the project scope of work which made it necessary for Checchi and its subcontractor to draw up and seek approval of new budgets, with the inevitable administrative delays.

The effect of these various implementation problems and delays was to telescope most project activities into the final months of the contract, making it impossible to schedule some of the training programs and workshops that had been planned.

Section II

SUMMARY AND EVALUATION OF CONTRACT ACTIVITIES

A. Training

1. Work Plan

The objective of the training component was to continue the task begun under earlier phases of the A&A Project of upgrading the banking skills of ICI personnel. It was decided that the best way to accomplish this objective, given time and budget constraints, was through a pilot program of formal training courses which would build a solid base for an expanded training program under the planned Financial Markets Strengthening Project. The pilot program was to include the following training activities:

(1) Senior management training, consisting of a one-week Senior Management Seminar for high-level Bolivian bank executives. Arrangements for conducting this seminar were to be made with CITIBANK's Professional Development Center in Sao Paulo, Brazil.

(2) Credit training, to be delivered in three cycles of two modules each to small groups of credit and loan officers selected by the participating banks.

(3) Training in other areas of banking operations. After discussions with bank management, it was agreed that these efforts should focus on: (a) international trade finance and foreign department operations; and (b) product management and marketing.

All of the above activities were carried out during the final six months of the contract, with the exception of the product management and marketing course which could not be scheduled before the PACD. Funds budgeted for this course were used instead to finance a feasibility study by Mr. Juan Carlos Protasi of establishing a credit bureau function (Central de Riesgos) within ASOBAN.

2. Accomplishments and Participating Institutions Senior Management Seminar

The Senior Management Seminar (Executive Bankers Program) was presented by CITIBANK's Professional Development Center at Hotel Casa Grande in Guayara, Brazil, from November 8-13, 1987. The program, which was co-sponsored by ASOBAN, was attended by 20 Bolivian bank executives from 13 institutions, and by two observers from Checchi and USAID.

The syllabus for this five-day training course included modules on financial management and control, marketing, human resources, bank technology, the credit process, and bank administration, among others. The course succeeded in attracting the desired participation by top-level bank managers and received high ratings (averaging 4.7 on a scale of 5) when evaluated by participants.

Ideally, the executive-level course would have been presented prior to any of the other training activities in the pilot program, since top management must be convinced of the value of training if it is to be effective at lower levels as an agent of institutional change. In fact, the course was to have taken place in early August, but had to be rescheduled at the request of ASOBAN. There was also some reluctance on the part of the bankers to commit to a week-long training program outside the country very far in advance (which is understandable in Bolivia's volatile banking environment), yet advance commitments had to be made to CITIBANK and the hotel. Checchi's Field Coordinator was able to overcome this problem, at least in part, by requiring registrants to make non-refundable deposits to cover hotel room cancellation charges. However, had it been necessary to cancel the entire course, these deposits would have been inadequate. If, in the future, a second senior management course is to be offered, planners should weigh the risks of cancellation against the advantages that holding an executive-level training course in a resort location outside Bolivia clearly afford.

Credit Training

Three cycles of a two-week course in Credit Analysis and Bank Administration were presented between July and November, 1987, as follows:

Dates	Location	No. of Participants
July 20 - 31	Lake Titikaka, La Paz	25
September 2 - 10	Carcaje, Cochabamba	20
October 13 - 21	Samaipata, Sta. Cruz	12

The 57 lower- to mid-level bank employees who participated in these courses represented nearly all of Bolivia's operating private and State-owned banks. Travel and subsistence costs were covered by their respective institutions. Participants in the La Paz course had the intervening weekend free for study and recreational activities. In Cochabamba and Santa Cruz, the course was presented over an uninterrupted nine-day period to preserve momentum and reduce costs, a practice that is recommended for any follow-on activities.

The Credit Analysis and Bank Administration course was co-sponsored by ASOBAN, which took responsibility for recruiting and selecting the participants, and IDEA, which handled administrative coordination and logistical arrangements in collaboration with Checchi's Project Office in La Paz. The Principal Instructor for all three cycles was Alvaro Quiros, who adapted his proprietary training materials, case studies, and simulations to suit Bolivian circumstances. The course was designed to give participants a solid understanding of the various phases of the credit process, develop their skills in qualitative and quantitative analysis, and equip them to interpret the effects of economic and accounting events on the financial operations of a company. A planned introductory module in basic accounting principles was dropped after analysis of completed "skills" questionnaires showed that participants already had sufficient background in this area.

