AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT PAPER FACESHEET

1. TRANSACTION CODE: A (A = ADD, C = CHANGE, D = DELETE)

PP

2. DOCUMENT CODE: 3

3. COUNTRY/ENTITY: BOLIVIA

4. DOCUMENT REVISION NUMBER: N/A

5. PROJECT NUMBER (7 digits): 511-0486

6. BUREAU/OFFICE: A. SYMBOL: LA; B. CODE:

7. PROJECT TITLE (Maximum 40 characters): PRODUCTIVE CREDIT GUARANTY PROGRAM

8. ESTIMATED FY OF PROJECT COMPLETION: FY 82

9. ESTIMATED DATE OF OBLIGATION: A. INITIAL FY 78; B. QUARTER 1; C. FINAL FY 82 (Enter 1, 2, 3, or 4)

10. ESTIMATED COSTS ($000 OR EQUIVALENT $1 = $b20)

A. FUNDING SOURCE	FIRST FY B. FX	C. L/C	D. TOTAL	LIFE OF PROJECT E. FX	F. L/C	G. TOTAL
AID APPROPRIATED TOTAL						
(GRANT)	( )	(29.85)	(29.85)	( )	(68.6)	(68.6)
Guaranty	( )	( )	(2,500)	( )	( )	(2,500)
OTHER U.S. 1.						
OTHER U.S. 2.						
HOST COUNTRY Guaranty			1,250			1,250
Central Bank		40.0	40.0		40.0	40.0
TOTALS						

11. PROPOSED BUDGET APPROPRIATED FUNDS ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH. CODE C. GRANT	Guaranty D	E. 1ST FY 78 F. GRANT	Guaranty G	H. 2ND FY 79 GRANT	J. LOAN	K. 3RD FY 80 L. GRANT	M. LOAN
(1) ST	270		100	29.85	2,500	13.35	-	9.8	
(2)									
(3)									
(4)									
TOTALS									

A. APPROPRIATION	N. 4TH FY 81 O. GRANT	P. LOAN	Q. 5TH FY 82 R. GRANT	S. LOAN	LIFE OF PROJECT T. GRANT	Guaranty U
(1) ST	8.5	-	7.1	-	68.6	2,500
(2)						
(3)						
(4)						
TOTALS						

12. IN-DEPTH EVALUATION SCHEDULED: MM 01 YY 79

13. DATA CHANGE INDICATOR. WERE CHANGES MADE IN THE PID FACESHEET DATA BLOCKS 12, 13, 14, OR 15 OR IN PRP FACESHEET DATA BLOCK 12? IF YES, ATTACH CHANGED PID FACESHEET.

1 (1 = NO, 2 = YES)

14. ORIGINATING OFFICE CLEARANCE

SIGNATURE: Frank B. Kimball

TITLE: Frank B. Kimball, Director, USAID/BOLIVIA

DATE SIGNED: MM 07 DD 28 YY 77

15. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM 09 DD 01 YY 77

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AID 1330-4 (3-76)

PRODUCTIVE CREDIT GUARANTY PROGRAM - BOLIVIA

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A. Leter of Application

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Part I. SUMMARY AND RECOMMENDATIONS

A. Facesheet

B. Recommendations

The following action is hereby submitted for AID approval:

- Productive Credit Guaranty Authority, pursuant to Section 222A of the FAA of 1974 — $2,500,000

- Technical Support grant financing — $ 68,500

C. Description of the Program

The principal objective of the Productive Credit Guaranty Program (PCGP) in Bolivia is to provide institutional credit to persons or groups who presently lack access to such credit because they possess insufficient collateral to meet the normal requirements of the lending institutions.

A Guaranty Fund will be established in the Central Bank of Bolivia (BCB) for the purposes of guarantying 75% of eligible loans made by private financial institutions under the PCGP in Bolivia. The Fund will be capitalized with a guaranty commission of 4% on short term loans and 5% on medium and long term loans paid on each loan made under the system, and will be supported with up to $2.5 million in AID guaranty authority under the PCGP and up to $1.25 million from the BCB. Funds for lending under the guaranty program will come from the resources of the participating lending institutions or from established refinancing lines administered by the BCB. Technical assistance and loan supervision will be provided to borrowers by the participating lenders and private and public technical assistance organizations financed by a technical assistance fund administered by the BCB. Detailed operating manuals containing precise eligiblity criteria and program regulations, procedures and guidelines will be developed by the Fund's administrative unit in the BCB before initiation of the program, and will be used by all participating financial institutions. The program will be implemented on a pilot project basis for approximately four years, i.e. until December 31, 1981, subject to periodic joint USAID-BCB evaluations of implementation progress.

D. Summary Findings

Based on the analyses contained in Parts III and IV of this Project Paper, the Mission concludes that the proposed guaranty program is technically, socially, administratively and financially sound and that the program is ready for implementation. As demonstrated in the Technical Analysis (pp.27 to 35), the program entails a significant element of technical assistance to both lenders and borrowers which will assure the satisfactory functioning of the program and will support the financial viability of the Guaranty Fund. Furthermore, the program as designed provides the eligible lenders and borrowers sufficient incentives to participate in the program. As documented in the Social Analysis (pp. 56 to 61), the program responds to the felt needs of the target group, i.e. credit and technical assistance, and will improve the ability of small farmers and rural businessmen and artisans to increase their incomes and standards of living through greater on-farm and off-farm employment opportunities, increased economic activity in rural communities, and increased participation in local-level organizations. The Financial Analysis (pp.36 to 55) shows that the guaranty commission charged to capitalize the Fund will be sufficient to meet anticipated losses without the need for the AID or BCB guaranty amounts. The Institutional Analysis (pp. 61 to 67) supports the proposed role of the BCB in administering and managing the program. The project meets all applicable statutory criteria.

E. Issues

1. Authorization Expiration

In La Paz 4334 of June 6, 1977, the Mission requested AID/W approval of an interpretation of the Section 222A authority which would permit the signature of a guaranty agreement establishing the guaranty program for an initial period beyond the current December 31, 1977 expiration date. The reason for this request was that neither USAID nor the BCB felt that the work necessary to develop and initiate the guaranty program in Bolivia over the next several months would be justified if the program would expire either in December 1977 or, as has currently been requested of the Congress, December 1978. As the PP shows, it is anticipated that the beginning of the guaranty program in Bolivia will be relatively slow, with significant loan activity beginning only in the third year of the program. Based on our analyses and those of the BCB, we believe that a four-year implementation period of the pilot program is necessary in order to obtain adequate results and reliable data on which to base a conclusion as to the success of the program.

It is our understanding that the position proposed in our cable has been rejected by GC/LA, but that an alternative approach may be possible. This approach would entail a separate agreement signed by the participating lenders in which they agree to lend a specific amount over the projected four-year implementation period, subject to the terms of the USAID/BCB guaranty agreement. This agreement could be signed before the expiration of the Section 222A authority and would constitute the issuance of the AID guaranty.

The Mission requests clarification of this proposed alternative and approval of an approach which would allow us to resolve this crucial feasibility issue by establishing a program which will operate through December 1981.

2. Rural Housing

In La Paz 5066 of June 29, 1977, the Mission requested AID/W approval in principle for including rural housing as an eligible lending category under the PCGP in Bolivia. State 174561 responding affirmatively to this request was received July 26, too late for this element to be discussed in detail with the BCB and included in the paper. On the basis of this approval, USAID and the BCB will work out the terms, criteria and conditions to be applied to rural housing following program authorization. Preliminary, these would include a maximum loan limit of $2,000 per house financed, a limitation of this element to rural areas, i.e. areas more than 10 kilometers from a city of 30,000 or more inhabitants, a limitation of the annual net income of eligible borrowers, and a requirement of a substantial component of self-help, and would attempt to focus the construction of these houses in areas where other PCGP prospects are identified. Eligible lenders would include the Savings and Loan System as well as other interested private financial institutions. Tentatively, the portfolio of loans of this category would be limited to 20% of the total guarantied portfolio.

3. Use of the Guaranty Fee

In accordance with Section 223 of the FAA, AID will receive a guaranty fee of 0.25% of the face value amount of all loans guarantied by the PCGP in Bolivia. The Mission requests clarification of the use of these funds, and approval, if possible, to program all or part of these funds for purposes related to the implementation of the guaranty program, e.g. for technical assistance activities for PCGP borrowers.

4. DAEC Issues

The following indicates the sections in the PP which address the issues raised by State 94013 of April 26, 1977. (Annex B).

a) Target group - Parts II.B.2 and III.C.

b) Project liquidity needs - Parts II.B.1 and III.3.

c) Relationship to other AID program - Parts II.A.3. and II.B.1.

d) Institutional capability - Parts IV.A.1, IV.A.2, and IV.C.

e) Technical assistance to borrowers - Parts III.A.1 and III.A.3.

f) Effective interest rates charged to borrowers - Parts II.B.1 and III.A.3.

g) Collateral requirements - Part II.B.1.

h) Participation of non-bank institutions - Part II.B.3.

F. Conditions Precedent and Covenants

The conditions precedent and covenants are described in Section IV.F. page 70.

G. Composition of the Project Committee

1. USAID/Bolivia

Scott E. Smith	-	Development Resources Office
Ernesto García	-	Development Resources Office
Fernando Torres	-	Controller's Office
Mario Salvatierra	-	Controller's Office
Isaac Torrico	-	Rural Development Division
Richard Peters	-	Rural Development Division
Marcelo Miranda	-	Program Office
Charles E. Costello	-	Regional Legal Advisor

2. Banco Central de Bolivia

Hugo Lang K.	-	Sub-Gerente Financiero
Dinah F. de Portillo	-	Chief, División de Desarrollo
Alex Zegarra V.	-	División de Desarrollo
José Torrico	-	División de Desarrollo

PP drafted by: Smith, García, Torres, Salvatierra, Zegarra and Torrico.

Reviewed by: Robert K. Clark, Chief, Development Resources Office, USAID/B.

Melvin L. Van Doren, Controller USAID/B.

Richard K. Archi, Chief, Program Office, USAID/B.

Bastiaan B. Schouten, Acting Chief, Rural Development Division USAID/B.

Approved by: Frank B. Kimball, Director, USAID/B.

Part II: PROJECT BACKGROUND AND DETAILED DESCRIPTION

A. Background

1. Background of Guaranty Programs

a) OPIC

The Overseas Private Investment Corporation (OPIC) in response to the provisions of Section 240 (Moss Amendment) of the FAA, initiated a credit guaranty program in several Latin American countries in 1972. Originally, OPIC had active guaranty projects, known as the Community Credit Guaranty Program (CCGP), in four countries, Brazil, Honduras, Guatemala and Panamá. Major difficulties in the CCGP soon arose. Because of the limited guaranty authority (25% of a lender's eligible portfolio), few private lenders were willing to participate. The 1% guaranty commission was inadequate to place the program on a self-sufficient basis. In addition, no provision was made for technical assistance to borrowers in project design and implementation under the program and a large number of projects fell into default because of the need for such assistance. Controls to assure that borrowers did not otherwise have access to institutional credit were inadequate and investigations demonstrated that the few participating institutions were often lending to many of their traditional customers. Finally, OPIC found itself unable to operate the program effectively from Washington.

As a result of this early experience with the CCGP, OPIC designed the Productive Credit Guaranty Program (PCGP), which features a higher U.S. Government guaranty limit (50% of a lender's eligible portfolio), the objective of a self-sustaining guaranty fund, a comprehensive technical assistance component and greater involvement by a country's central monetary authorities. In 1975, the PCGP program was transferred to A.I.D., pursuant to Section 222A of the FAA of 1974.

b) PCGP in four other countries

At the time of the transfer of the PCGP to A.I.D., the earlier OPIC projects in Guatemala and Honduras were still active. OPIC was well advanced in designing the revised PCGP in Honduras, and AID decided to pursue its first Section 222A authority project there. A PP was presented for the Honduras PCGP in November 1975, and the guaranty agreement between AID and the Honduran Central Bank was signed in June 1976. In addition to Honduras, a PCGP in Nicaragua has now started operations and in Paraguay and Colombia guaranty agreements are about to be signed and PCGP operations are expected to begin shortly.

Although no concrete experience has yet been gained from the implementation of guaranty programs in these other countries, the Mission and the BCB will plan to remain in close contact with these other countries during PCGP implementation in order to take maximum advantage of relevant experience with those programs. In June, 1977 a seminar was held in Bogotá to discuss the PCGP program. Representatives from USAIDs and Central Banks of Bolivia, Colombia, Honduras, Nicaragua and Paraguay attended. The seminar provided an opportunity to exchange ideas and experiences up to this point and similar seminars will be held annually in the future to continue this exchange.

