PD ABH ...
87 ...

UNITED STATES GOVERNMENT
memorandum

DATE: September 23, 1993

DP-269/93-M

REPLY TO ATTN OF: a B
Anne Beasley, Monitoring and Evaluation Specialist, Office of Development Programs

SUBJECT: Transmittal of Project Assistance Completion Report

TO: Joseph Stepanek, D`~ector, Office of Development Programs, AID/Washington

---

Attached please find the Project Assistance Completion Report of the Low Cost Shelter Project (511-0567 and 511-HG-007).

Attachs. a/s

cc: POL/CDIE/DI (Copy of memo and PACR)
LAC/SAM (Copy of memo and PACR)

UNITED STATES GOVERNMENT

memorandum

DATE: September 3, 1993

PD&I-M-447/93

REPLY TO ATTN OF: Mahlon A. Barash, A/PD&I MB

SUBJECT: Low Cost Shelter Project Assistance Completion Report

TO: William Yaeger, Sonny Low, RHUDO/SA
Edificio COMPUTEC
Avda. Colombia 1573 - Queseras del Medio
Quito, Ecuador

Attached is subject PACR from our Trade and Investment Office. RHUDO/SA suggested certain changes which the Mission was unwilling to accept. These are included verbatim at the end of the report.

Regards,

Lon

cc: TI:RRosenberg

H:\PDI\EXE\567\PACR

PROJECT ASSISTANCE COMPLETION REPORT [1]

September 30, 1992

I. PROJECT DATA

A. Project Title: Low Cost Shelter through the Private Sector

B. Project Number: 511-0567 and 511-HG-007[2]

C. PACD:
Grant — Original 09/08/83, Amended 09/08/92
Loan — Original 09/18/94

D. Implementing Agencies: Central Bank of Bolivia (BCB)
Caja Central de Ahorro y Préstamo para la Vivienda (CACEN)

E. Financial Status:

(US$)

Contributions[3]	AID Planned	Counterparts Planned
Grant	2,530,000	800,000
Loan	7,500,000[4]	1,531,000

II. PROJECT BACKGROUND

---

[1] This PACR has been prepared by the RHUDO/SA housing officer responsible for Bolivia (Dino Siervo) in conjunction with the project's last technical assistance advisor (Claude Bovet) and the USAID/Bolivia Trade and Investment Office (Liza Valenzuela).

[2] The Low Cost Shelter Project combined a Housing Guaranty (HG) loan and a technical assistance grant to the Caja Central de Ahorro y Préstamo para la Vivienda (CACEN). Separate documents were established for the HG loan--an Implementation Agreement with the GOB--and a Cooperative Agreement with CACEN.

[3] As of August 31, 1992.

[4] In August 1991, the guaranty authorization for this project was reduced from $15.0 million to $10.0 million.

The Low Cost Shelter Through the Private Sector Project was signed on September 8, 1983. The project contemplated a Housing Guaranty (HG) Loan of $15.0 million, plus grant funds for technical assistance and training of $1.65 million, of which $500,000 was authorized with the original Project Paper[1] and the remainder in Amendment No. 1 of July 1986. The purpose of the Project was to expand the private sector's capacity to address the shelter-related needs of Bolivia's low-income families.

Although the HG loan was not implemented as scheduled in 1983 due to the political problems then prevalent and the exacerbation of the country's economic crisis, implementation of the Low Cost Shelter through the Private Sector (511-0567) Grant began in 1984. In the context of Bolivia's severe economic crisis, the principal objective of the Project became that of ensuring the survivability of the private Savings & Loan (S&L) or Mutuals system until such time as the housing guarantee loan could be implemented. Twenty-four person/months of long-term technical assistance were provided to CACEN and its S&Ls under a technical assistance contract with the United Savings League (USL) International, Inc. That contract also provided for a total of 23 person/months of short-term technical assistance in the following areas: savings mobilization, portfolio diversification, financial planning and information systems, marketing, and personnel management. Under the Project, technical assistance was also provided to the Government of Bolivia (GOB) in developing a national housing policy.

In July 1986, under PP Amendment No. 1, the PACD of the project was extended to September 30, 1989 and $1.1 million in additional grant funds were provided to continue the project's technical assistance and training program. Included in the Amendment was an institutional contract ($651,341) subscribed with Planning and Development Collaborative International (PADCO) to provide a long-term resident advisor in CACEN (24 p/m) and short-term technical assistance in various fields (19.25 p/m), from February 1987 to September 1989. The focus of project assistance was on strengthening CACEN as the regulatory and representative body of the S&Ls and expanding the S&Ls role and performance as diversified financial service institutions. Amendment No. 1 also provided assistance to the Ministry of Urban Affairs (MUA) to develop a national housing policy, and funding to the National Institute of Statistics (INE) to further develop baseline data to determine the median urban family income.