All three cycles received favorable evaluations from participants. The instructor found that the trainees had been well-selected; they were serious, participated actively in class discussions, and devoted long hours to preparing their assignments. Nearly all of the trainees had had at least several years of banking experience. However, for most, this was their first exposure to formalized training in the banking field, and they found the topics covered, especially the simulations, challenging.

Another measure of the success of this pilot training activity was the willingness of the banks to make staff available for the training and to absorb part of the costs. At some point in the future, the banks will need to cover tuition as well as out-of-pocket costs in order to make the program self-sustaining.

Other Training

The other training offered under the pilot program consisted of two one-week cycles of a course in International Trade Finance, a field in which Bolivian financial institutions had expressed considerable interest. The first cycle was conducted in La Paz from November 3-7, 1987, and attracted 22 participants. The second cycle was presented in Santa Cruz to 24 participants, from December 7-11. IDEA provided administrative and logistical support for both programs. The course was developed and delivered by Eric Reynal.

The course covered a range of topics related to international trade and export finance, including payment and collection methods, letter of credit procedures, basic trade documents, bankers acceptances, and electronic banking innovations. Refinements were made in the second cycle to tailor the content more closely to Bolivian needs and circumstances. For the

future, it is recommended that all expatriate trainers who have not had recent experience in Bolivia visit the country before finalizing their training programs for purposes of orientation, fact-finding, and discussions with the banks on appropriate course contents.

Judging by the attendance as well as informal feedback, the International Trade Finance seminar was successful at both locations. Levels of participant involvement were higher in La Paz than in Santa Cruz where, at the request of the banks, the seminar was presented after working hours. Future courses should be scheduled during the daytime, when participants generally are most alert.

3. Recommendations for Follow-on Activities

The results of the pilot training effort suggest that plans should go forward for an expanded program of training activities under the Strengthening Financial Markets Project. The following are some guidelines and recommendations for this expanded program.

o The basic course in Credit Analysis and Bank Administration should be made available to new people as they come into the banking system, and to other young executives who may have been overlooked in the three 1987 offerings. There should also be some continuity in this type of training so that veteran participants are able to reinforce the values learned, acquire deeper knowledge of key analytical tools, and broaden their horizons as they mature professionally.

o To provide this continuity, an intermediate credit course should be developed which would deal with more complicated credit situations and cover basic general management issues as these pertain to banks. It could also include some development or project analysis cases which would provide an introduction to term (development) lending. The audience for such an offering would be composed not only of graduates of the basic course, but also of more senior credit managers and supervisors.

o Other course offerings should be determined on the basis of supply (the availability of course materials and instructors) and demand (the willingness of the banks to absorb initially some, and eventually all, of the costs of the training). The Contractor found considerable interest among Bolivian bankers in a course which would deal with strategic planning and product marketing. A comprehensive training program would also include courses in other aspects of banking operations (audit, foreign exchange trading, letters of credit, treasury operations) and well as in management of human resources.

o It has been proposed that a permanent bank training center be established in Bolivia, possibly under the aegis of IDEA. However, it is not clear how such a center could be sustained or staffed. Further study is needed to ascertain if there is sufficient demand within the Bolivian banking system to support a permanent training center and staff. The center's feasibility will also depend on whether instructors can be found with the requisite training skills and practical banking experience. It would be risky to structure a program around too many "visiting professors" from local banks who may have to cancel on short notice to attend to priority banking matters. In the short run, program sponsors may have to rely primarily on external sources to provide the training. Nevertheless, a "training of trainers" objective should be built in to the scope of work of any external training contractor so that, in the longer run, an indigenous capacity to deliver a full range of bank-related training courses can be put in place.

B. Policy Research and Seminars

1. Work Plan

The purpose of the policy oriented research and seminars was to bring together international experts and high-level Bolivian Government policy makers and individuals from the Bolivian private sector with important interest in finance in order to promote serious and informed discussions of crucial issues facing Bolivian financial markets and institutions. Out of these discussions, it was hoped that better understanding of these issues would emerge in the short-run with improvements in Bolivian Government policies, and in the operations of Bolivian financial institutions and markets in the somewhat longer run. It was recognized that it would require some time for many Bolivian individuals and institutions to become substantially involved in research on the financial sector, so that participation by Bolivians in the early seminars was expected to be mainly as discussants for papers prepared by international experts and as contributors to the roundtable and open discussion periods following presentations of the prepared papers. As the subsequent discussion of the individual seminars suggests, most of these expectations were largely fulfilled.