2. Bolivian Financial System

The following is a brief description of the Bolivian financial system through which the PCGP will be implemented. It should be noted that the financial system includes institutions other than the private commercial banks, which will affect the guaranty program by allowing selected non-bank institutions to participate.

The Bolivian financial system is composed of the following institutions

a) The National Development Council, an entity that establishes the Government of Bolivia (GOB) priorities based on the plans proposed by the Ministry of Planning, evaluates the functioning of the national financial system, and approves the regulations and dispositions of the Ministry of Finance and the BCB.

b) The Ministry of Finance, which formulates the financial policy of the country and supervises and coordinates its functioning, authorizes the establishment of new foreign financial entities, advises on matters related to public financial entities and negotiates all foreign financing and supervises such financing in collaboration with the BCB.

c) The Banco Central de Bolivia, which advises the GOB through the Ministry of Finance on monetary and financial policies, manages the national monetary reserves and channels credits and other financial resources through the application of monetary and financial instruments. The BCB also regulates the functioning of financial entities and acts as financial agent of the GOB in the handling of internal and foreign debts.

d) The Bolivian national banking system, which is composed of private and public commercial and specialized banks. The only state owned commercial bank is the Banco del Estado, which has its central office and three branches in La Paz and 44 agencies distributed throughout the country, covering most of the principal cities and towns. The Banco del Estado has participated actively in refinancing FRA-1 and FRI (Agricultural and Industrial Refinancing Fund) projects, but recent GOB measures have excluded it from agricultural lending. The private commercial banking system is made up of twelve private national and six foreign banks. (See Table 1 for a listing of these banks and the location of their agencies.) The 18 banks have a total of 92 offices throughout Bolivia, primarily concentrated in the Departmental capitals. With the exception of those which have been

TABLE 1

PRIVATE BANKS

Number of Bank Offices

Bank	La Paz City	La Paz Provinces	Santa Cruz City	Santa Cruz Provinces	Cochabamba City	Cochabamba Provinces	Oruro City	Oruro Provinces	Potosí City	Potosí Provinces	Sucre City	Sucre Provinces	Tarija City	Tarija Provinces	Beni City	Beni Provinces	Pando City	Pando Provinces	City	Provinces	Total
a) Commercial																					
National																					
Cochabamba S.A.	1	.	.	.	2	1	.	.	.	.	.	.	.	.	.	.	.	.	3	1	4
Crédito Oruro	1	.	1	.	1	.	2	1	1	1	.	.	.	.	.	.	.	.	7	2	7
Santa Cruz de la Sierra	1	.	6	2	1	.	.	.	.	.	.	.	.	.	.	.	.	.	6	2	8
La Paz S.A.	3	1	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	3	1	4
Industrial y Ganadero del Beni	1	.	.	.	.	.	.	.	.	.	.	.	.	.	1	.	.	.	2	1	3
Potosí S.A.	1	.	.	.	.	.	.	.	1	2	.	.	1	.	.	.	.	.	1	2	3
Hipotecario Nacional*	2	.	1	2	2	.	.	.	.	.	.	.	.	.	.	.	.	.	3	2	7
Mercantil S.A.	3	.	2	1	2	1	.	.	.	.	.	.	1	.	1	.	.	.	5	2	11
Nacional de Bolivia	3	.	1	.	1	.	1	.	1	.	1	1	1	1	1	.	.	.	9	2	12
Boliviano Americano	1	.	1	.	1	.	.	.	.	.	.	.	1	.	.	.	.	.	10	2	1
TOTAL	17	1	10	5	10	2	3	1	3	3	1	1	4	1	3	1	.	.	51	15	66
Foreign																					
De la Nación Argentina	1	.	1	.	.	.	.	.	.	.	.	.	1	.	.	.	.	.	3	.	3
Do Brasil	1	.	1	.	1	.	.	.	.	.	.	.	.	.	.	.	.	.	3	.	3
First National City Bank	1	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	1	.	1
Popular del Perú	3	.	1	.	1	1	1	.	1	.	1	.	1	.	.	.	.	.	9	1	10
De Boston	1	.	1	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	2	.	2
Of America	1	.	1	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	2	.	2
TOTAL	8	.	5	.	2	1	1	1	1	.	1	.	2	.	.	.	.	.	20	1	21
b) Specialized National Bank																					
Banco Industrial	1	.	1	.	.	.	.	.	.	.	.	.	1	.	.	.	.	.	3	.	3
Banco de Financiamiento Industrial	1	.	.	.	.	.	1	.	.	.	.	.	.	.	.	.	.	.	2	.	2
Banco Hipotecario (Sección Hipotecaria)**	1	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.
TOTAL	2	.	1	.	.	.	1	.	.	.	.	.	1	.	.	.	.	.	5	.	5
GRAND TOTAL	27	1	16	5	12	3	5	1	4	3	2	1	7	1	3	1	.	.	76	16	92

* Commercial Section.
** Same as Commercial Section.

active in the FRA-2 program financed under the Basic Foods Development loan (511-T-052), these banks have had a primarily urban orientation and have lent on relatively short terms for traditional activities such as construction and commercial credit.

In the formal financial system, the effective interest rate for commercial loans is 25% (nominal interest of 15% plus a 3% contribution to an employees' fund and 7% in taxes). For production credit in areas such as industry, artisanry and services, the effective interest rate is 16% (15% nominal interest and 1% in taxes). For certain specific types of production loans - such as production and marketing of cotton, soya, coffee, wood, corn, sugar and livestock, and housing construction and promotion of non-traditional exports - the 1% additional tax is removed and the rate is reduced to 15%. However, according to recent changes in banking regulations, on loans with terms of 2-5 years within this category the interest rate remains 16%, all of which is received by the lending bank. On credits refinanced by the BCB, through special programs such as the AID-financed FRA and FRI programs, interest rates to the borrower are presently 12-13%*. A minimum of 10% annual interest is paid on savings accounts. Time deposits denominated in pesos bolivianos range from 10 3/4% for 90 day minimum deposits to 11 3/4% for 360-day minimum deposits. Time deposits denominated in foreign currencies earn 9% per annum.

The specialized banks are development banks and do not accept current accounts or savings deposits from the public. The public specialized banks - the Banco Agrícola de Bolivia (BAB) and the Banco Minero - receive funds from the government and from foreign loans. The BAB has its central office in La Paz and 67 branches and agencies throughout Bolivia. In addition, BAB has specialized personnel who provide technical assistance on supervised loans.

In the private sector there are two development banks, the Banco Industrial S.A. (BISA), which provides loans for the development of private industry and mining, and the Banco de Financiamiento Industrial. BISA has its main offices in La Paz and has agencies in Santa Cruz, Oruro and Tarija. It also has specialized technicians to provide technical assistance to its clients in the industrial sector. The Banco de Financiamiento Industrial has had very limited activity to date - mostly in the Oruro area - and has only a limited technical staff.

e) Non-banking financial institutions

i) Savings and Loan System

The Savings and Loan system is privately-owned and is composed of the Caja Central and 9 savings and loan associations. The Caja

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* The BCB is studying a USAID/B proposed to standardize the interest rate on all refinancing programs at 13%.

Central dictates the operations of the system, provides mortgage, life, and FHA insurance, audits the operations of the individual S&L associations, provides technical assistance to the associations. The associations are located in the capital cities of each Department. They receive savings deposits and finance the construction, purchase, enlargement and improvement of housing.

ii) National Federation of Credit Unions (FENACRE)

FENACRE is made up of 180 credit unions distributed throughout the urban and rural areas of the country. The credit unions receive savings deposits from their members and make loans among the membership for a variety of purposes. FENACRE was recently incorporated as an intermediate credit institution for the FRA-2 program and it is expected that it will play an importnat role under the guaranty program.

iii) Cooperativa Multiactiva "La Merced"

The multipurpose cooperative "La Merced" is located in Santa Cruz and has 20 urban agencies and works in 76 rural towns. It has 36,000 members. It operates a credit union and supermarket for its members and has activities in urban and small farmer credit, medical care, and housing construction.

iv) Cooperativa Multiactiva "Madre y Maestra"

This multipurpose cooperative is located in Tarija. It has 12,300 members and is engaged in the following activities: credit unions, industrial activities, education, housing, health and a program to provide assistance to small farmers.

v) Centro para el Desarrollo Social y Económico (DESEC)

DESEC is a private organization formed to help in the integration of the poor sector in the social-economic development of Bolivia. One of the main activities of the entity is to organize local level "base organizations" formed by community centers, associations of small farmers, production centers and cooperatives. DESEC has developed specialized organizations for projects on education, agriculture (ASAR), cattle, handicrafts (AMERINDIA), marketing, health and housing. DESEC receives income from the services it provides, the sale of products, and assistance funds from foreign agencies. It has offices in La Paz, Oruro, Cochabamba, Potosí and Santa Cruz and is expected to become an eligible intermediate credit institution under the FRA-2 and other BCB programs shortly.

iv) Agro-Central

Agro Central is a private entity that organizes small farmers into cooperatives in the Sucre area and provides financial, technical and marketing assistance to these cooperatives. It is also under consideration as a potential credit intermediary for the BCB refinancing and guaranty programs.

3. Other Similar AID and BCB Activities

a. USAID/Bolivia programs

i) Industrial Refinancing Fund (Loan 511-L-043)

The FRI loan was signed for $7,000,000 in September 1972. It provided for a rediscount mechanism in the BCB for intermediary financial institutions which made loans to borrowers in the private sector for the creation, expansion and/or modernization of industrial enterprises. The FRI loan was disbursed within the anticipated three year period, and benefitted from the participation of all but two banks within the private banking system, as well as the Banco del Estado. Although no particular emphasis was given to agro-industry or small enterprises in the design of the project, 26% of the original funds were allocated to agro-industry, and 66% of all loans made under the program were for $50,000 or less. Since the beginning of the implementation of the Loan in January, 1973 the FRI has extended loans to private enterprises totalling $11,600,000. Of the 195 loans approved to date, 97 have been for financing the expansion of existing industries, 37 for modernizing enterprises and 61 for the creation of industries.

ii) Agricultural Refinancing Funds (Loans 511-L-042 and 511-T-052)

The first FRA loan was signed for $8,000,000 in November, 1971, for the purpose of refinancing private, public and mixed enterprise loans for the production, storage and marketing of agricultural products. The Basic Foods Production loan, or FRA-2, was signed in September, 1975 for $8,000,000. This loan was targeted toward the small farmer for the production of basic foods such as wheat, corn, sorghum, rice, quinoa, soybeans, potatoes, peanuts, dairy products, vegetables, fruits, poultry and forage. The maximum amount of sub-loans is $5,000. Loans to cooperatives or organized farm groups are eligible on a participating farm basis. Eligible sub-borrowers are defined on the basis of income, and of hectares owned and cultivated. Intermediate credit insitutions receive 8% of the 13% interest rate, while the BCB receives the remaining 5%. Nine out of the twelve private national banks have participated in FRA-2 to date, although many of them have participated at very low levels (two of the remaining three are industrial banks and the other one, the Banco de La Paz, was only recently created and is expected to participate this year). The level of participation of the private banks has been limited by a number of constraints, including the following:

- most of the banks lack technical capacity to evaluate and supervise small farmer loans

- clients are located a large distance from the bank office

- the administrative costs for the FRA-2 lending are higher than other operations

- the banks perceive a high risk in lending to small farmers principally because they have little experience working with small farmers and small farmers lack the traditional type of guaranties or collateral sought by the banks.

Notwithstanding these major constraints, 41% of the FRA-2 loans, totalling over $1,000,000, have been made by the private banks. A few have participated to a significant degree. These are primarily the regional banks such as the Banco de Potosí and the Banco de Crédito Oruro. These banks have generally been flexible with collateral requirements, often accepting personal guaranties of other bank clients in lieu of physical guaranties. In other cases, such as the Banco Mercantil in Cochabamba, the bank has made group loans through institutions such as DESEC, with the guaranty of DESEC for repayment of the loan.

iii) Special Fund for Economic Development

Repayments of three earlier AID two-step loans (Loans 511-L-014, - 029, and -031) have been allocated to the Special Fund for Economic Development, established in February 1967 by Supreme Decree 07911. The BCB administers these funds, which are relent through participating banks for activities in the following sectors: industry, agriculture and livestock, export industries, civil construction, and housing. A total of $26.4 million had been lent from this Fund as of July 20, 1977. At least 40% of the resources available from this fund must be lent for agriculture.

iv) Rural Enterprises and Agro-Industry.