During the implementation period of the technical assistance under the Amendment No. 1, the GOB undertook a series of economic measures which had direct impacts upon the shelter sector. The GOB shifted its role from that of shelter provider to facilitator, that is, it defined for itself the role of facilitating and orienting the actions of the private sector, which would in turn assume the burden for producing and financing shelter. The Fondo Nacional de Vivienda (FONVI) was created during this period (July 1987) in order to concentrate all public funds for housing in one institution and provide long-term financing to complement the short-term funds mobilized by existing institutions in the sector, such as the S&Ls.

---

1 Reference is made in the Project Paper to La Merced Cooperative as an institutional beneficiary under the project. Early in the life of the project, USAID made a decision to exclude La Merced, and, therefore, no technical assistance was provided to that institution.

In August 1989, under PP Amendment No. 2, the PACD of the project was extended until September 8, 1992 and US$880,000 in additional grant funds were provided. Technical assistance was to solidify the institutional strengthening of CACEN and the S&Ls, to enable FONVI to expand its financial functions, and to ensure that all entities and institutions operating in the shelter sector, such as CACEN, the S&Ls, FONVI, and the Superintendency of Banks, perform their intended roles within the context of the overall housing finance system in Bolivia.

Included in the Amendment No. 2 was a US$387,000 buy-in to the Regional Housing Finance Technical Assistance and Training Support Project (implemented by the Inter-American Management Consulting Corporation--IMCC) of RHUDO/SA to provide long-term and short-term technical assistance. Also included were resources to fund a PSC until mid-1991, to oversee the implementation of the HG-007 loan and the technical assistance under the companion grant. After the PSC left in mid 1991, the IMCC advisor visited Bolivia once a month through September 1992, the PACD of the grant.

Largely as a result of slow progress in the strengthening of CACEN, USAID established numerous conditions in the 1989 Amendment No. 8 to the Cooperative Agreement. During the last two years of the project, the IMCC advisor's role was principally to ensure compliance with these conditions. The RHUDO/SA office was principally responsible for supervising the implementation of the HG-007.

This Project Assistance Completion Report covers both the grant to CACEN (511-0567) as well as the accompanying Housing Guarantee (HG-007). Each has separate documentation and conditions.

III. END OF PROJECT STATUS: QUANTITATIVE TARGETS

What follows is a summary of End-of-Project Status indicators which were included under the grant with CACEN:

Quantitative Targets	Achievement at PACD
9,500 loans to median income families	4,360 loans made by the S&L as of September 30, 1992.
Increased amounts of FONVI's credit channeled through the S&Ls.	$25.1 million channeled through the S&Ls in 1990 and 1991.
S&Ls share of savings market to reach 11.0% by 12/90, 13.0% by 12/91.	S&L have a 10.9% share of the savings market as of September 30, 1992.
118,000 savings accounts in S&L System by 12/89, 150,000 by 12/90, 170,000 by 12/91.	164,000 savings accounts in existence as of September 30, 1992.

S&L portfolio increased to $62.8 million in 1989, $84.8 million in 1990, $96.0 million in 1991.

$106.0 million loan portfolio as of September 30, 1992.

As can be seen, accomplishment of the five quantitative targets was mixed. The system did channel a considerable amount of FONVI loans and the 1992 loan portfolio of $106.0 million exceeded the $96.0 target which had been set for 1991. However, one of the key indicators--loans disbursed--reached less than half (45%) of the 9,500 target. (It should be noted that the original number was 19,000 loans, but when the HG-007 was reduced from $15.0 million to $7.5 million, the number of loans disbursed target was also cut in half.) In terms of the savings market share, another key indicator, the 13% target by December 1991, was also not reached by the project's completion date of September 1992. Similarly, the number of savings account was smaller than expected. It is unfortunate that the project was not able to meet these latter targets, given that the Bolivian economy showed a marked improvement since 1985 and savings in the formal banking system skyrocketed since 1990. This mixed achievement of the project targets may be explained by a variety of problems within and without the S&L system, discussed later in this report.