Four seminars were initially planned, and the topics selected for these seminars were:

(1) Hyperinflation, Stabilization and Reactivation of the Bolivian Economy;

(2) The Development of Formal Capital Markets in Bolivia;

(3) The Use of Multiple Currencies (Dollarization) in the Bolivian Economy; and,

(4) The Importance and Implications of Informal Finance in Bolivia.

However, discussions with the USAID officials responsible for the project led to the replacement of the topic of capital markets by Development Banking in Bolivia. It also soon became apparent that it would not be possible to hold four major seminars before the termination date of the project. Preparation of papers by international experts, and finding dates when these experts could all be present in Bolivia together, proved more time consuming than anticipated. In addition, the required coordination among the participating Bolivian institutions and individuals also turned out to be more time consuming, largely because of much greater than anticipated interest in the seminars and the importance of allowing enough time between major project activities. Ultimately, the first and third seminars were held before the project ended, and the main papers were prepared for the second and forth seminars, with the seminars themselves to be held subsequently in conjunction with other USAID projects.

2. Seminar Accomplishments and Participants

Hyperinflation, Stabilization and Reactivation of the Bolivian Economy

This seminar was held in La Paz on August 21-22 at the Central Bank's main auditorium. Bolivian sponsors for the seminar, besides the Central Bank, were UDAPE, IDEA, ASOBAN and the Confederation of Private Enterprises. In addition to the papers and discussants listed below, opening remarks were made by Juan Cariaga, the Minister of Finance, and the seminar ended with an outstanding roundtable discussion of Bolivia's reactivation plan, featuring lengthy comments by Dr. Jeffrey Sachs and a remarkable closing speech by Lic. Gonzalo Sanchez de Lozada, the Minister of Planning and Coordination.

To give an idea of the level of the seminar, below is a listing of the papers, presented the authors, and the discussants.

o "Experience of Recent Economic Adjustments in Countries Outside Latin America," presented by Dr. Vittorio Corbo, World Bank. Discussants were Lic. Jacques Trigo. then General Manager of the Central Bank of Bolivia; and Ing. Adolfo Linares, former Secretary of State.

o "Strategies of Transition and Fiscal Policies in Recent Experience of Hyperinflation: Argentina-Israel," presented by

Dr. Mario Blejer, International Monetary Fund (IMF). The discussants of this paper were Lic. Gaby Candia, Economist, UDAPE.

o "From a Financial Crisis to a Transition Policy--Experience of Argentina, 1982-87," presented by Dr. Juan Carlos de Pablo from Argentina. Discussants were Lic. Marcelo Mercado, Executive Director of INE; and Lic. Jose Arias, Executive Vice President of Banco Boliviano Americano.

o "Monetary Policy in an Open Economy: Implications for the Reactivation of the Bolivian Economy," presented by Dr. Juan Carlos Protasi from Uruguay, and Dr. Robert Vogel from the University of Miami, Florida. The discussant was Lic. Enrique Montano, Director of the Central Bank of Bolivia.

o "Transition from Hyperinflation towards Economic Recuperation in Bolivia," written by Dr. Jeffrey Sachs, Harvard University and the N.B.E.R., and Dr. Juan Antonio Morales, Catholic University of Bolivia and presented by Dr. Morales. The discussants were Lic. Fernando Candia, Under Secretary for Economic Policies, Secretary of Planning and Coordination; and Lic. David Blanco, Executive Vice President of Banco Hipotecario Nacional.

o "Trajectory of the New Economic Policy: Basis for a Recuperation Policy," prepared by Economists of UDAPE and presented by Lic. Gonzalo Afcha, Executive Secretary of UDAPE. The discussants were Lic. Jorge Tamayo, Vice President, National Chamber of Commerce; and Lic. Armando Mendez, Economic Advisor to the Project's Unit of the Secretary of Planing and Coordination.