The Mission is now preparing the PP for the Rural Enterprises and Agro-Industry project. The objective of this loan is to increase the per capita income and improve the standard of living of the small farmer and rural poor population. This project will focus on three different kinds of activities:

agro-industry, rural enterprises, and handicrafts. As with the FRA and FRI projects, this loan will be channelled through the BCB for lending through participating private and public financial institutions. Agro-industry projects will be located in either rural or urban areas, but will have to demonstrate direct benefits to small farmers. The rural enterprises financed will be located in rural towns and will involve small commercial, industrial and service activities. Artisan activities will be located either in rural or urban areas and will be limited to activities which use as inputs a significant portion of products produced by small farmers.

b) Central Bank experience

In addition to the three AID-financed funds described above, the BCB established a special refinancing line of credit of $1.5 million oriented toward artisan projects in 1974. The maximum amount of sub-loans was set at $3,000. In the remarkably short period of approximately one year, the entire line of credit was disbursed to 865 artisans, with an average loan size of $1,750. The Department of Cochabamba received 33% of these credits, Chuquisaca 20%, Tarija 19% and Santa Cruz 14%.

c) Effects of PCGP on these programs

Resources from the FRA- , FRI, Special Fund for Economic Development and other BCB programs will be used for refinancing eligible loans under the guaranty program. The amounts used from these Funds will be small in comparison with the size of the resources available, however, and the program is not expected to have an adverse effect on these Funds from a financial point of view. Since these refinancing lines are presently oriented to medium and large borrowers, the guaranty program will not compete with them but will, rather, focus a portion of these resources on small farmers, businessmen and artisans.

The PCGP is more likely to overlap with the FRA-2 and Rural Enterprises and Agro-Industry projects. However, the guaranty program has been designed to avoid, to the extent possible, competion with these other programs. This has been done through targeting and through providing different financial incentives to the participating lenders for participation in the various programs. Through the FRA-2 or Rural Enterprises projects, banks will lend primarily to small farmers or businessmen which have sufficient collateral to meet their requirements. This is to be expected, since the lenders have no other guaranties. Therefore, in terms of targeting the programs are complementary, since the PCGP addresses only those borrowers without the required guaranties. In terms of financial incentives, the lenders will receive 2% - 3% more of the interest rate spread and 20% more refinancing under the FRA-2 and Rural Enterprises projects than under the PCGP. (See Table 2, p. 18). The objective of this was to offer sufficient incentives to participate in either program. These financial incentives will be continually reviewed to assure that they are having their desired effect and that project designs do not include a bias against one project or another.

4. Summary of Studies Done for the Program

Two studies were contracted with local consulting firms to assist in the preparation of the PCGP and the Rural Enterprises and Agro-Industry project. The first of these was a study of the Bolivian financial system done by the firm GIASE*. The study presented a detailed description of the regulations governing the banking system, the distribution of all bank offices in the country, an analysis of legal reserve requirements, interest rates, portfolio composition and growth, delinquency, and guaranty requirements. In addition, the study examined non-bank financial institutions. The study includes over 120 tables, which include detailed portfolio information on each bank in the system.

The second study was performed by the firm ESEM and analized the demand for credit for rural enterprises, agro-industry and artisanry activities and examined the need for and the availability of technical assistance services for the design, analysis and/or implementation of these types of projects.** The study was based on interviews with over 900 businessmen and artisans in 52 areas throughout the country. The study showed a demand of nearly $265 million for agro-industry, rural enterprise and artisanry projects in Bolivia at this time, although showed that there was little technical assistance available in rural areas to help design or implement these projects.

5. Program Rationale

The potential contribution of the proposed program to the development objectives of both the Government of Bolivia (GOB) and USAID must be assessed in terms of both past developments and the current situation. During the past decade, growth in the Bolivian economy has been characterized as sharply dualistic. The major resource flows, both external and internal, have been directed at a narrow, export-oriented segment of the economy, e.g. minerals, petroleum and gas, and some commercial agricultural export operation, principally sugar and cotton. The resulting growth has been largely capital-intensive, which does not generate substantial employment and therefore has not significantly impacted on the level of welfare of the majority of the population.

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* GIASE, "Estudio del Sistema Bancario Nacional", 1977

**ESEM, "Estudio de la Demanda de Crédito y Asistencia Técnica en el Sector Rural," 1977

Despite the relatively strong demand for credit in rural areas, the incidence of credit channelled toward rural areas in Bolivia at the present time is severely limited.

Access to the resources of the private banking system by small farmers, community groups, and small-scale entrepreneurs is limited primarily by high collateral requirements for obtaining loans. Collateral requirements are usually twice the amount of a loan, and often are higher. In addition to the unaffordable collateral requirements, potential borrowers in these groups are generally unfamiliar with the banking system and what it has to offer, and there often exist language differences between these groups and the banking community, which makes access to the system difficult. Bankers tend to consider these groups as higher risk borrowers and are reluctant to extend their operations to include them under existing conditions. In addition, the private banks generally lack the staff and financial resources to undertake the promotion, additional analysis and follow-up required for loans to these groups.

The proposed guaranty program is designed to address these constraints by greatly reducing the risk of the lenders on projects undertaken by these groups, by providing technical assistance to the banks and to borrowers and through promotion of the program to encourage greater awareness on the part of the target groups of the resources available from the private financial system. The guaranty program would contribute to the Mission's goal of increasing per capita income and the standard of living of the rural poor by promoting productive credit in rural areas. These investments will help alleviate constraints to increased small farmer income such as limited markets, the general lack of factor markets for agricultural inputs, and the dearth of agricultural-related service enterprises. The promotion of these types of investments in rural areas is expected to inject new incentives and to provide new opportunities to increase rural incomes by strengthening rural sector linkages with the national economy at the departmental and interdepartmental levels and promoting the integration of the rural sector linkages with other key sectors of the economy.

B. Detailed Description

1. Guaranty Mechanism

A Fund will be established in the BCB for the purposes of guarantying 75% of eligible loans made by private financial institutions under the PCGP in Bolivia. The Fund will be capitalized with a guaranty commission paid on each loan made under the system and will be supported with up to $2.5 million in AID guaranty authority under the PCGP and up to $1.25 million from the BCB. Funds for lending under the guaranty program will come from the resources of the participating lending institutions or from established refinancing lines administered by the BCB. Technical assistance and loan supervision will be provided to borrowers by the participating lenders and private and public technical assistance organizations. Detailed operating manuals containing precise eligibility criteria and program regulations, procedures and guidelines will be developed by the Fund's administrative unit in the BCB before initiation of the program, and will be used by all participating financial institutions. The program will be implemented on a pilot project basis for approximately four years, i.e. until December 31, 1981, subject to periodic joint USAID-BCB evaluations of implementation progress.

The principal objective of the PCGP in Bolivia is to provide institutional credit to persons or groups who presently lack access to such credit because they possess insufficient collateral to meet the normal requirements of the lending institutions In order to make a loan under the guaranty program, the lender will be required to make a determination that a) the prospective borrower has not previously received credit from them or, to their knowledge, from any other banking institution for purposes similar to the proposed loan, and b) the borrower would not qualify for the loan without the availability of the PCGP guaranty because he/she lacks sufficient collateral to meet their requirements for the type of loan being considered. This would permit loans under the program to borrowers who had previously been clients of the participating lender if the proposed loan is for a different type of project or for significantly greater amounts than previous loans made to that borrower. The 75% guaranty will neutralize the majority of the risk to the lender, reducing the lender's exposure to 25% of possible losses. This 25% will be covered by additional collateral up to a maximum 100% of the face value of the loan, although it is hoped that in practice that these additional guaranties will be less than 100%. This additional collateral will include any mortgagable goods purchased with the loan resources.

Refinancing will be provided for eligible loans through resources in the following BCB refinancing funds: FRA-1, FRI, Special Fund for Economic Development (D.S. 07911), and other funds created with BCB resources. Funds from first disbursements to FRA-2 or the proposed Rural Enterprises/Agro Industry programs will not be used for these purposes; however, reflows into these funds will be used as determined necessary by the BCB. Refinanced loans will have an effective interest rate to the borrower of 13%, plus the corresponding guaranty commission. Refinancing will be automatic for loans up to $25,000 ($b500,000), i.e. lenders will make loans subject to the relevant program regulations and subsequently refinance these loans at the BCB without prior BCB approval. BCB will subsequently review these loans on a selective basis to assure compliance with the regulations. For amounts exceeding the automatic rediscount level, loan requests will be reviewed by the BCB Regional Technical Offices for compliance with program regulations. After review, these offices will pass the requests to the BCB Division de Desarrollo for approval with their recommendations. It is not expected that this process will take more than two weeks from the time the refinancing request is presented to the BCB.

In designing the refinancing aspect of the program, efforts were made to balance the attractiveness to the lender of a) refinancing vs. use of the lenders' own funds and b) refinancing under the PCGP and use of other refinancing funds for similar types of projects, e.g. FRA-2, Rural Enterprises. However, from the borrowers point of view, refinanced loans will be more attractive, as demonstrated below. Therefore, it is expected that the majority of loans will be made with rediscounts. For this reason, efforts have also been made to adjust the percent of eligible loan amounts that can be refinanced when the guaranty is applied. Table 2 indicates the interest spread to be received by the lenders and the percent of eligible loans which may be refinanced, both in the PCGP and similar programs. These amounts will be readjusted by the BCB, with prior USAID approval, as necessary to maintain the desired balance between the various financing alternatives and the necessary incentives for participation in the PCGP. It should also be noted that the figures related to the Rural Enterprises project are as yet preliminary and subject to further negotiation as part of the final development of that program.

The guaranty commission will be a one-time charge paid at the time of first disbursement of an eligible loan. It will be 4% of the face value of the loan for loans of up to 24 months

TABLE 2

Program	Interest Rate to Borrower	Guaranty Commission paid by Borrower* (one-time only)	INTEREST SPREAD To Lender	To PCGP	To T/A Fund	To Pre-Investment Studies Fund	To BCB Administrative Costs	Percent Refinanced
FRA 2	13%	--	8%	--	--	--	5%	100%
Rural Enterprises								
Small (less than $25,000)	13%	--	7%	--	1%	1%	4%	90%
Medium (more than $25,000)	13%	--	6%	--	2%	1%	4%	80%
Artisanry, rural	13%	--	7%	--	1%	1%	4%	80%
Artisanry, urban	13%	--	6%	--	2%	1%	4%	90%
Agro-industry	13%	--	5%	--	3%	1%	4%	80%
PCGP (with re-financing)								
Agriculture	13%	3%-4%	5%	2%	1%	-	5%	80%
Small businesses	13%	3%-4%	4.5%	2%	1%	.5%	5%	70%
Medium businesses	13%	3%-4%	4.5%	2%	1%	.5%	5%	60%
Artisanry, rural	13%	3%-4%	4.5%	2%	1%	.5%	5%	70%
Artisanry, urban	13%	3%-4%	4.5%	2%	1%	.5%	5%	60%
Community development	13%	3%-4%	4.5%	2%	1%	.5%	5%	70%
PCGP (without re-financing)								
Short term	15%	5%	15%	-	-	-	-	-
Medium & long term	16%	6%	16%	-	-	-	-	-

* Includes payment to technical assistance fund

term and 5% for loans longer than two years. This differential commission will be applied because the effective impact of the commission on short-term loans is greater and because it is believed that longer term loans represent a greater potential risk to the Fund. On refinanced loans, the amount charged to the borrower will be reduced by 2%. This amount will be paid to the Fund out of a portion of the 13% interest rate.

As described in more detail in Section III.B (p. 36) below, it is expected that the guaranty commission will be sufficient to maintain the Fund and provide for administrative costs and a small capitalization factor. Monitoring and audit procedures to be designed by the BCB will permit careful and continuous evaluation of portfolio losses during implementation and will attempt to limit them to the anticipated 3%. However, in the event that the Fund's resources are exhausted, AID and the BCB will disburse to the Fund, for payment to the lender, 50% and 25%, respectively of all outstanding eligible loans for which guaranty payments from the Fund are due, up to a level of $2.5 million and $1.25 million, respectively. AID and BCB participation in the Fund's obligations will be pari passu. Including the 25% risk assumed by the lenders on all loans plus the 4.44% calculated to be the average guaranty commission paid to the Fund by all loans in the PCGP portfolio, this will allow a guarantied portfolio of approximately $5.3 million under the PCGP in Bolivia. Considering that this amount relates to outstanding balances on guarantied loans at any one time, the face value amount of active loans guarantied under the program will be significantly higher.