IV. END-OF-PROJECT STATUS

A. Status of HG-007 Lending through the Mutuals

According to the "Implementation Agreement" which sets forth the conditions of the HG-007 guarantee and loan, the program was to "consist of financing for the purchase of new shelter units and for improvements to existing shelter and lots to meet the demand by low-income families for affordable low-cost housing throughout Bolivia."

By and large, the loan placements under the Program have been made in accordance to the criteria established in the Implementation Agreement[2]. However, one of the terms of the Agreement specified that beneficiaries must be low-income clients. The Implementation Agreement stated in Section 5.06: "Affordability of Benefits: United States legislation governing the A.I.D.-Guarantied Loan requires that the benefits of the Program, to the extent financed by the Loan, be affordable by families that earn less than the median income in the Republic of Bolivia." This median monthly income was established at $250. The distribution of the loan placements from October 1988 to September 30, 1992, by income level, is the following:

---

2 In a recent report, the Central Bank of Bolivia (BCB) claims that CACEN has not lived up to the conditions of the BCB-CACEN HG-007 Agreement. It argues that CACEN has not performed sufficient supervision of the HG-007 loans and that funds have been used for other purposes. Of a sample of 315 loans, they found that 38 (12.06%) of them had been used for non-permissible purposes and 18 (5.71%) were improving homes for subsequent rental. In addition, 69 (21.90%) of them had been provided to families with incomes higher than the median monthly income set at $250. The BCB reports that CACEN has not provided the quarterly reports required by the Agreement.

	No. of Loans	
Families with monthly income greater than $250	875	19.87%
Families with monthly income equal to $250	486	11.03%
Families with monthly income between $200-$249.99	1,681	38.16%
Families with monthly income between $150-$199.99	537	12.19%
Families with monthly income below $150	826	18.75%
TOTAL	4,405	100%

As can be noted, 20% of the clients receiving a HG-007 loan had monthly incomes that exceeded the upper limit of $250 established under the program. Of this client base, loan placements by gender were 68% for male and 32% for female applicants.

Based on the last financial compliance review for the loan 511-HG-007, the placement and availability of resources as of September 30, 1992, is the following:

Amount disbursed by the BCB to CACEN	$7,500,000.00
Less: Disbursements by CACEN to the Mutuals	6,125,150.53
Placements by Mutuals, pending reimb. by CACEN	545,347.56
Amount Available	$ 829,501.91

The rate of the disbursements by CACEN has slowed due to the non-compliance of the Mutuals' with the safety ratio established in their loan agreements with CACEN.

The ratio between the Mutuals' loan portfolio generated under the project and the debt owed by them to CACEN, has fallen from a 1:1 to .92:1, and is lower than the 1.25:1 established as a safe ratio for this project in the agreements. Also the delinquency in the Mutuals' loan portfolio under the project has recently increased to high levels.

The low ratio stated above implies that the collateral of the Mutuals is not sufficient to meet their debt to CACEN. Once the project is finished, the $7.5 million disbursed by CACEN should have generated at least a $9,375,000 loan portfolio by the Mutuals.

What is happening now is that the Mutuals are recovering the principal of their HG-007 loan portfolio and using those proceeds for purposes other than reinvesting them in the project. Of the 4,216 cumulative loans generated under the project, now there is only a portfolio of 2,179 loans. Eventually, this could affect CACEN's ability to service its debt under the project to the BCB. CACEN wants to slow down disbursements under the Program to increase the ratio of collateral to debt of 1.25:1.

As of the date of this completion report, the amount of available resources has not varied much from the $1,196,838 available at the end of April 1992, because CACEN had adopted, wisely, a policy of slowing down disbursements to the S&Ls under the Program until the latter had improved their ratio of collateral to debt of 1.25:1.

CACEN will submit to USAID/Bolivia and RHUDO/SA a timetable for a progressive plan with the Mutuals to achieve the 1.25:1 relationship in their portfolio/debt ratio, and the timely disbursement of HG-007 funds to the Mutuals for eligible expenditures. It is expected that the program could be finished before the end of FY 93.

In order to assist the four smallest Mutuals with arrearage problems in their HG-007 portfolio, AID financed in August 1992 the services of a S&L specialist to advise on the measures and policies which CACEN and the Mutuals can implement to improve their financial situation and the quality of their portfolios. Some improvements in the delinquency rate can be seen, especially after CACEN stepped up its technical assistance program to the Mutuals in late 1992, at the insistence of RHUDO/SA. However, all but two Mutuals are still substantially above the required 5 percent rate established by the RHUDO/SA office. Despite these high delinquency levels, HG-007 disbursements from CACEN to the Mutuals have continued.