These presentations and the following discussions often emphasized Bolivia's success in stabilization, especially in contrast with the experiences of other Latin American countries, but at the same time warned that important problems remained to be dealt with and that reactivation was a difficult task and could not be achieved through fiscal and monetary expansion. In addition to the importance of the problems addressed and the high quality of the papers and the discussions, the seminar was also highly successful in other respects. The attendance was much larger than anticipated, averaging more than 200 individuals at the different sessions and including most of the key Bolivian Government officials, and high level individuals from the private financial sector. Media coverage was also excellent and much more extensive than had been anticipated, especially for the roundtable discussions and the closing speech by the Finance Minister. Judging from the quality of the discussion, the objective of involving key Bolivians in a serious and informed discussion of crucial issues facing the final sector was achieved, and hopefully this will have a substantial impact on Bolivian Government policies and on the operation of financial markets and institutions in the near future.

The Use of Multiple Currencies (Dollarization) in the Bolivian Economy

This seminar was held in La Paz on November 19-20 at the Central Bank's main auditorium. Bolivian sponsors for the seminar, besides the Central Bank, were UDAPE and ASOBAN. In addition to the papers and discussants listed below, opening remarks were made by Lic. Juan Cariaga, the Minister of Finance, and Reginald van Raalte, the USAID-Bolivia Mission Director, and the seminar ended with an outstanding roundtable discussion of the costs and benefits of dollarization for the Bolivian economy, and another important closing speech by Lic. Gonzalo Sanchez de Lozada, the Minister of Planning and Coordination. The international experts participating in the seminar also had an extremely useful lunch on the second day with Sanchez de Lozada and a number of other high level Bolivian Government officials at which not only dollarization, but also other crucial issues facing the Bolivian financial sector, were discussed in detail.

The following papers were prepared and presented at the seminar:

- "Determinants de la Movilizacion de Depositos y la Sustitucion de Mondas en el Sector Financiero Bolivano," por J.C. Protasi y R.C. Vogel.

- "La Dollarizacion de la Economia Boliviana Un Proceso Creciente de Largo Plazo," por Armando Mendez Morales.

- "Currency Substitution in Bolivia in the 1980s," by Gonzalo Afcha de la Parra and Michael Melvin.

- "Dollar Bank Accounts in Developing Countries, a Welfare Analysis," by Ruben Lamdany.

- "Currency Substitution in Bolivia," by Ive Barrieros and Raymond P.H. Fishe.

- "Las Tasas de Interesy el de Monedas Multiples," por Roque B. Fernandez y Juan Carlos Protasi.

These presentations and the following discussions revealed that Bolivia has had a long history of dollarization which has increased markedly in recent years due to hyperinflation, attempts at dollarization by decree, and various other problematic government policies. Moreover, while dollarization benefits individual Bolivians in that it allows them to escape many of the costs of inflation and mistaken policies, it has significant costs for the Bolivian Government in terms of lost revenues and reduced policy options. It was recommended that policies to reduce dollarization should not include de-dollarization decrees

and similar actions but should rather focus on policies to increase the attractiveness of holding and using Bolivian money such as continuing the current stabilization program, dealing effectively with insolvency among financial institutions and avoiding interventions to control interest rates or overvalue the exchange rate. The presentations and discussions, together with the lunch and roundtable on the second day, achieved the objectives of the seminar in promoting serious and informed discussion of the dollarization issues and presenting high level Bolivian Government officials with policy options and recommendations. However, media coverage and attendance, especially among private sector individuals involved in finance, was not as good as at the first seminar. This might have been due to the more technical nature of the topic and many of the presentations, to a high level banking seminar and the intervention of two insolvent banks immediately preceding the seminar, or the failure to include IDEA and the Confederation of Private Enterprises among the sponsors for the seminar. In any case, for future seminars, it will be important to improve follow-up with individuals who are invited, and often accept the invitations and then fail to attend.

Development Banking in Bolivia

The seminar on Development Banking in Bolivia was postponed beyond the end of the project in part to avoid overloading the potential Bolivian participation with too many major activities in too short a period of time. In addition, the success of the seminar will be greatest if maximum inputs can be obtained from the Bolivian institutions involved in development banking, and this will require some additional time. Finally, the delays in implementing the new financial strengthening project makes it useful to have highly visible financial sector activities prepared and ready to carry out during what otherwise might be a lull and a consequent loss of momentum in financial sector activities. Listed below are the papers that have already been written for the seminar and other participants who have been invited and have tentatively committed to attend depending mainly on the selection of definite dates for the seminar.

- "Building Development Banking Relationship," by J.D. von Pischke, Senior Financial Analyst with the Economic Development Institute of the World Bank.

- "Past and Future Roles for Development Banks," by Robert C. Vogel, Ph.D., Consultant to USAID and the World Bank and Adjunct Professor, Ohio State University.