To the guaranty commission of 4%-5% will be added an additional 1%, payable as part of the one-time fee, to cover technical assistance costs. This 1% will go to a technical assistance fund administered by the BCB. This technical assistance fund will also receive resources from the interest rate spread on loans refinanced through various BCB programs and these resources will be channelled back to borrowers in the form of expanded and improved services of private and public organizations. (For a more detailed description of the technical assistance component of the PCGP and the technical assistance fund, see Section III.A.1.(p. 27) below.)

Consequently, the final effective interest rate to the borrower for loans guarantied by the PCGP will be between approximately 13.5% and 16% for refinanced loans and approximately 16.5% and 20% for loans made with the lenders' own resources. This is well below the effective interest rate of 25% on commercial loans presently being made by the Bolivian banking system. (Also see Section III.A.3. (p. 34) below for a more detailed discussion of the impact of the PCGP on the borrower.)

The Fund will operate in the following way. All private banks operating in Bolivia, as well as other private institutions such as cooperatives, credit unions, or non-profit development organizations, will be eligible to participate in the program. In order to participate, an institution must submit an application to the BCB. Upon BCB approval of this application, the institution will be so notified and given a ceiling of lending which may be guarantied under the program. This ceiling will be based on the number of lenders expected to participate in the program, and the interest and capacity of the lender to make loans eligible for the guaranty, and will be subject to subsequent revision based on the lender's actual experience in the program. Prior to initiating operations under the program, the lender's key staff members responsible for PCGP operations will be provided training by the Fund's administrative unit and other BCB personnel, as necessary. This training will familiarize the lender's personnel with the concepts, regulations, and procedures of the program, including the use of the operating manual.

Once approved for participation, the lender will be given complete authority (except in the case of refinanced loans above the automatic rediscount limit, as discussed above) for making loans under the guaranty program, based on the procedures and eligibility criteria described in the operating manual. The participating lender will be responsible for determining the economic and financial viability of the loan, either through the use of model loan application/analysis forms that will be distributed by the BCB or by other appropriate method. Loan limits to individual farmers will be the equivalent of $7,500 ($b 150,000), loans to individuals for community development and artisanry projects will be limited to $10,000 ($b200,000), and loans to individuals for rural enterprises will have a maximum amount of 25,000 ($b 500,000). The loan limit for groups under all categories will be a function of the number of individuals in the group (e.g. for a group of 4 farmers the limit would be $30,000 ($b 600,000)) but with a maximum amount of the equivalent of $50,000 ($b 1,000,000). The lender will notify the Fund administrative unit through the corresponding BCB Regional Technical Office when a loan is made, and will remit to the BCB the guaranty commission for the Fund and the 1% fee for the technical assistance fund. The lender may make loans guarantied under the program up to the amount of its authorized ceiling.

In accordance with Section 223 of the FAA, the BCB will quarterly pay to AID from the Fund, in U.S. dollars, an amount equal to 0.25% of the face value of loans guarantied under the program. Similarly, the BCB will quarterly receive from the Fund an amount equal to 0.125% of the face value of loans guarantied under the program. The use of these fees will be determined by AID and the BCB, respectively, although insofar as possible these amounts will be used in the furtherance of the objectives of the program.

The Fund administrative unit will open a file on each loan guarantied and will receive thereafter information only about delinquent loans. In this way the BCB will have recent information about the total portfolio under the guaranty program and about the magnitude of balances in arrears. Each lender will report monthly to the BCB on the status of its guarantied portfolio, including outstanding loan balance and number of loans and amounts delinquent. When a guarantied loan is delinquent, the lender will include in its monthly report the steps it has taken or is taking to recover or refinance the loan. This process will continue over a period of 180 days, after which the lender will submit to the Fund an application for payment of the guaranty on the delinquent loan. The Fund will pay only if the lender has demonstrated that it has initiated and pursued legal action against the delinquent borrower in order to recuperate the delinquent loan, or that the costs of recuperation would exceed the amount likely to be recuperated. The BCB will investigate loans as they approach the end of the 180-day delinquency period so that upon receipt of the lender's application for payment the BCB will be able to quickly determine the eligibility of the loan and make payment to the lender of 75% of the outstanding principal amount plus interest accumulated during the delinquency period. (Interest applicable to periods other than the delinquency period and penalties will not be eligible for payment by the Fund). The lender will be obliged to continue the recuperation process for the loan and, in the event a portion of the loss is recuperated, will pay to the Fund 75% of the amount recuperated, minus the costs involved in the recuperation.

The delinquency period required before payment of the guaranty by the Fund was established in such a way as to allow the participating lenders sufficient time to reschedule or refinance delinquent loans according to their normal practices. Experience with the limited number of similar types of loans in Bolivia indicates that delinquencies level off before 180 days. Therefore, it is our conclusion that the 180-day period will be sufficient to insure that all normal bank action to refinance or reschedule loans will be completed before guaranties are paid. If such action occurs following a guaranty payment, the lender will be required to repay the amount of the guaranty to the Fund. Because of the limited experience with the type of loans eligible under the PCGP, however, the length of the delinquency period may be adjusted, as necessary, by the BCB during program implementation, with prior USAID approval.

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2. Borrower and Loan Eligibility Criteria

Eligible borrowers under the guaranty program will be individuals or groups of two or more individuals, each of whom bear a portion of the obligation to repay the loan. The basic eligibility criteria for all borrowers is that they have insufficient collateral to meet the normal 200% to 300% required by private financial institutions to obtain credit for the purposes of their projects. Eligible projects must be found economically and financially feasible by the participating lender, and must be in one of the following categories: a) agricultural production and related infrastructure and services; b) small-scale, privately-owned agro-industries, business enterprises located in rural areas or market towns, or artisanry projects located in rural or urban areas; or c) self-financing, self-help community development projects. Detailed criteria and maximum eligible loan limits for each category are described below.

a) Agricultural production, infrastructure and services

Agricultural projects will be principally aimed at improving the borrower's ability to increase his production of agricultural products, either through short- or medium-term financing. Short-term production loans will most likely be used for the purchase of seeds, farm tools and implements, fertilizers and oxen and other livestock. The average term for these loans is expected to be 12-18 months, with the exception of some livestock loans which will be 3-5 years term. In addition to short-term production loans, related infrastructure investments and services will also be eligible and will be encouraged, often as part of one integrated production/infrastructure loan. Examples of the kinds of activities eligible under this heading are wells, small-scale irrigation systems, land habilitation and soil conservation, pumps, farm machinery and equipment, veterinary services, and power generation for farm use.

Loans in this category will be made to small farmers. For purposes of this project, small farmers will be defined by a series of criteria, which will be included in the operating manual. To be eligible, a borrower will have to meet these criteria, in addition to depending on farming as a principal source of income and not having sufficient guaranties to meet normal bank requirements.

The eligibility criteria will include the following:

i) the borrower's net annual income from agricultural activities should not exceed $2,000 ($b 40,000);

ii) the total of the borrower's assets, i.e. tools, farm animals, living quarters and farm structures, should not exceed $10,000 ($b 200,000).

Other criteria may be developed during the implementation of the guaranty program to add to this list.

Cooperatives, pre-cooperatives, rural credit unions, and other groups of farmers will also be eligible borrowers under this category. Such groups must be composed of small farmers and the individual criteria will be applied on a participating farm basis.

The maximum loan amount eligible under the PCGP for agricultural loans will be the equivalent of $7,500 ($b150,000). The average loan amount is expected to be substantially smaller than this amount, however. The average loan amount per individual under the FRA-2 program to date has been approximately $750 and the average amount under the Agriculture Sector I credit program through the Banco Agrícola has been slightly over $1,000. In addition, the recently-completed assessment of small farmers in Chuquisaca, Potosí, and Tarija Departments concluded that the average credit required by these farmers was approximately $1,100. It should be kept in mind, however, that these amounts are averages; in the same programs, particularly FRA-2, there have been frequent cases where up to $5,000 has been lent to farmers meeting the eligibility criteria under the guaranty program. It should also be noted that the majority of credit under these programs has been for short-term production credit, rather than for investments or services. Reasons for this concentration include the low loan limits in these programs, the lack of guaranties by the borrowers and, to some extent, lack of technical assistance related to infrastructure financing. Considering that emphasis will be place on funding more medium- and long-term activities through the PCGP, we believe that the $7,500 limit is reasonable for the program's target group. The loan limit for groups will be $7,500 per individual in the group, up to a maximum of $50,000 equivalent.

b) Agro-industry, rural enterprises and artisanry

Private entrepreneurs or groups borrowing for small-scale business activities will be eligible under this category. Agro-industries are those which market or process small farmer agricultural products or produce inputs for the use of small farmers. Rural enterprises are defined as any productive business activity carried out in an area more than 10 kilometers from a city of more than 30,000 inhabitants. Artisanry activities are those which relate to agricultural raw materials, such as wool, leather or wood. Both agro-industry and artisanry projects may be located in rural or urban areas. Examples of eligible projects include food industry development, including activities related to construction or repair of small storage, collection, drying, canning, refrigeration and marketing facilities; looms and other handicraft equipment; service enterprises which provide agricultural inputs or repair facilities for agricultural equipment; and transportation services, such as trucking cooperatives. Loans in this category will be both short-term for operating capital or inventory financing and medium- and long-term for construction or equipment purchase. Terms up to 10 years will be available.

Because of the maximum loan limits to be applied to this category (see below) and the rural emphasis on the businesses financed, it is not believed detailed borrower eligibility criteria are required for these activities. Projects, however, will have to demonstrate that they benefit the rural poor. In addition, where facilities construction is envisioned, the borrower will be required to hold title to the site of this construction.

The maximum loan limit for projects in this category will be \$25,000 (\$b 500,000) for agro-industries and rural enterprises and \$10,000 (\$b 200,000) for artisanry in rural and urban areas. These limits are based on the average credit demand for these activities, taking into consideration that in most cases eligible borrowers under the PCGP will require less credit because of their relatively poorer economic situation. Therefore, while the ESEM study on credit demand found that the average amount of credit needed for rural enterprises was \$32,175 and for agroindustries was \$68,270, we believe that the \$25,000 limit for individuals is realistic given the target group of borrowers. For urban artisan activities, the average credit demand from the ESEM study was \$9,445. Since more of these potential borrowers are likely to be within the PCGP target group because of their relative economic marginality, the Mission believes that a loan limit of \$10,000 is realistic for this group.

c) Community development projects

The final category of eligible projects is community development projects undertaken by organized groups which have as their principal purpose community social or economic improvement through self-help. A proposed project by an individual would also qualify under this category provided the project has as its principal purpose the social or economic improvement of the community, provides for community involvement through self-help, is supported by the community, and provides for community participation in the benefits of the project. All projects under this category must generate sufficient income to at least break even, including repayment of the loan. The majority of loans in this group are expected to be medium- and long-term. Illustrative examples of the types of projects that can be financed under this category are community wells and pumps, water purification, slaughter houses and marketing facilities, small community centers, and community drainage or irrigation systems. Eligible communities will be exclusively in rural areas, i.e. more than 10 kilometers from a city of 30,000 or more inhabitants. Because of the infrastructure nature of projects in this category, loan limits will be the equivalent of $10,000 ($b200,000) per individual in the borrowing group, up to a maximum of $50,000 ($b 1,000,000) per project. Loan terms will be up to 10 years.

3. Participating Lenders

Participation in the guaranty program will be limited to private banks, cooperatives, credit unions, and non-profit development organizations. The primary lenders are expected to be the private banks. Most of these banks have participated in on-going BCB refinancing programs and have some experience working in rural areas, particularly with small farmers through the FRA-2 program. A series of discussions has been undertaken with the private banking system, both in La Paz and in most of the Departmental capitals, about the program and many have indicated an interest in participating. Among the banks most likely to participate are the Banco de Crédito Oruro, Banco de Potosí, Banco de La Paz, Banco Industrial, Banco Hipotecario, and the Banco de Cochabamba.