B. Status of CACEN

A number of USAID recommendations were accepted by CACEN at the time of receiving additional Technical Assistance funds under Amendment No. 8 to the Grant Agreement, signed on August 4, 1989. Although CACEN has complied with several of these and attempted to resolve those remaining, it has been thwarted in its overall efforts by a prolonged and taxing fight within the S&L system and from a series of events which were to some extent outside of its direct control.

A first problem arose with the two large Mutuals in La Paz. The two largest Mutuals in the system, with approximately 70% of the system's deposits, were concerned with a lack of control over system-wide decisions. Despite repeated entreaties by CACEN and the provincial Mutuals to engage them in System decisions and efforts at System consolidation and development, they steadfastly refused to participate short of completely taking over the System. Worse still, in many instances they actively worked to destabilize CACEN. USAID attempts to bring these warring parties together found echo in CACEN but went totally unheeded by the La Paz Mutuals. It appears that the wounds resulting from years of a top-down approach on the part of CACEN were too deep to forget. Only a radical transformation of CACEN, including change of staff, could possibly have allowed the two Mutuals and CACEN to make their peace.

Another major problem arose when a new Minister of Urban Affairs developed plans to expand FONVI's role in substitution of CACEN, which he proposed to eliminate. His position was buttressed on a study, which he commissioned, which discussed the flaws of the S&L system and CACEN in excruciating detail. Although the final decree issued by the GOB did not in the end effectively destroy CACEN (thanks mostly to efforts by the IMCC advisor), it does have the effect of substantially reducing CACEN's role as financier to the S&L System. For example, CACEN is now precluded from making loans to the Mutuals and from continuing its profitable insurance operations (unless and until its planned appeal to the civil courts against the decree is favorably ruled upon). Given that the HG-007 was contracted prior to the Supreme Decree, CACEN remains as the channel for the loans related to this program.

In addition, A.I.D., reacting to the general slowdown in CACEN's operations and in the in the speed of HG-007 disbursements, was led to cancel $5.0 million of the $15 million authorized by HG-007 on August 21, 1991. It seemed unlikely that the additional funds would be disbursed in a timely manner. Moreover, as stated in the August 1991 Action Memorandum to the Assistant Administrator of the LAC Bureau, FONVI was increasing the volume of its housing lending and "this new framework, therefore, eliminates the need for the GOB to contract new external loans."

Yet another difficulty which emerged was the failed entry into "productive lending." In the late 1980's, CACEN and some of the Mutuals agreed to act as intermediaries for loans provided for agriculture and agroindustry. These productive loans were given out without adequate loan analysis; many of them were politically related. In part as a result of these productive loans, some of the Mutuals are now bankrupt. This has contributed to CACEN's own technical bankruptcy.

A consequence of the foregoing was to so completely absorb CACEN's energies and those of the provincial Mutuals rallying to its cause that all other non-routine operations and initiatives were to be postponed over the many months involved. This affected CACEN's ability, among other things: (a) to materialize a planned contribution to its capital base by the provincial Mutuals; (b) to implement a rescue and technical assistance plan for the weaker Mutuals in the System; and (c) to resolve the rift with the two large Mutuals.

The various difficulties mentioned above have contributed to a somewhat bleak picture for the S&L system. In September of 1992, the delinquency levels on the system-wide portfolio of $95,022,970 were at 22.37%. The $5.3 million HG portfolio had a system-wide delinquency of 18.82%, although almost 44% of these arrearages corresponded to the four weakest Mutuals. The chart below shows the loan portfolio of one of the weakest Mutuals, the Mutual Pando, as of September 1992. As can be seen, productive loans were in serious arrears. However, the housing portfolios, both the HG-007 and the PL-480, were at a dangerously high level as well.

Mutual PANDO

LOANS SOURCE	LOAN AMOUNT	NUMBER OF LOANS	DELINQUENCY	PURPOSE
FOCAS	$282,149	2	97.47%	Productive
FSE	$384,542	?	78.92%	Productive
HG-007	$256,538	70	61.83%	Housing
PL-480	$219,996	34	76.28%	Housing
W-068	$27,342	1	95.95%	Water & Sanitation
Mutual's $	$237,880	134	55.84%	Miscellaneous
	$1,408,447			

Thus, CACEN's degree of compliance with USAID's various recommendations contained in Amendment No.8, must be evaluated giving consideration to the above difficulties and constraints. However, without a doubt CACEN's inability to put its own house in order (even after the very specific conditions established by USAID in the August 1989 Amendment No. 8) and to provide effective technical assistance to the Mutuals had the effect of weakening both CACEN and the S&L System, making CACEN more vulnerable to the attacks from the two La Paz Mutuals and the Ministry of Urban Affairs.