- "Summary of the Evaluation of Global Agricultural Credit Programs," and "Summary of the Evaluations of Global Industrial Credit Programs," by the Operations Evaluation Office, Office of the Comptroller, Inter-American Development Bank.

In addition to those presenting the foregoing papers, the following have been invited to participate and have tentatively accepted:

- Julio Manuel Ayerbe, President of the Corporacion Financiera del Valle, Cato, Colombia.

- Araceli De Leon, Financial Analyst with the Latin American Industry Trade and Finance Division of the World Bank.

- Gracula Lituma, Agricultural Economist with the Latin American Agricultural Operations Division of the World Bank.

- Alberto Musalem, Financial Economist with the Latin American and Caribbean Trade and Policy Division of the World Bank.

- Staff to be determined from the Inter-American Development Bank.

In addition, the papers by John Gadway and Robert Christen, mentioned below, might also be included in this seminar.

The Importance and Implications of Informal Finance in Bolivia

The last seminar to be presented under the project, and now to be carried out sometime during the first half of 1988, is on the Importance and Implications of Informal Finance in Bolivia. The main papers to be presented at this seminar cover the results of the policy oriented research carried out under the project and discussed in detail in the following section (3).

o "Informal Rural Credit Markets Under Conditions of Hyperinflation: The Case of the Upper Valley of Cochabamba Bolivia," by Jerry R. Ladman and Justo Espejo Luna.

o "Rotating Savings and Credit Associations in Bolivia," by Dale W. Adams and Marie L. Canavesi de Sahonero.

o "Competitiveness of Informal Financial Markets in Bolivia," by Donald W. Larson and Rene Urquidi.

o "The FENACRE System of Credit Unions: A Survey," by John F. Gadway.

To provide a broader perspective on informal finance, including conceptual issues and experience in other developing countries, three additional papers have been written under the project.

o "What Microenterprise Credit Program Can Learn from the Moneylenders," by Robert Peck Christen, Country Director for Accion International in Costa Rica.

o "Informal Finance in Developing Countries: Lessons for the Development of Formal Financial Intermediaries," by Paul Burkett, Professor, University of Miami (Florida).

o "Implications of Deposit Insurance for Informal Financial Arrangements," by Raymond P.H. Fishe, Professor, University of Miami (Florida) and Robert C. Vogel, consultant to USAID and the World Bank and Adjunct Professor, Ohio State University.

Also, Hernando de Soto and Luis Morales Bayro, who have been working extensively on the informal sector in Peru and have recently begun working on informal finance in Peru, have been invited to attend the seminar and have accepted, although it is not certain at this point if they will be prepared to present a paper by the time of the seminar.

3. Recommendations for Follow-On Activities

With respect to the policy-oriented research and seminars, two specific and one general set of recommendations can be made for follow-on activities: the specific recommendation pertains to the two seminars which remain to be carried out, and the general set of recommendations relate to the future seminars to enhance the accomplishments under the first two seminars. The main actions necessary for the development banking seminar, other than determining the dates, are the encouragement of the Bolivian institutions involved in development banking activities, especially those funded in part by USAID, to prepare for their participation in the seminar and the selection of an existing project or the creation of a new project to be responsible for putting on the seminar. It would also, of course, be possible to add more papers to the seminar or invite additional international experts, but this should not be necessary if Bolivian participation is adequate. The main actions necessary for the informal finance seminar are to determine the dates, encourage greater Bolivian participation and perhaps include studies of informal finance in other developing countries. UDAPE and/or the Catholic University might be included as sponsors of the seminar and might be encouraged to undertake more research, especially if the seminar takes place late in the first half of 1988, since these institutions have shown significant interest and capability with respect to informal finance in Bolivia. It might also be useful to include other work currently being done on informal finance in developing countries such as that being sponsored by the Asian Development Bank.

The general set of recommendations for future policy oriented research and seminars is that these should be given high

priority in future USAID financial sector projects based on the substantial success of the first two seminars. Efforts should continue as they have in the past to select topics that are important for policymaking for the Bolivian financial sector, and to take advantage of the participation of carefully selected international experts. Topics should be expanded to include some with greater operational significance for Bolivian financial institutions and markets, and greater efforts should be made to secure the participation of Bolivians as authors of papers and to insure that those Bolivians who are invited are encouraged to attend and those with a serious interest in finance are invited.