In addition to the banks, it is expected that three or four additional institutions will participate in the program. One of these, the National Federation of Credit Unions (FENACRE), is a recognized intermediate credit institution under the FRA-2 program and has begun to channel FRA-2 credits. Steps are presently underway to provide the same status to the Centro para el Desarrollo Social y Económico (DESEC). DESEC could participate in lending for both agriculture and artisanry and through its affiliated organizations, provide preinvestment and implementation technical assistance to

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its borrowers. Additional institutions being considered include AgroCentral in Sucre, the Cooperativa La Merced in Santa Cruz and the Cooperativa Madre y Maestra. Any non-bank institution that would participate in the program would first have to be approved by the BCB and USAID and as an authorized credit institution for the PCGP and the BCB refinancing lines. A requisite for this approval is some prior credit experience, an administrative capability to manage additional credit programs, and sufficient guaranties to support the level of credit channelled through it. It is not envisioned at this time that smaller cooperatives will be eligible lenders under the program, although they certainly would be eligible borrowers.

Part III. PROJECT ANALYSES

A. Technical Analysis

1. Technical Assistance

The technical assistance aspect of the guaranty program will be significantly changed from the proposal presented in the PRP. In general terms, the technical assistance program envisioned attempts to place major responsibility for loan analysis and supervision on the lending institution - supplemented as necessary by outside technicians in specialized areas - and entails the establishment of a technical assistance fund managed by the BCB as a means of providing assistance directly and indirectly to eligible borrowers. This new arrangement was adopted for four basic reasons: a) a belief that lenders should be responsible for analyzing and following-up on loans they make, b) the fact that few qualified outside technicians are available in rural areas in Bolivia to provide the kind of assistance originally envisioned, c) the belief, shared not only by USAID and the BCB but also by the private banking community, that the cost to the borrower of requiring assistance of outside technicians would be prohibitively expensive for the intended target group and often not necessary, and d) the general unmanagability of the original design and the increased administrative burden that it would cause the Fund.

The technical assistance component of the project will function in the following way. In the preinvestment phase, the lender will be responsible for working with the potential borrower to develop, in the form of a loan application form, the basic elements of the project and to determine the economic and financial feasibility of the proposed loan. In technical aspects, where necessary given the nature of the loan request, the bank will be assisted by technicians from public or private technical assistance organizations which are affiliated with the program, by the technicians of the BCB Regional Technical Offices, or by outside consultants. The cost of these services will either be paid by the lender, the borrower, or the program (see below). The BCB will assist the lender by distributing model forms for various types of projects which may be used by the lender to perform the necessary pre-investment analyses.

In the implementation phase, what is generally called technical assistance will be divided into two components: a) loan follow-up to determine the proper use of credit funds, and b) assistance to the borrower in technical aspects of his/her project. The first will be the responsibility of the lender, at no extra charge to the borrower. According to guidelines developed for this aspect of the program, the lender will be requested to make on-site inspections of each loan guarantied under the PCGP to assure the proper use of the loan resources at least every six months. The lender will send a copy of its inspection report with its regular monthly report to the BCB, which will be filed in the corresponding loan file by the Fund administrative unit. As in the case with present BCB refinancing programs, the BCB Regional Technical Offices will be available to assist the lenders in this supervision. If the Fund does not have evidence of at least one lender follow-up visit per year on a loan, the guaranty will not apply to that loan in the event it becomes delinquent.

Regarding the technical aspects of project implementation, the PCGP program will maintain a register of qualified technicians in various fields that can be used to provide direct assistance to the borrower. The need for such specialized assistance will generally be identified in the preinvestment phase and will be paid for as part of the loan by the borrower unless the required assistance can be obtained from a private or public institution without a direct cost to the borrower. In this case all or part of the costs of the technical assistance will be borne by the program. It is expected that supplementary technical assistance at the cost of the borrower will be necessary only in exceptional cases where a project is extremely complicated or a new technology is being introduced.

The principal source of funding for the technical assistance component of the guaranty program will be a technical assistance fund to be established in the BCB. This fund will exist for all refinancing programs to be managed by the BCB as well as for the PCGP and will be oriented to financing technical assistance for small-scale farmers and businessmen under these programs. Generations for the fund from the guaranty program will be exclusively designated for use by the program, but the PCGP will also benefit through this fund from resources from other sources. In other words, the technical assistance fund will benefit a series of programs directly or indirectly with resources generated from the whole range of BCB development activities. The technical assistance fund will initially be capitalized by $200,000 from the BCB from resources at present accumulated in the preinvestment studies fund created with 2% of the interest spread on FRA-1, FRI, and 07911 loans. Through the proposed AID Rural Enterprises/Agro Industry loan, and additional $200,000 will be designated for the initial capitalization of this fund for use in activities related to rural enterprises, artisanry and agro-industry. Thus, the fund will have an initial capitalization of $400,000. In addition, the fund will continually receive resources from the activities of all BCB programs, as demonstrated in the following table:

TABLE 3

Program	Generations for t/a Fund
FRA-1, FRI, 07911	2% of interest rate
Rural Enterprises/Agro-Industry	
Small (less than $25,000)	1% of interest rate
Medium (more than $25,000)	2% of interest rate
Artisanry, rural	1% of interest rate
Artisanry, urban	2% of interest rate
Agro-Industry	3% of interest rate
PCGP	1% commission plus 1% of interest rate on refinanced loans

These generations will be used specifically for activities related to the program through which they were generated, with the exception of resources from FRA-1, FRI, and 07911 which will also be used for activities related to FRA-2.

Resources from the initial capitalization of the technical assistance fund will be used for two principal activities that will indirectly benefit the guaranty program. First, the fund will pay the costs of surveys or studies of various areas throughout the country to identify agricultural, business, artisanry, and agro-industrial prospects and investment opportunities. The scopes of these surveys will be developed by the private banking community, through the Union de Bancos Bolivianos, and will therefore be oriented to those areas and types of activities of most use to them. The surveys will be managed by the staff of the technical assistance fund in the BCB, however, to assure that their results are consistent with the BCB's development programs, including the PCGP. It is expected that the results of these surveys will be distributed to all interested lenders in each area, will facilitate and speed their entry into credit activities in these zones by identifying general credit prospects and target beneficiaries, and will form a major part of the promotional efforts by the lenders and the BCB for the relevant programs in these regions. Many of the agricultural and business activities identified by these surveys are expected to be ones of potential borrowers under the PCGP.

The second general activity to be financed by the technical assistance fund is assistance to banks and other lenders participating in BCB development programs in upgrading their technical capabilities to analyze loans to small farmers and small businessmen, as well as their ability to promote and follow-up on these types of loans. This will be done by providing seed capital or counterpart contributions to resources from the banks themselves for training courses for bank personnel in relevant subjects or for funding additional technical personnel and transportation for these institutions, either individually or through the establishment of multidisciplinary technical offices serving more than one bank. This will result in improved bank personnel who will be able to provide assistance to PCGP borrowers in loan applications and to adequately follow-up on loan implementation.

Resources coming to the technical assistance fund from the PCGP will amount to nearly $187,000 over the life of the program. These funds will benefit borrowers under the guaranty program by paying the costs of technical assistance provided in both the preinvestment and implementation phases by public and private institutions and individuals affiliated with the program. These institutions would include the Instituto Boliviano de Pequeña Industria y Artesanía (INBOPIA), a semi-autonomous government institution in the Ministry of Industry and Commerce, the various Departmental Development Committees, private institutions such as ASAR and AMERINDIA which are technical assistance arms of DESEC, the Ministry of Agriculture's Extension Service, or private consultants or consulting firms demonstrating interest in participating in the program. The assistance of these institutions and others would be formalized through specific contracts with the BCB detailing the type of assistance to be given. Payments to these institutions from the technical assistance fund would be in direct relation to the type and amount of assistance provided and the number of borrowers served. Payments would also be possible for promotional or project development efforts of these institutions which result in additional loans financed under the PCGP. Another use of resources from the technical assistance fund which will directly benefit PCGP borrowers will be to sponsor courses for groups of small farmers, artisans and businessmen in subjects that would help to improve the profitability of their operations, such as the use of new agricultural techniques, quality control in artisanry or processing enterprises, business administration, accounting, etc. Consideration is also being given to paying a portion of the additional costs incurred by a participating lender for loan analysis and supervision on PCGP loans from the technical assistance fund generated by the guaranty program.

As mentioned above, resources for the technical assistance fund will be generated from two sources within the guaranty program: the 1% commission paid by each borrower upon receiving his/her loan and 1% of the interest rate spread on refinanced guarantied loans. Assuming the growth in credit guarantied indicated below and that refinancing will account for 75% of the credit given in the first year, 70% in the second year and 65% in each subsequent year*, the generation to the technical

*/ These percentages are based on the following calculations: 1)the average amount of eligible loans refinanced is 75% and 2) almost all loans will be refinanced the first year, there will be limited lending with the lenders' own funds in the second year, and in the third and fourth years 15% of the loans made will be with the lenders' resources exclusively.

assistance fund for the PCGP will be as follows:

Table 4
($000)

	1978	1979	1980	1981	Total
New credit	500	1,650	3,500	5,600	11,250
Technical Assistance Fund	8.75	28	57.75	92.4	186.9

Assuming an average loan size per individual for all loans guarantied under the program of $4,650*, this means an average of $77.30 or 1.66% for technical assistance costs per project. However, this amount represents 3.1% of the amount of the expected average loan for agricultural and 1.55% of the expected average community development loan, although only 0.8% of the expected average loan for rural enterprises and artisanry. These percentages correspond closely to the anticipated technical assistance needs of each of these categories of projects, considering that borrowers in the small-scale business category - especially the larger loans in this class - will require relatively less assistance from the program in project design, will receive assistance more through group training than individually, and will be more likely to hire with their loan funds technicians in specialized areas to assist in the implementation phase. Therefore, the Mission believes this system to be adequate for the effective operation of the guaranty program.

2. Lender Profitability

The purpose of this section is to demonstrate the viability of the guaranty program from the point of view of the lending institutions. While it cannot be expected that the lenders will make substantial profits from their participation - and none of the potential lenders themselves expect to do so - it is necessary to demonstrate that the lenders will not lose money in order to prove the technical feasibility of the program. This is demonstrated through three examples of hypothetical loans eligible under the PCGP, with varying types of projects and financing possibilities. Three assumptions made throughout these examples are important. First, it is assumed that the financial cost of the lenders resources is 8%.

*/ This average is based in the following assumptions: average loan size per individual for agriculture - $2,500, for community development - $5,000 and business and artisanry $10,000 with a total PCGP portfolio of 35% for agriculture loans, 10% for community development, and 55% for enterprise loans.