What follows is a listing of the conditions specified in Amendment No. 8 and an opinion as to the degree to which those conditions were met by CACEN.

Requirements complied with to a moderate extent:

1. CACEN should improve its internal management and its overall productivity. Other measures to be adopted are the optimization of investment profitability, and the reduction of S&L Loan delinquency levels.

Comment: CACEN improved its internal management to a certain extent by hiring a General Manager and by undertaking some reorganization of functions. However, despite A.I.D.'s insistence, the General Manager was never granted sufficient authority to handle some of the longstanding and pressing problems of CACEN. Loan delinquency under the HG 007 loans as well as other lending of the Mutuals has been high. A consultant report of September 1992 indicated that HG 007 loans delinquency was at 18.41% for the Mutuals system. The four weakest Mutuals had a delinquency rate of 43.98% on their HG 007 loans.

2. The personnel and administrative structure of CACEN should be adjusted in accordance with a new organizational structure, which properly identifies the operational and service functions which CACEN should perform.

Comment: The General Manager did reorganize CACEN to the extent possible. A number of staff persons who had been there for many years were asked to leave. Technical assistance to the Mutuals improved, but not as much as it could have.

3. As a corollary of the above, operational expenses within CACEN should be adjusted, defining budgets by department and according to specific activities to be performed.

Comment: The General Manager undertook a meticulous review of expenses and was able to substantially reduce them.

<u>Requirements only partially complied with:</u>

4. CACEN should adjust its financial structure by implementing a capitalization plan with the S&Ls. Also new procedures should be established for the selection of CACEN's Board of Directors, which will give more representation to the S&Ls in CACEN's policy decisions.

Comment: On this front, critical to the unification of the S&L system, little progress was made. Proposals formulated regarding the capitalization system by USAID's long-term advisor (see IMCC November 1992 Report) were duly considered by CACEN and presented to the provincial Mutuals for implementation. However, due to CACEN's undefined situation as a result of the new decree, the provincial Mutuals are only tentatively contributing to CACEN's capitalization (at nominal figures by the PACD). The two large La Paz Mutuals have remained aloof from these proposals. At PACD, CACEN's survival in its original comprehensive form was very much in doubt, with both the larger La Paz Mutuals and the Ministry of Urban Affairs having gone on record to recommend its reduction to a mere "trade association".

The desire for increased representation by the two La Paz Mutuals was never seriously dealt with conclusively by CACEN.

5. CACEN should analyze the ability of the System to sustain S&Ls that do not have the financial or operational capability to sustain themselves.

Comment: The focus on the weak Mutuals has centered upon a controversial debt condonation issue as opposed to the issue of whether the small Mutuals are actually financially viable. Given the divided nature of the system--the two wealthy La Paz Mutuals versus CACEN and the weaker Mutuals--there was no basis from which to develop a system-wide subsidy program for the weakest Mutuals. As had been reported by numerous consultants, there were some Mutuals that were created to meet social needs, even when they had little possibility of being financially viable. For example, the Mutual Pando was created in 1981 when the town of Cobija had only about 3,500 people. Mr. Eduardo Fuentes, a RHUDO/SA consultant who visited the small Mutuals in September 1992, concluded: "Savings and Loan supposes an equilibrium between the financial and the social. None of these two components should predominate in absolute form. But a solid financial base is indispensable for the operations of the institution and its fulfillment of its social mission.

Requirement not complied with:

6. A comprehensive strategic plan for the S&L System should be developed with the participation of the large S&Ls, which shows specific actions to be taken to achieve the financial viability of the S&L System.

Comment: For many reasons, both internal and external to CACEN, as described above, CACEN and the S&L system were never able to develop a strategic plan for viability.

C. Financial Viability of the Savings & Loan System

As expressed in Section 1.01 of the Implementation Agreement, through the HG-007, A.I.D. and the Republic of Bolivia sought "to revitalize Bolivia's savings and loan system and to strengthen its capacity to provide financing for low-cost shelter in Bolivia, thereby increasing capital resources devoted to meeting the demand for adequate shelter affordable to low income families and generating new employment opportunities in the housing industry

In effect, Bolivia's savings and loan system was strengthened in its capacity to provide financing for low-cost shelter in Bolivia. According to CACEN statistics, the system has financed 95,113 housing loans for a phenomenal $306,599,355 since its inception in the 1950's to August 1992. In addition, the project facilitated the creation of the government housing fund, the Fondo Nacional para la Vivienda (FONVI), which has captured millions of dollars each year for housing finance. Nevertheless, this appreciation should not minimize the serious problems still remaining within the S&L System--financial viability being one of the key areas of concern.