C. Savings Mobilization -- Research on Informal Finance

1. Work Plan

As initially formulated, this aspect of the project was to focus on improving savings mobilization by formal financial institutions. However, at the initial meetings (February and March, 1987) of the project staff with the USAID officials responsible for the project, it was decided that such a focus was inappropriate because of serious concerns about the solvency of numerous formal financial institutions. Without clear policies about deposit insurance and adequate regulation and supervision of financial institutions, "successful" deposit mobilization by possibly insolvent institutions could lead to substantial losses to be absorbed either by depositors or by the Bolivian Government. At the same time, earlier studies indicated that informal financial markets in Bolivia appear to be quite large relative to formal financial markets and have continued to grow rapidly since the initiation of the Bolivian stabilization program. It was thus decided that it would be more useful to have a better understanding of the extent and characteristics of informal markets in Bolivia since these might not only be more important than formal financial markets but also because of the possible implications for the operations of formal financial markets and the appropriate policies with respect to these markets. Moreover, certain of the studies of informal finance, especially those dealing with credit unions and with rotating savings and credit associations (pasanakus), are directly related to savings mobilization.

Initially six studies of different aspects of informal finance in Bolivia were planned, and these were to involve significant collaboration with Bolivian individuals and institutions, especially the Catholic University. However, elaboration of plans for the field work under these studies, including the Bolivian participants, revealed that the funding initially contemplated would be inadequate, so that additional funding would need to be sought. The USAID Mission in Bolivia was very supportive of the studies and very helpful in obtaining the additional funding required. However, substantial delays and

uncertainties were encountered with respect to this additional funding due primarily to a change in the contract officer (located in Ecuador) who then had to be newly informed about all relevant aspects of the project. These delays and uncertainties, which lasted until November, resulted in the cancellation of the study of informal financial markets by John Gadway. (Gadway instead devoted more effort to his study of FENACRE and affiliated credit unions which, as indicated below, appears to be particularly relevant for USAID activities in the financial sector.) In addition, the study by Donald Larson of interest rates and transaction costs comparing formal and informal financial markets had to be abbreviated to case studies of various types of informal activities in La Paz (see below), and the study of lending to micro-enterprises in Bolivia, by Robert Christen, was changed to a paper for the seminar on informal finance (see above).

2. Accomplishments and Participating Institutions

"Informal Rural Credit Markets Under Conditions of Hyperinflation: The Case of the Upper Valley of Cochabamba Bolivia," by Jerry R. Ladman (Professor, Arizona State University), and Justo Espejo Luna (Professor, Catholic University of Bolivia). This study surveys the activities of money lenders in a rural area of Bolivia from 1979 through mid-1987 in order to analyze the impacts of inflation, hyperinflation and stabilization on the terms and conditions of informal credit. Under the impact of inflation, and especially hyperinflation, the volume of lending decreased substantially, interest rates rose sharply, terms were reduced from 3-4 months to 1-2 months, and dollarization became common. Since stabilization, there has been a tendency for the volume of lending to recover, interest rates to fall and loan terms to lengthen, but dollarization has continued. Informal financial markets appear to be competitive, but will require substantial time to recover from the impact of inflation and hyperinflation (through perhaps not so long as formal financial markets and institutions). This study involved significant field work by individuals from the Catholic University and close collaboration in all respects, thereby helping to achieve the goal of institutional strengthening in Bolivia, as well as producing significant findings with important implications for financial policies. In addition, the data collected have become the basis for ongoing research activities which should produce further useful studies in time for the seminar on informal finance.

"Rotating Savings and Credit Associations in Bolivia," by Dale W. Adams (Professor, Ohio State University), and Marie L. Canavesi de Sahonero (Professor, Catholic University of Bolivia). This study surveys rotating savings and credit associations (pasanakus) in the three major cities of Bolivia and several smaller cities and towns near the major cities. Participation in

pasanakus is found to be widespread, even among employees of formal financial institutions, suggesting that they provide important economic benefits even to those who appear to have good access to the services of formal financial institutions. Various types of pasanakus were discovered, indicating the flexibility of these types of arrangements in providing useful services, but a common factor in almost all types was the importance of savings services. The fact that many Bolivians are willing and able to commit a large portion of their incomes to pasanakus indicates that there is substantial potential for successful deposit mobilization by formal financial institutions if appropriate financial policies are followed and if institutions have appropriate incentives and techniques. This study involved close collaboration with the Catholic University, especially between the co-authors, and thereby strengthened the ability to carry out similar studies in Bolivia in the future, in addition to providing important findings with significant policy implications. (A Spanish translation of this study has been prepared under the project and is available.)