Obviously this cost will vary from one lender to another, but as an average, it appears reasonable, given the following financial cost information from the GIASE Report:*

Table 5

Type of Deposit	Legal Reserve	Balance	Interest Paid	Financial Cost
Current Accounts	45%	55%	0	0
Savings Accounts	25%	75%	10%	13.3%
Time Deposits:				
In Pesos Bolivianos				
90 days	10%	90%	10.75%	11.94%
180 days	10%	90%	11.25%	12.50%
360 days	10%	90%	11.75%	13.05%
In Foreign Exchange	15%	85%	9%	10.58%
BCB Rediscounts		100%	7%	7.0%

The second principal assumption concerns administrative costs. The costs calculated in the examples below are above the normal 2%-3% paid by banking institutions on their overall portfolio. It is necessary to assume that these costs will be higher for loans guarantied by the PCGP because of the small expected loan amounts and the fact that borrowers will be first-time bank clients. However, the calculated administrative costs do slightly underestimate these increases, since some of the additional costs to the lender attributable to PCGP loans will be paid from the BCB technical assistance fund, as described in detail above. Third, the examples below show portfolio losses of 3% which is assumed to be the loss rate during the initial years of PCGP implementation.

a) Agricultural loan with BCB refinancing

As indicated above in Table 2 on page 18, for agricultural loans refinanced in conjunction with the PCGP the interest rate will be 13% to the borrower, of which the lender will receive 5%, and 80% of the loan will be refinanced. Therefore, the lender will receive

*/ These data refer only to national commercial banks; the costs for foreign banks are slightly higher.

the following interest payments:

$$(.80 \times 5\%) + (.20 \times 5\%) = 5\% \text{ of the amount of the loan}$$

Of this 5%, an estimated 4% will be spent for administrative costs, leaving 1% to cover the lender's risk plus profits. Looking at risk, assuming a loan amount of $b 100,000, it is reasonable to expect that only 30% of this original amount, i.e. $b 40,000, will be defaulted, since it is likely that the borrower will have been able to pay the other 70%. Based on this loss, the lender would receive $b 22,500 from the Fund, reducing his exposure to $b 7,500. If the lender required additional collateral guaranties of 25% of the original loan amount, it is likely to recuperate 30% of this amount, or $b 7,500. Subtracting the 75% of the amount recuperated payable to the Guaranty Fund, the lender's loss is reduced to $b 5,625, or 5.6% of the original loan amount. Assuming, pessimistically, that 10% of the loans made by the lender under the PCGP fail, the lender's losses on his guarantied portfolio will only be 0.56%. This gives him a profit of 0.44% or 2.2 % of his investment of 20% of the loan amount.

b) Medium rural enterprises loan with BCB refinancing

Again according to the design of the guaranty program, the interest rate to the borrower on this type of loan will be 13%, of which the lender receives 4.5%; 60% will be refinanced. This example assumes administrative costs of only 3.5%, which is reasonable considering the larger size of the loan and the fact that the borrower is probably more sophisticated than the small farmer borrowing in the first example. It is also assumed that the lender requires additional collateral of 50% of the amount of the loan. The lender will receive the following in interest payments:

$$(.60 \times 4.5\%) + (.40 \times 5\%) = 4.7\% \text{ of the amount of the loan}$$

Subtracting administrative costs, this leaves 1.2% to cover the lender's risk and profit. The lender's losses might resemble the following:

original loan amount	$b 1,000,000
default	300,000
payment from the Fund	225,000
lender's initial loss	75,000
recuperations (15% of additional guaranties minus payment to Fund)	18,750
lender's final loss	56,250 or 5.6%

If again we assume 10% of the loans in the lender's portfolio fail, the lender's loss as a percentage of this portfolio is 0.56%. This leaves 0.64% for profits, which compared to the lender's original investment of 40% of the value of the loan is a return of 1.6%.

c) Agriculture loan with lender's own resources (no BCB refinancing)

In this example, the interest rate to the borrower would be 15%, which after subtracting the financial cost of 8% represents 7% for the lender. Using the same administrative cost and risk calculations as in the first example, the lender would receive 3.0% after costs to cover profits and risk. With portfolio losses averaging 0.56%, this represents a return to the lender of 2.44%.

As these three examples demonstrate, the proposed program design is technically feasible from the lender's point of view. While the lender's profitability is higher on loans made with its own funds because of the higher interest rate, it is doubtful that participating lenders will choose to depend principally on their funds during the pilot stage of the PCGP. Their lack of liquidity and the tendency not to want to use their own resources entirely for operations about which they are unsure due to lack of previous experience with the borrower should restrict the number of loans made exclusively with their funds in the early years. On the demand side also, the higher interest rate to the borrower will likely constrain the number of these types of loans. These examples also demonstrate that lenders can accept portfolio losses of up to 4%-4.5% without losing money, but that above this loss rate they cannot be expected to participate in the program, or will limit their participation to relatively secure loans on which the losses will be smaller.

3. Impact of PCGP on Borrower

The Mission believes that the program as designed provides a number of incentives for the borrower to participate. The effective interest rate to the borrower will range from approximately 13.5% to a high of 20%, depending on the term of the loan and whether or not it is refinanced. While higher than the 13% charged GOB-sponsored development credit or the 15%-16% normally charged by banks for productive loans, it must be remembered that the PCGP borrower does not at present have access to these credit sources because of a lack of guaranties. In addition, this effective interest rate is below the effective rate of 25% charged by the private banking system for personal and commercial loans and substantially below the maximum legal rate on the informal market of 4% per month. This effective rate also includes the payment for technical assistance, which will be returned to the borrower in the form of services related to project design and implementation. The borrower also benefits from a significant reduction in the guaranty requirements of the lender, which allows him/her to greatly increase the leverage of the limited capital he/she has and, in fact, permits him/her to enter the formal credit market for the first time.

The most important factor determining whether or not the potential borrower will participate is the attractiveness of the program vis-a-vis the informal alternatives. The informal credit market is made up of a variety of channels, including friends and relatives, merchants and moneylenders, and suppliers and transporters. Its value from the point of view of the borrower is that it is easy, uncomplicated, requires little or no travel away from the farm or place of business, and permits repayment in kind. However, this must be balanced by the extremely high interest rates often paid, up to 4% per month, or an effective interest rate of over 50% a year. Obviously not all borrowers pay interest rates this high, especially those borrowing from friends or relatives. Nevertheless, overall these high interest rates provide a large incentive for borrowers previously without access to formal credit channels to seek such credit, especially if the interest rate is reasonably low and if technical assistance is involved. The Mission and the BCB believe that the incentives offered by the proposed PCGP design will be sufficient to attract the majority of eligible borrowers with viable projects away from the informal market. Efforts will be made during the implementation of the guaranty program to reduce any unnecessary delays or additional costs (e.g. travel) required to receive institutional credit so as to keep the program as attractive an alternative as possible to the informal credit market.

4. Summary Opinion

The Mission and the BCB conclude that the design of the program is reasonable and that the cost estimates and requirement for the AID guaranty authority are reasonably firm. The program design provides sufficient incentives to encourage the participation of both eligible lenders and borrowers, and the technical assistance element is designed to provide adequate assurances of the viability of the PCGP Fund from both a technical and financial point of view.

Annex E contains the detailed cost estimates for the USAID financed technician to assist the BCB in initiating and evaluating the program (see also Section IV.C. (p. 68)). These estimates were based on standard cost factors for the items involved, and are considered reasonably firm. As demonstrated in the Financial Analysis below (p.36), the entire AID guaranty authority of $2.5 million will be required by the fourth year of the program. The Mission believes that the projections of credit flows resulting from the PCGP are reasonable and that the $2.5 million guaranty authority is justified by this analysis.

B. Financial Analysis

1. Portfolio Growth and System Liquidity

The preliminary guaranty program design for Bolivia presented in the PRP placed exclusive reliance on private lender resources for loans under the PCGP. This was based on findings that there was excessive liquidity in the private banking system that could be channelled into new credit if a guaranty program was available. This excess liquidity was largely the result of increased savings over the past year or two, due in large part to the general political stability and economic growth over that period. However, it is extremely difficult to accurately predict future patterns of economic growth and personal savings. In addition, because of the high financial cost of savings accounts (see Table 5, p. 32), it is doubtful that increases in savings alone would result in significant lender participation in PCGP-type projects. Therefore, upon further analysis of the liquidity question, it was concluded that although this situation has existed in recent years, it is unwise to assume that it will continue to the same extent over the medium term in which the guaranty program will be implemented. As a result of this conclusion, the PCGP design was modified to include refinancing from existing BCB programs, including FRA-1, FRI and the Special Fund for Economic Development. However, efforts have been made to structure the refinancing aspect of the program in such a way that a large amount of private lender resources are also involved.

During the first year or two of implementation, it is expected that almost all loans made under the guaranty program will be refinanced. By the third and fourth year of the program, however, we expect that approximately 15% of the loans made will be exclusively with lender funds. Based on these calculations, and considering that the amount of individual loans refinanced varies from 60% to 80% depending on the type of loan (see Table 2, p. 18), it is estimated that refinancing will account for 75% of the amount of PCGP-guarantied loans made during the first year, 70% of those made during the second year and 65% of loans made in the third and fourth years of the program. Given the number of BCB refinancing lines that will be sources of these amounts, it is not believed that the guaranty program will adversely affect any of these lines. On the contrary, the PCGP will provide another vehicle for the use of these resources for productive credit activities and will orient programs presently benefitting primarily medium and large farmers and businessmen toward smaller-scale borrowers.

The estimated lending activity for the guaranty program was based on the portfolio growth of the private banking system in eligible areas over the past four years and projections of credit growth during the next five years. Table 6 indicates the amount of this past growth, including a detailed breakdown of credit by sector in 1975 and 1976. The figures in this table are based on

TABLE 6
PORTFOLIO GROWTH OF BOLIVIAN PRIVATE BANKING SYSTEM, 1973-76 (Millions of Pesos)

	1973	1974	1975	1976
National Private Commercial Banks	462.5	839.1	1,282.8	2,148.7
Foreign Private Commercial Banks	624.1	994.2	1,180.6	1,360.9
Specialized Private Banks *	785.5	1,116.7	1,496.7	2,001.9
	1,872.1	2,950.0	3,960.1	5,511.5
Mixed Banks	-	-	18.9	46.8
	1,872.1	2,950.0	3,979.0	5,558.3

PORTFOLIO DISTRIBUTION BY SECTORS (Millions of Pesos)

1975	Agriculture & Livestock	Industry	Construction	Exports	Artisanry	Mining	Commercial	Individuals	Others	Total
Banco de Cochabamba	5.1	37.0	7.3	0.2	1.1	-	23.7	19.7	0.4	94.5
Banco de Crédito Oruro	8.7	101.5	9.6	-	3.0	-	36.4	0.7	-	159.9
37 Banco Santa Cruz de la Sierra	69.7	40.9	4.2	-	4.6	-	46.7	20.5	11.5	197.5
Banco Hipotecario Nacional (Commercial Section)	4.0	95.2	15.3	4.5	3.0	-	38.9	15.7	1.5	178.1
Banco Mercantil	7.7	136.0	13.4	-	4.5	-	37.1	28.8	10.5	237.8
Banco Nacional de Bolivia	13.0	53.0	19.7	0.9	5.0	-	73.8	0.4	-	165.8
Banco Industrial y Ganadero del Beni	23.4	4.7	-	-	4.7	-	1.3	1.7	-	35.8
Banco de La Paz S.A.	-	17.3	-	-	-	-	8.3	7.4	-	33.0
Banco Boliviano Americano	14.6	74.0	3.9	-	0.7	-	51.2	1.4	6.7	152.5
Banco de Potosí S.A.	1.6	11.7	0.2	-	5.4	-	7.2	1.1	0.7	27.9
	147.8	571.3	73.6	5.6	32.0	-	324.6	97.4	31.3	1,282.8
Banco de la Nación Argentina	-	109.1	-	-	-	-	43.2	1.0	-	153.3
Banco Do Brazil	179.2	152.7	1.9	0.4	0.2	-	109.5	22.6	14.2	480.7
First National City Bank	0.8	68.6	0.2	-	-	-	49.0	0.5	-	119.1
Banco Popular del Perú	13.2	107.7	5.0	-	0.6	-	83.0	-	1.0	210.5
Banco de Boston	-	91.2	-	-	-	-	17.8	1.8	-	110.8
Bank of America	1.4	84.1	3.7	-	-	-	9.4	7.5	0.1	106.2
	194.6	613.4	10.8	0.4	0.8	-	311.9	33.4	15.3	1,180.6
Bancos Especializados Privados *		1,496.7								1,496.7
Banco de la Vivienda			18.9							18.9
Total	342.4	2,784.7		6.0	32.8	-	636.5	130.8	46.6	3,979.0

PORTFOLIO DISTRIBUTION BY SECTORS (Millions of Pesos)

1976	Agriculture & Livestock	Industry	Construction	Exports	Artisanry	Mining	Commercial	Individuals	Others	Total
Banco de Cochabamba	4.3	105.4	10.7	-	0.9	-	35.3	32.8	1.4	190.8
Banco de Crédito de Oruro	15.1	153.0	3.9	-	1.9	-	72.9	1.8	0.6	249.2
Banco Santa Cruz de la Sierra	91.6	109.6	0.2	-	4.7	-	76.3	40.7	19.1	342.2
Banco Hipotecario Nacional	11.8	139.6	10.6	40.4	1.8	-	41.4	17.9	1.6	265.1
Banco Mercantil	14.9	180.1	10.5	-	3.7	-	42.0	53.8	1.5	306.5
Banco Nacional de Bolivia	11.6	129.6	16.4	-	12.3	-	117.3	0.6	-	287.8
Banco Industrial y Ganadero del Beni	30.8	6.7	-	-	4.2	-	2.2	2.2	-	46.1
Banco de La Paz S.A.	5.3	32.4	0.1	-	0.1	-	14.7	10.8	0.1	63.5
Banco Boliviano Americano	5.2	139.1	6.8	1.7	1.4	-	150.7	12.3	28.0	345.2
Banco de Potosí S.A.	6.7	27.0	0.1	-	8.3	-	8.7	1.5	-	52.3
	197.3	1,022.5	59.3	42.1	39.3	-	561.5	174.4	52.3	2,148.7
Banco de la Nación Argentina	-	119.4	-	-	-	-	51.8	0.8	-	172.0
Banco Do Brazil	189.0	166.3	3.5	-	0.4	-	109.8	25.0	12.5	506.5
First National City Bank	0.8	109.0	0.2	-	-	-	7.2	0.4	-	117.6
Banco Popular del Perú	11.6	167.2	1.5	-	-	-	107.9	0.9	2.1	291.2
Banco de Boston	0.6	110.5	2.5	-	-	-	29.3	3.0	0.6	146.5
Bank of America	0.6	107.9	0.6	-	-	-	8.9	8.7	0.4	127.1
	202.6	780.3	8.3	-	0.4	-	314.9	38.8	15.6	1,360.9
Bancos Especializados Privados *		2,001.9								2,001.9
Banco de la Vivienda			46.8							46.8
Total	399.9	3,919.1		42.1	39.7	-	876.4	213.2	67.9	5,558.3

Source: GIASE, Estudio del Sistema Bancario Nacional, 1977. (Schedules 17, 18 and 19 and 117).