The Implementation Agreement stated in Section 5.02: "Financial Viability of the Savings and Loan System: The CACEN shall ensure the long term financial viability and growth of the Savings and Loan System. The CACEN agrees that financial viability includes, among other aspects that may be identified, the following: A. Eliminating dependence on external resources; B. Maximizing profit on investments; C. Achieving and maintaining positive rates of return on loans consistent with market conditions and governmental requirements; D. Sound and appropriate management policies and procedures including adequate personnel recruitment and training; and E. Effective supervision over the participating Mutuals." These objectives have been fulfilled as follows:

1. Eliminating dependence on external resources

If "external" refers to "funding from international sources", then we can say that this objective has been achieved. A major *domestic* source of financing was developed with FONVI based on its important receipts from payroll contributions of 2% by the employer and 1% by the employee. From these receipts, FONVI has applied more than $23 million through the PACD to financing low and medium income mortgages by the S&L System. Until now, this financing has been made available on a full liability loan basis to CACEN for onlending by it to individual S&Ls. Recent reforms in official qualification of institutional financial intermediaries (IFIs) will permit FONVI to make its financing directly available to individual S&Ls. A program refinement recommended by USAID consultants would allow FONVI to purchase mortgages from individual S&Ls, rather than making loans to them, with a view to advancing a proposed securitization of mortgages for placement in the country's private capital market. This would enhance FONVI's role as a secondary market investor and greatly expand the sources of domestic financing for lower income mortgages. The GOB, however, has not made any attempt to follow up these recommendations.

If "external" refers to "domestic sources external to the S&L system," as opposed to savings, then this objective has been achieved to a moderate extent. The deposit base in the S&L system has grown considerably ($127 million in August 1992), however, almost 80% of the savings are found in the two largest Mutuals in La Paz.

2. Maximizing profit on investments

CACEN has instituted a policy to maximize its profit on investments. On the income side it did not have much room for maneuvering as its investments were limited to certain approved market instruments and its loans to the S&L System, which were priced to reflect borrowing costs consistent with the need to make individual mortgages available to S&L borrowers at going market rates. But on the expense side, it did take a number of measures to reduce costs. First, a thorough restructuring of CACEN's organizational framework was undertaken to match its new (and more limited) operational requirements. And, second, a new budget was adopted discarding superfluous costs, eliminating redundant staff and replacing inefficient personnel (a process implemented in stages and which still continues). Although maximizing profits may have been a policy at the level of CACEN, it does not appear to have been a great concern of many of the Mutuals, which are today plagued with bad loans and a high percentage of non-producing assets. According to Mr. Fuentes' September 1992 report, the delinquent loans of the S&L system represented 124% of the system's net worth.

3. Achieving and maintaining positive rates of return on loans consistent with market conditions and governmental requirements

The S&L System places loans from its own resources at market rates. Loans funded from FONVI sources are also placed at market rates, except where governmental requirements dictate otherwise. CACEN's intermediation of loans to the System are priced so as to retain a margin adequate to cover its operating requirements.

4. Implementing sound and appropriate management policies and procedures including adequate personnel recruitment and training

At the insistence of USAID, CACEN established a new position of general manager and recruited a qualified executive to fill it. This manager assumed full responsibility for implementing the requirements of this section within the S&L system. Unfortunately, political and intra-system disagreements have conspired to negate a more effective discharge of these responsibilities. The bottom line, however, is that CACEN has done only a fair job in this area. The small Mutuals, in particular, have received only sporadic technical assistance and training. The general managers in some of these associations have performed very poorly and have not been removed.

5. Maintaining effective supervision over the participating Mutuals

Overall, one would be hard pressed to say that CACEN had (much less maintained) an effective supervision over the Mutuals. The serious financial problems found in many of the Mutuals today (in December 1992, 9 out of the 13 had delinquency rates above 10%) demonstrate that CACEN has been unable to handle this role effectively. It should be noted, however, that CACEN's founding law gave it the responsibility of being both promoter and supervisor of the system --tasks which ultimately represent a conflict of interest.

Fortunately, a recent reformulation of Bolivia's financial sector superseded and substantially changed CACEN's role at the center of the S&L System. Regulation of the S&L System's financial operations now vests with the Central Bank and its supervision with the Superintendency of Banks. Thus, CACEN has been effectively relieved of these responsibilities.