"Competitiveness of Informal Financial Markets in Bolivia," by Donald W. Larson (Professor, Ohio State University) and Rene **Urquidi** (Project Field Coordinator). This study surveys the activities of informal money lenders in Bolivia, especially in the city of La Paz. Several interesting findings emerge: while interest rates are higher in informal financial markets, transaction costs appear to be much lower (especially due to greater timeliness and more innovative types of guarantees) thereby suggesting that these markets are competitive and provide valuable services to participants; informal financial activities are almost completely dollarized; the amount of activity has increased significantly since the end of hyperinflation; and in Bolivia, in contrast to most other developing countries that have been studied, agents in informal financial markets act in fact as agents (and not as principals) by bringing together borrowers and lenders and charging a fee for the services provided (which may sometimes include the provision of guarantees and the collection of loans). As indicated above, delays and uncertainties, with respect to additional funding, eliminated the possibility of collaborating significantly with the Catholic University on this study and carrying out the structured survey of transaction cost that had initially been planned; these important activities will have to be postponed to future projects. (A Spanish translation of this study has been prepared under the project and is available.)

"The FENACRE System of Credit Unions: A Survey," by John F. Gadway (Ph.D., independent consultant). This study surveys, in depth, the activities of FENACRE and approximately 20 of its affiliated credit unions located in different regions of Bolivia. The most important finding of the study with respect to the credit unions is that most of them barely survived the impact of

hyperinflation (mainly by turning from financial services to other types of activities) but have since largely rehabilitated themselves by returning to financial activities, including especially very successful deposit mobilization. With respect to FENACRE, the main findings are that FENACRE is potentially alienating itself from its affiliated credit unions by competing with them in deposit mobilization and in lending to their prospective clients (rather than supporting them in this important area of liquidity management), while at the same time FENACRE is responding to the incentives provided by cheap external funds in ways that are predictable and logical in the short run but which are likely in the long run to lead to dehabilitation of both FENACRE and its affiliated credit unions. Although there was substantial collaboration with Bolivian institutions -- FENACRE, its affiliated credit unions and the Catholic University -- this aspect was not as successful as it might have been because of uncertainties within FENACRE and its affiliates about its current activities and future objectives and because of funding delays and uncertainties for work with the Catholic University and the failure to provide adequate computers for Catholic University to facilitate the statistical analysis.

3. Recommendations for Follow-On Activities

This component of the project has not only demonstrated the ability to carry out important research activities with significant implications for Bolivian Government policies and USAID programs in collaboration with Bolivian institutions, but has also revealed certain issues in the area of informal finance that require further investigation. For example, the comparison of transaction costs in formal and informal financial markets still requires an indepth survey and subsequent analysis. The Bolivian antecredito system, involving an exchanging of housing for money, appears to be an unusual type of informal financial arrangement that could usefully receive careful analysis. Lending in Bolivia for micro-enterprises has not yet been investigated. However, before proceeding very far with such studies it would probably be best to wait for the results of the seminar on informal finance (see below). Discussing the full range of other areas for collaborative, policy-oriented studies is beyond the scope of this report, but two should nonetheless be mentioned. First, savings mobilization, the initial focus for this component of the project, still deserves to be the focus for a set of policy studies. Second, the study of FENACRE and affiliated credit unions warrants two types of follow-up: (1) further statistical analysis on the data already collected (after some refining of those data) when adequate computer facilities are available; and (2) a workshop to review the results of the research and especially its implications for the future role of FENACRE.

Section III

GENERAL CONCLUSIONS AND RECOMMENDATIONS

After a somewhat rocky start, the A&A Project extension appears to have succeeded in gaining the confidence of the Bolivian banking community and in accomplishing the training, policy development, and savings mobilization objectives set forth in the amended scope of work. Co-sponsoring institutions overcame their initial skepticism to take an active role in the planning and implementation of project activities. Participating banks were cooperative and willing to absorb some of the costs of the training. The policy seminars received wide and favorable attention in the local press. The research on informal finance produced fresh insights on the importance of this sector and its policy implications. While much remains to be done to strengthen Bolivia's financial markets, the groundwork has been laid for a more extensive program of USAID assistance.