* Banco Industrial, Banco de Financiamiento Industrial, and the mortgage section of the Banco Hipotecario Nacional.

TABLE 7

NEW CREDIT TRANSACTIONS BY SOURCE OF FUNDING AND SECTOR
(In Millions of US$)

Calendar Year	Industry	Artisanry	Construction	Agriculture	Exports	Commercial	Individuals	Mining	Others	Total
A. Private Commercial Banks										
1973	46.0	0.2	0.3	9.2	-	22.6	5.5	-	0.5	84.3
1974	70.2	0.5	0.6	10.1	0.1	32.3	7.7	-	1.3	122.8
1975	66.1	0.6	0.5	11.5	-	40.7	10.2	-	3.5	133.1
1976	99.2	0.7	0.3	5.2	-	60.8	14.5	-	7.6	189.0
Sub-Total	281.5	2.0	1.7	36.7	0.1	156.4*	37.9*	-	12.9*	529.2
B. Specialized Private Banks 1/										
1973	1.4		0.9							2.3
1974	2.9		2.3							5.2
1975	5.2		4.7							9.9
1976	11.0		7.6							18.6
Sub-Total	20.5		15.5							36.0
C. Mixed Banks 2/										
1973			-							-
1974			-							-
1975			0.9							0.9
1976			2.3							[illegible]

Calendar Year	Industry	Artisanry	Construction	Agriculture	Exports	Commercial	Individuals	Mining	Others	Total
D. BCB Refinancing Programs (through private sector)										
1973	1.6		2.4	1.0						5.0
1974	1.6			1.6						3.2
1975	1.7			1.2						2.9
1976	2.3		0.2	2.3						4.8
Sub-Total	7.2		2.6	6.1						15.9
Grand Total										584.3
* Transactions not eligible under FCGP										-207.2
										377.1

Sources: 1) CIASE, Estudio del Sistema Bancario Nacional, 1977. (Schedule 5 and working papers).
2) BCB (Rediscount figures).

1/ Banco Industrial, Banco de Financiamiento Industrial and mortgage section of the Banco Hipotecario Nacional

2/ Banco de la Vivienda.

outstanding year-end balances and show an average annual growth rate of approximately 44% over this period. Approximately 79% of the amounts shown are in general categories which are eligible under the guaranty program.

In addition to the figures in Table 6 , an analysis was also performed of new credit activities over the same period. These figures are presented in Table 7 . In summary, new lending by the private banking system was as follows:

Table 8
(in millions of US$)

Year	Amount	Increase Amount	Increase Percentage
1973	63,0		
1974	89,9	26.9	43%
1975	92.4	2.5	3%
1976	131.8	39.4	43%

Source: CIASE, Estudio del Sistema Bancario Nacional, 1977

With the exception of 1975, these figures also demonstrate credit expansion over 40% per year.

The principal reason for this large growth in private bank credit was the economic stability which has characterized the post-1971 period in Bolivia. While this stability is expected to continue for the foreseeable future, we do not believe this high rate of growth can be sustained over the next five years. Therefore, we have calculated increases of 30% per year as the basis for our future credit projections.

A large part of the past expansion of bank credit has gone to serve traditional, urban customers. This will obviously continue to be the major focus of the private commercial banks. However, we believe that in order to continue to grow the banks must look for new clients. The guaranty program provides the banks an incentive and an opportunity to do this for small farmers, entrepreneurs and artisans. Nevertheless, we do not expect that lending to these new groups will constitute a major bank activity during the implementation of the pilot stage of the PCGP. Therefore, in our calculations of new lending activity we have estimated that loans guarantied will constitute 1% of the expansion of new credit activities in 1978, 2.5% in 1979, 4% in 1980 and 5% in 1981. When the amount of refinancing is considered, these projections are realistic expectations of the private banking system to the guaranty program. These calculations are presented in the following table:

Table 9
(in millions of US$)

Year	New Lending by Private Banks*	Increase in New Lending	PCGP Credit: Percent of increase	PCGP Credit: Amount
1976	131.8			
1977	171.3			
1978	222.7	51.4	1%	0.51
1979	289.5	66.8	2.5%	1.67
1980	376.4	86.9	4%	3.48
1981	489.3	112.9	5%	5.65

* based on expansion of 30% per year

2. Guaranty Fund Financial Projections

Based on the figures in Table 9 above, financial projection were made for the operation of the Guaranty Fund. These projections are based on several major assumptions, which are described below:

a) Guaranty Commission

The guaranty commission will be 4% on short-term loans (up to 24 months) and 5% on medium- and long-term loans. An additional 1% is added to the commission for the technical assistance fund.

b) Credit terms

It is estimated that 56% of the value of loans made under the guaranty program will be short-term and 44% medium- and long-term. This estimate is based on the following calculations.

Type of loan	% short-term	% long-term	% of type of project in total PCGP portfolio
Agriculture	70	30	35
Rural enterprises and artisanry	50	50	55
Community development	40	60	10

Short-term

35 x .70 = 24.5
55 x .50 == 27.5
10 x .40 = 4.0
56.0%

Long-term

35 x .30 = 10.5
55 x .50 = 27.5
10 x .60 = 6.0
44.0%

TABLE 10
GUARANTEE COMMISSION

	1978	1979	1980	1981	Total
Total Credit Lent under PCGP	500	1,650	3,500	5,600	11,250
A. Income					
Guarantee Commission:					
a) Short-term loans (56% of lending activity) 5%	14.0	46.2	98.0	156.8	315.0
b) Long-term loans (44% of lending activity) 6%	13.2	43.5	92.4	147.8	296.9
	27.2	89.7	190.4	304.6	611.9
B. Expenditures					
Technical Assistance Fund	5.0	16.5	35.0	56.0	112.5
C. Net income from guaranty com missions	22.2	73.2	155.4	248.6	499.4

TABLE 11

CASH FLOW I *
(In 000 US$)

		1978	1979	1980	1981	1982	1983	1984	1985	1986	Total
I.	**Income**										
	Balance from previous year	-	17.3	30.9	97.7	221.3	146.8	136.4	119.8	117.8	-
	Net income from guaranty commissions	22.2	73.2	155.4	248.6	-	-	-	-	-	499.4
	Interest earnings	-	0.9	1.6	4.9	11.1	7.3	6.8	6.0	5.9	44.5
	Recuperations of guaranty payments	-	0.8	3.6	9.5	18.4	18.6	6.2	4.6	1.8	63.5
	Payments by AID/BCB	-	-	-	-	-	-	-	-	-	-
	Total Income	22.2	92.2	191.5	360.7	250.8	172.7	149.4	130.4	125.5	607.4
II.	**Expenditures**										
	Administrative costs	-	40.0	40.0	40.0	25.0	10.0	10.0	5.0	-	170.0
	Guaranty payments:										
	1978 ST	2.1	4.2	-	-	-	-	-	-	-	6.3
	LT	0.6	1.2	1.2	1.2	0.7	-	-	-	-	4.9
	1979 ST	-	6.9	13.9	-	-	-	-	-	-	20.8
	LT	-	2.0	4.0	4.0	4.0	2.3	-	-	-	16.3
	1980 ST	-	-	14.7	29.4	-	-	-	-	-	44.1
	LT	-	-	4.3	8.6	8.6	8.6	4.6	-	-	34.7
	1981 ST	-	-	-	23.5	47.1	-	-	-	-	70.6
	LT	-	-	-	6.9	13.8	13.8	13.8	7.1	-	55.4
	Guaranty payments of interest accumulated during delinquency period	0.2	0.9	2.5	4.8	4.8	1.6	1.2	0.5	-	16.5
	Guaranty fee to AID	1.3	4.1	8.8	14.0	-	-	-	-	-	28.2
	Guaranty fee to BCB	0.7	2.0	4.4	7.0	-	-	-	-	-	14.1
	Total Expenditures	4.9	61.3	93.8	139.4	104.0	36.3	29.6	12.6	-	481.9
III.	Balance (Capitalization)	17.3	30.9	97.7	221.3	146.8	136.4	119.8	117.8	125.5	125.5

ST = Short-term.
LT = Long-term.

* Based on 3% portfolio losses.

Based on these calculations and the guaranty commission amount, Table 10 presents the estimated generations from the guaranty commission through 1981.

c) Loss rate

The financial projections for the Fund were calculated on the basis of a loss rate of 3% of the amount of loans guarantied. As can be seen from the examples presented above in Section III. A.2 (p. 31), this loss rate is quite reasonable.

d) Cash flow

Table 11 presents the cash flow of the Guaranty Fund with the assumed 3% loss rate. It should be noted that these projections assume continuation of the guaranty program only through 1981. After that time no new lending (or income from guaranty commissions) is projected.

The Net income from guaranty commissions is taken from Table 10 . Interest earnings are calculated at 5% of the balance from the previous year. The resources of the Fund will be placed in savings accounts earning 10% interest per year. However, because of the need to use these funds at different points throughout the year to make guaranty payments, only 5% was calculated for this purpose. The calculations for recuperations of guaranty payments in the cash flow projections are based on estimated recuperations of 25% of guaranty payments made the previous year. These recuperations will be paid to the Fund by lenders who recuperate on loans on which a guaranty payment was made; 75% of all such recuperations minus the costs of recuperation will be paid to the Fund. On the expenditure side, administrative costs will be paid during the first year by the BCB and will not be charged to the program. Subsequently, through 1981, these costs are based on the following calculations:

Salaries	Monthly Salary (US$)
1 senior analyst	700
1 analyst	500
administrative and technical support to PCGP unit from other BCB offices	500
	$ 1,700

Benefits

50% of salaries of PCGP unit staff	600
Total monthly salaries	$ 2,300
Estimated annual salaries	27,600
Annual overhead costs	12,000
Total annual costs	39,600

It is expected that these costs will be reduced subsequent to 1981, since there will be no new lending and decreasing guaranty payment activity until all Fund obligations are paid in 1985. Guaranty payments are calculated on a different basis for short- and long-term loans. The estimated average term for short-term loans is 18 months and payments are calculated on the basis of 33% of the total payments during the year in which the loan was made and 67% in the following year. For long-term loans, an average of four years is estimated, with guaranty payments calculated as follows: 12.5% in the year the loan was made, 25% in each of the next three years, and 12.5% in the fourth year after the loan was made. These calculations assume, for purposes of average projections, years beginning July 1 and ending June 30. Guaranty payments for interest accumulated during the delinquency period are calculated at 6.5% of guaranty payments made during that year, i.e. 180 days' interest based on an annual rate of 13%. The guaranty fee to AID is 0.25% of the amount of loans guarantied and the guaranty fee to BCB is 0.125% of the amount of loans guarantied, The balance after expenditures is the net capitalization of the Fund at the end of each year. As Table 11 indicates, with 3% losses, the Fund has $139,500 in capital after all obligations are met on loans made through 1981.

e) AID exposure

Table 12 presents the calculations of AID and BCB exposure from PCGP operations with a 3% loss rate. Repayment activity is based on the same calculations of average loan term and repayment as described above in the cash flow analysis for guaranty payments, i.e. 18 months for short-term loans and four years for long-term loans. The PCGP portfolio is the net outstanding balance of all loans guarantied at the end of each year, subtracting repayments made during the year. AID and BCB exposures are calculated by first substracting from 75% of the portfolio the amount of resources in the Guaranty Fund (from Table 11) and dividing the remainder into the 50% corresponding to AID and the 25% corresponding to the BCB.