Financial viability of CACEN and the S&L System as a whole is an open question. Four small Mutuals and CACEN are on the verge of bankruptcy. It remains to be seen whether a solution can be found in order to rescue the S&L System in Bolivia.

V. LESSONS LEARNED

USAID/Bolivia's experience with the Low Cost Shelter Through the Private Sector project and the accompanying HG-007 provide a rich basis for a number of lessons learned.

A. Social Goals above Financial Viability

Many USAID programs around the world have fallen prey to the illusion that financial programs for the poor are social and not financial programs. The sad result is that social goals cannot be met because the institution collapses as a result of its inability to support itself. CACEN is a classic example of social goals taking precedence over financial viability goals.

CACEN had the noblest of intentions: to make housing finance available to all low-income Bolivians by opening Savings and Loan Mutuals in every department of Bolivia. However, at least four of the Mutuals were opened in areas that even today can barely support a full-service commercial bank, much less a financial institution that only targets the housing market. These small Mutuals have weak management and CACEN, seemingly more interested in promoting new Mutuals than in maintaining existing ones, has not provided them with sufficient technical assistance. Radical steps should have been taken by the Mutuals (with the help of CACEN) to improve inadequate loan analyses, to lower high delinquencies and to institute tough collection policies. Those Mutuals which could not survive given the low volume of operations should have merged with other stronger Mutuals or should have closed. Subsidies to maintain housing finance services in remote unprofitable areas should not be the role of a private sector S&L system, but rather of the government. As housing consultant Eduardo Fuentes said in his September 1992 report, "exceptional efforts" to maintain housing services in remote areas of Bolivia "are the principal responsibility of Bolivian institutions, such as the Superintendency of Banks, the Central Bank and the Ministry of Housing and Urban Affairs, *and not* an international institution such as USAID."

Since there is no external source of donor subsidy, supporting institutions which are not financially viable will lead us nowhere. We run the risk of losing both the institution and the social cause. This may be the fate of the Bolivian S&L system.

B. The Importance of Independent Supervision

To the best of our knowledge, most of the low-income loan programs supported under USAID programs (such as S&Ls and credit unions) have not had external supervision. We believe many credit union disasters could have been averted by having reliable supervision.

CACEN's "supervisory" powers, granted by its founding Law, were never adequately exercised. To be fair, however, it seems that granting supervisory powers to CACEN was a mistake. It was a conflict of interest to have CACEN function as a promoter of the S&L system as well as its supervisor. Understandably, the hard choices of the supervisor were never made.

The obvious lesson drawn from this experience is that supervision must exist and that it must be independent. Had there been independent supervision earlier on (supervision of Mutuals by the Superintendency of Banks started only in 1990), troubled Mutuals would have either reformed by necessity or they would have been shut down. Without question, a serious independent regulatory body instills a necessary financial discipline in the supervised institutions, a role which a promoter organization is incapable of fulfilling. It would be advisable for future projects of this sort to require supervision as a condition of support.

C. Management by CACEN

Institutions managing USAID programs should be strong and technically competent, if we wish to see good and lasting results. Management deficiencies were prevalent in CACEN--deficiencies which ultimately impacted negatively on the system as a whole.

An insightful evaluation of CACEN and the Mutuals conducted in 1989 (by Mr. Pedro Lasa) revealed some serious management problems within the S&L system. Although many of the solutions were fairly clear-cut, CACEN never fully implemented the recommendations. CACEN should have: a) undertaken supervision of Mutuals more rigorously (and if unable given the conflict of interest alluded to above, it should have established a semi-independent supervisory arm); b) provided timely and competent technical assistance to weak Mutuals, in both their housing portfolios and their productive lending portfolios; c) been willing to go to court when Mutuals were in debt (it is only now beginning to do so seriously); d) transformed its top-down approach into a service oriented bottoms up approach. Although these ideas were discussed verbally and in writing with CACEN since at least mid 1989, CACEN never really implemented them. Although USAID and RHUDO/SA had little "financial" leverage, a mistake was probably made in not tying future support under the HG and the grant to cleaning house.