The decision to employ a full-time Field Coordinator with the contacts and know-how to establish credibility for the project at top levels of the banking system was crucial to the project's success. Even though armed with detailed training course outlines and an outstanding list of international experts for the seminars, the Coordinator found it necessary to spend considerable time following up through repeated personal visits and telephone calls to bank executives and other financial sector leaders to enlist their support and participation. Circular letters and written invitations, however comprehensive and informative, were insufficient to attract the desired audience and to "make things happen." The Coordinator also played a key role in facilitating the savings mobilization research activities and was a contributor to Dr. Donald Larson's study on "The Competitiveness of Informal Financial Markets in Bolivia."

In the light of experience, it is strongly recommended that the Strengthening Financial Markets Project be structured to provide a position for a full-time Field Coordinator. The individual selected for this position should be energetic, possess strong administrative and marketing skills, and have the contacts and presence to operate effectively within the Bolivian financial community. Although practical experience in banking or finance would be desirable, it is not essential since the role of the Coordinator should be to provide implementation support to, and generally facilitate the work of, technical experts.

ANNEXES

(presented under separate cover)

21

Papers Prepared for

THE SEMINAR ON THE USE OF MULTIPLE CURRENCIES (DOLLARIZATION) IN THE BOLIVIAN ECONOMY - November 19, 20, 1987

- "Determinants de la Movilizacion de Depositos y la Sustitucion de Mondas en el Sector Financiero Bolivano," por J.C. Protasi y R.C. Vogel.

- "La Dollarizacion de la Economia Boliviana Un Proceso Creciente de Largo Plazo," por Armando Mendez Morales.

- "Currency Substitution in Bolivia in the 1980s," by Gonzalo Afcha de la Parra and Michael Melvin.

- "Dollar Bank Accounts in Developing Countries, a Welfare Analysis," by Ruben Lamdany.

- "Currency Substitution in Bolivia," by Ive Barrieros and Raymond P.H. Fishe.

- "Las Tasas de Interes y el de Monedas Multiples," por Roque B. Fernandez y Juan Carlos Protasi.

26

Papers Prepared for

THE SEMINAR ON HYPERINFLATION, STABILIZATION AND REACTIVATION OF THE BOLIVIAN ECONOMY - August 21, 22, 1987

- "Experience of Recent Economic Adjustments in Countries Outside Latin America," by Vittorio Corbo.

- "Strategies of Transition and Fiscal Policies in Recent Experience of Hyperinflation: Argentina-Israel," by Mario Blejer.

- "From a Financial Crisis to a Transition Policy - Experience of Argentina, 1982-87," by Juan Carlos de Pablo.

- "Monetary Policy in An Open Economy: Implications for the Reactivation of the Bolivian Economy," by Juan Carlos Protasi and Robert Vogel.

- "Transition from Hyperinflation Towards Economic Recuperation in Bolivia," by Juan Antonio Morales and Jeffrey Sachs.

Papers Prepared for

THE SEMINAR ON DEVELOPMENT BANKING

- "Building Development Banking Relationship," by J.D. von Pischke.

- "Past and Future Roles for Development Banks," by Robert C. Vogel.

- "Summary of the Evaluation of Global Agricultural Credit Programs," and "Summary of the Evaluations of Global Industrial Credit Programs," by the Operations Evaluation Office, Office of the Comptroller, Inter-American Development Bank.

Papers Prepared for

THE SEMINAR ON INFORMAL FINANCE

- "What Microenterprise Credit Programs Can Learn from the Moneylenders," by Robert Peck Christen.

- "Informal Finance in Developing Countries: Lessons for the Development of Formal Financial Intermediaries," by Paul Burkett.

- "Implications of Deposit Insurance for Informal Financial Arrangements," by Raymond P.H. Fishe and Robert C. Vogel.

Study Papers on

SAVINGS MOBILIZATION - RESEARCH ON INFORMAL FINANCE

- "Informal Rural Credit Markets Under Conditions of Hyperinflation: The Case of the Upper Valley of Cochabamba Bolivia," by Jerry R. Ladman.

- "Rotating Savings and Credit Associations in Bolivia," by Dale W Adams and Marie L. Canavesi de Sahonero.

- "Competitiveness of Informal Financial Markets in Bolivia," by Donald W. Larson and Rene Urquidi.

- "The FENACRE System of Credit Unions: A Survey," by John F. Gadway.

26