D. AID Project Management

One final lesson that emerges from the experience is that substantial programs should be managed by USAID staff who have a permanent in-country presence. Responding to pressure from AID/W to consolidate the Mission's portfolio of project, the Mission determined that the housing sector would be reduced and that a Housing Officer was no longer required. Thus, the final two years of the housing program were managed by RHUDO/SA with the assistance of a short term advisor who visited Bolivia four or five days per month. This resulted in insufficient coverage and continuity. Although the grant with CACEN has finalized, the Mission continues to be asked by various governmental and private institutions to become involved in decisions regarding CACEN and the Mutuals. As mentioned above, CACEN and four Mutuals are technically bankrupt, and creditors such as the Central Bank, the FOCAS program and PL-480, are knocking on USAID's door to come up with solutions.

VI. POST - PROJECT MONITORING

Although the grant with CACEN terminated in September 1992, the Housing Guarantee continues through 1994. The RHUDO/SA office will perform all monitoring and follow-up work for the HG through its completion date. A final evaluation of the CACEN grant was not considered necessary, since USAID and RHUDO/SA had sufficient information from CACEN and the technical assistance advisor. This completion report takes the place of the final evaluation.

VII. RHUDO COMMENTS

In the completion of this Project Assistance Completion Report (PACR) by RHUDO/SA and USAID/Bolivia, who had joint responsibilities for the management and implementation of the Low Cost Shelter through the Private Sector Project 511-HG-007 and 511-0567 grant since 1983 when these activities were started until their close out in 1993, both offices have been in full agreement with the contents of this report, except in a couple of areas. What follows is RHUDO/SA's perceptions and conclusions which differ from the text presented in the PACR:

Page 6 — Last sentence in the fourth full paragraph from the top of this page: "Despite delinquency problems with some Mutuals, HG 007 disbursements from CACEN to the Mutuals have continued in tandem with CACEN assistance to get Mutuals with such problems to address them".

Page 8 — To put things into a proper perspective, RHUDO/SA Consultant, Eduardo Fuentes, discovered and concluded in his August 9 to September 7, 1992, Bolivia TDY Report referred to on page 8 of the PACR that: "It should be noted that the high level of arrearages is not exclusive to the S&L System. The commercial banks' total arrearages as of 05/31/92 were US$120 million, which represented 8.23% of their total portfolio and 85% of the consolidated net worth of the banking sector in Bolivia. (Source: Nogales, Gottret & Cariaga report, "Restructuring and Strengthening of FONVI", June, 1992)".

"The analysis of the S&L system's total portfolio shows that the HG-007 Program, in spite of its high level of arrearages, is the best of all the S&L programs in Bolivia. 11.12% of the loans have between one and three overdue payments and 7.29% of the loans are under the foreclosure process. All these HG-007 home improvement loans have mortgage guaranties which mean the possibility of recuperation is high. Most of the other loans, including the productive credits have personal guaranties. The credits lent by FONVI have been labeled "government operat. ns" which considerably lowers the possibility of recuperation".

"My analysis is that the productive loan credits have not only contributed little of social value, but they have pushed at least two of the S&Ls and CACEN itself to the brink of failure. On the other hand, the HG 007 Program has fulfilled a social role directed to low-income groups while making it possible for the S&L associations to develop a portfolio that despite problems is totally recoverable".

Page 10 — Second full paragraph from top of page. CACEN made substantial efforts to deal with the two La Paz Mutuals' desire for increased representation, but the results of its efforts were not conclusive in resolving the problems at hand simply because the two La Paz Mutuals were not willing to come to the table with attitudes to compromise and address problems.

Page 16 Add the following third paragraph to the section on Management by CACEN.

In closing, it should be noted that the supervision of the S&L system became the responsibility of the Superintendency of Banks and the Central Bank of Bolivia in December 1988 (after many years of inadequate supervision by regulatory agencies of the GOB). The role of USAID was to help strengthen the S&L system and CACEN through the technical assistance in the companion grant to the HG loan. Concerns over the management of CACEN were not considered problematic until 1988 1989 when studies showed its weaknesses -- especially the Pedro Lasa study cited above. At that time, the technical assistance was reoriented to address specific problems, including those of management. However, management decisions and reorganization were the responsibility of CACEN and the S&Ls, not USAID. USAID measures such as the moratorium on HG 007 disbursements to CACEN in 1989 were designed to bring about changes, whose degree of completion or implementation, are noted elsewhere in the PACR report.

Page 16&17 The reference made in the AID Project Management section about insufficient coverage and continuity being provided by the short term advisor who visited Bolivia four or five days per month requires the clarification that this was because the Bolivia Mission indicated that it had no additional grant funds to contribute for financing a resident advisor in Bolivia for the final two years of the housing program.

Clearance:

William H. Yaeger, Director, RHUDO/SA (signed on 8/26/93)