TABLE 12

PORTFOLIO AND EXPOSURE SCHEDULE I
(In 000 US$)

		1978	1979	1980	1981	1982	1983	1984	1985	1986	Total
I.	New lending Activity	500	1,650	3,500	5,600	-	-	-	-	-	11,250
	Portfolio from end of previous year	-	379	1,389	3,190	5,507	2,204	1,113	308	-	-
II.	Repayment Activity:*										
	1978 ST $ 280	(93)	(187)								(280)
	LT $ 220	(28)	(54)	(55)	(55)	(28)					(220)
	1979 ST $ 924		(308)	(616)							(924)
	LT $ 726		(91)	(182)	(182)	(182)	(89)				(726)
	1980 ST $1,960			(653)	(1,307)						(1,960)
	LT $1,540			(193)	(386)	(386)	(386)	(189)			(1,540)
	1981 ST $3,136				(1,045)	(2,091)					(3,136)
	LT $2,464				(308)	(616)	(616)	(616)	(308)		(2,464)
III.	Portfolio	379	1,389	3,190	5,507	2,204	1,113	308	-	-	
IV.	Exposure	379	1,389	3,190	5,507	2,204	1,113	308	-	-	
	Guaranty Fund**	17	31	98	221	147	136	120	-	-	
	AID Exposure	178	673	1,529	2,605	1,004	465	74	-	-	
	BCB Exposure	89	337	765	1,303	502	233	37	-	-	
	Lender Exposure	95	348	798	1,378	551	279	77	-	-	

ST = Short-term.
LT = Long-term.

* Repayment activity on loans made in years indicated.
** Based on 3% portfolio losses.

TABLE 13

SALIENT RESULTS OF THE ANALYSIS (Estimated 3% Losses)
(.1 000 US$)

CY	Amount of Lending	Portfolio	AID Exposure	Net Guarantee Payments* AID Funds	BCB Funds	Guarantee Fund	Fee Collections AID	BCB
1978	500	379	178	-	-	2.7	1.3	0.7
1979	1,650	1,389	673	-	-	13.5	4.1	2.0
1980	3,500	3,190	1,529	-	-	34.5	8.8	4.4
1981	5,600	5,507	2,605	-	-	64.1	14.0	7.0
1982	-	2,204	1,004	-	-	55.8	-	-
1983	-	1,113	465	-	-	6.1	-	-
1984	-	308	74	-	-	12.2	-	-
1985	-	-	-	-	-	2.5	-	-
1986	-	-	-	-	-	(1.8)	-	-
	11,250	XXXX	XXXX	0	0	189.6	28.2	14.1

Major assumptions:
1) PCGP will be effective thru CY 1981.
2) Guarantee Commissions: 5% for short-term loans (1% is allocated to Technical Assistance Fund).
6% for medium and long-term loans (1% is allocated to Technical Assistance Fund).
3) 56% and 44% of total lending will be for short-term loans and medium-long-term loans, respectively.

* Actual payments less recuperations.

f) Salient results of the analysis

Table 13 presents the major conclusions from Tables 11 and . As has been noted, with 3% portfolio losses, the Fund builds up a substantial capital. The AID exposure reaches its maximum authorized levels sometime in the last half of 1981, at which time either new lending will have to be reduced below the projections or the AID authority will have to be expanded. No payments to the Fund by AID or the BCB will be necessary.

3. Sensitivity Analysis

Although it is expected that losses in the PCGP portfolio will be limited to 3%, calculations were also made for projected losses of 4% (Tables 14 , 15 and 16) and 5% (Tables 17 , 18 , and 19) to examine the viability of the program with these higher loss rates. As this analysis shows, with 4% losses, the Fund still builds up a sizable capital without the need for AID or BCB payments. AID exposure does increase slightly, but not significantly.

The situation with 5% losses is somewhat different. Payments by AID and BCB are necessary beginning in 1984, and total $44,500 before all Fund obligations are met. Although undesirable, these losses roughly correspond to the $42,300 paid to AID and the BCB in guaranty fees from 1976-1981, not including interest that might have accumulated on these fee payments.

One important consideration should be kept in mind when analyzing the viability of the Fund with 5% losses, however. As was demonstrated above in Section III.A.2 (p 31), lenders participating in the program will lose money if the loss rate goes above 4%--.5%. While this is true using the examples of refinanced loans, we have estimated that a maximum of 35% of all loans made will be refinanced and it is doubtful that lenders would choose to switch to using their own resources for PCGP-type loans when refinancing is unprofitable, even though they may be able to make a small profit. Therefore, we believe that before losses reach 5%, the system will automatically cease to function, or will function at a reduced level with more secure loans, which will reduce the overall loss rate. As a result, the Mission believes that the guaranty program is sound from a financial point of view and is designed in such a way that a self-sufficient Guaranty Fund is assured.

TABLE 14

CASH FLOW II *
(In 000 US$)

	1978	1979	1980	1981	1982	1983	1984	1985	1986	Total
I. Income										
Balance from previous year	-	16.4	24.9	79.0	178.5	81.8	65.7	41.6	34.6	
Net income from guaranty commissions	22.2	73.2	155.4	248.6	-	-	-	-	-	499.4
Interest earnings	-	0.8	1.3	4.0	8.9	4.1	3.3	2.1	1.7	26.2
Recuperating of guaranty payments	-	0.9	4.8	12.7	24.9	24.8	8.2	6.0	2.4	84.7
Payments by AID/BCB	-	-	-	-	-	-	-	-	-	-
Total Income	22.2	91.3	186.4	344.3	212.3	110.7	77.2	49.7	38.7	610.3
II. Expenditures										
Administrative Costs	-	40.0	40.0	40.0	25.0	10.0	10.0	5.0	-	170.0
Guarantee Payments:										
1978 ST	2.8	5.6	-	-	-	-	-	-	-	8.4
LT	0.8	1.6	1.6	1.6	1.0	-	-	-	-	6.6
1979 ST	-	9.2	18.5	-	-	-	-	-	-	27.7
LT	-	2.7	5.4	5.4	5.4	2.9	-	-	-	21.8
1980 ST	-	-	19.6	39.2	-	-	-	-	-	58.8
LT	-	-	5.8	11.6	11.6	11.6	5.6	-	-	46.2
1981 ST	-	-	-	31.4	62.7	-	-	-	-	94.1
LT	-	-	-	9.2	18.4	18.4	18.4	9.5	-	73.9
Guaranty payments of interest accumulated during delinquency period	0.2	1.2	3.3	6.4	6.4	2.1	1.6	0.6	-	21.8
Guaranty fee to AID	1.3	4.1	8.8	14.0	-	-	-	-	-	28.2
Guaranty fee to BCB	0.7	2.0	4.4	7.0	-	-	-	-	-	14.1
Total Expenditures	5.8	66.4	107.4	165.8	130.5	45.0	35.6	15.1	-	571.6
III. Balance (Capitalization)	16.4	24.9	79.0	178.5	81.8	65.7	41.6	34.6	38.7	38.7

ST - Short-term.
LT - Long-term.
* Based on 4% portfolio losses.

TABLE 15

PORTFOLIO AND EXPOSURE SCHEDULE II
(000 US$)

			1978	1979	1980	1981	1982	1983	1984	1985	1986	Total
I.	New Lending Activity		500	1,650	3,500	5,600	-	-	-	-	-	11,250
	Portfolio from end of previous year		-	379	1,389	3,190	5,507	2,204	1,113	308	-	
II.	Repayment Activity:*											
	1978	ST $ 280	(93)	(187)								(280)
		LT $ 220	(28)	(54)	(55)	(55)	(28)					(220)
	1979	ST $ 924		(308)	(616)							(924)
		LT $ 726		(91)	(182)	(182)	(182)	(89)				(726)
	1980	ST $1,960			(653)	(1,307)						(1,960)
		LT $1,540			(193)	(386)	(386)	(386)	(189)			(1,540)
	1981	ST $3,136				(1,045)	(2,091)					(3,136)
		LT $2,464				(308)	(616)	(616)	(616)	(308)		(2,464)
III.	Portfolio		379	1,389	3,190	5,507	2,204	1,113	308	-	-	
IV.	Exposure		379	1,389	3,190	5,507	2,204	1,113	308	-	-	
	Guaranty Fund**		16	25	79	179	82	66	42	-	-	
	AID Exposure		177	675	1,542	2,633	1,047	512	126	-	-	
	Banco Central Exposure		89	337	771	1,317	524	256	63	-	-	
	Lender Exposure		95	348	798	1,378	551	279	77	-	-	

ST = Short-term.
LT = Long-term.

* Repayment activity on loans made in years indicated.
** Based on 4% portfolio losses.

TABLE 16

SALIENT RESULTS OF THE ANALYSIS (Estimated 4% Losses)
(In 000 US$)

CY	Amount of Lending	Portfolio	AID Exposure	Net Guarantee Payments*			Fee Collections	
				AID Funds	BCB Funds	Guarantee Fund	AID	BCB
1978	500	379	177	-	-	3.6	1.3	0.7
1979	1,650	1,389	675	-	-	18.2	4.1	2.0
1980	3,500	3,190	1,542	-	-	46.1	8.8	4.4
1981	5,000	5,507	2,633	-	-	85.7	14.0	7.0
1982	-	2,204	1,047	-	-	74.2	-	-
1983	-	1,113	512	-	-	8.1	-	-
1984	-	308	126	-	-	15.8	-	-
1985	-	-	-	-	-	3.5	-	-
1986	-	-	-	-	-	(2.4)	-	-
	11,250	XXXX	XXXX	-	-	252.8	28.2	14.1

Major assumptions:

1) PCGP will be effective thru CY 1981.
2) Guarantee Commissions: 5% for short-term loans (1% is allocated to Technical Assistance Fund).
   6% for medium and long-term loans (1% is allocated to Technical Assistance Fund.
3) 56% and 44% of total lending will be for short-term loans and medium-long-term loans, respectively.

* Actual payments less recuperations.

TABLE 17

CASH FLOW III*
(In 000 US$)

	1978	1979	1980	1981	1982	1983	1984	1985	1986	Total
I. Income										
Balance from previous year	-	15.4	18.8	60.2	135.7	16.1	-	-	-	-
Net income from guaranty commissions	22.2	73.2	155.4	248.6	-	-	-	-	-	499.4
Interest earnings	-	0.8	0.9	3.0	6.8	0.8	-	-	-	12.3
Recuperations of guaranty payments	-	1.1	6.0	15.9	30.8	31.0	10.3	7.6	2.8	105.5
Payments by AID/BCB	-	-	-	-	-	5.8	32.2	9.3	(2.8)	44.5
Total income	22.2	90.5	181.1	327.7	173.3	53.7	42.5	16.9	-	661.7
II. Expenditure										
Administrative Costs	-	40.0	40.0	40.0	25.0	10.0	10.0	5.0	-	170.0
Guaranty payments:										
1978 ST	3.5	7.0	-	-	-	-	-	-	-	10.5
LT	1.0	2.0	2.0	2.0	1.3	-	-	-	-	8.3
1979 ST	-	11.6	23.1	-	-	-	-	-	-	34.7
LT	-	3.4	6.8	6.8	6.8	3.4	-	-	-	27.2
1980 ST	-	-	24.5	49.0	-	-	-	-	-	73.5
LT	-	-	7.2	14.4	14.4	14.4	7.3	-	-	57.7
1981 ST	-	-	-	39.2	78.4	-	-	-	-	117.6
LT	-	-	-	11.6	23.2	23.2	23.2	11.2	-	92.4
Guaranty payments of interest accumulated during delinquency period	0.3	1.6	4.1	8.0	8.1	2.7	2.0	0.7	-	27.5
Guaranty fee to AID	1.3	4.1	8.8	14.0	-	-	-	-	-	28.2
Guaranty fee to BCB	0.7	2.0	4.4	7.0	-	-	-	-	-	14.1
Total Expenditures	6.8	71.7	120.9	192.0	157.2	53.7	42.5	16.9	-	661.7
III. Balance (Capitalization)	15.4	18.8	60.2	135.7	16.1	-	-	-	-	-

ST = Short-term.
LT = Long-term.
* Based on 5% portfolio losses.

TABLE 18

PORTFOLIO AND EXPOSURE SCHEDULE III
(000 US$)

	1978	1979	1980	1981	1982	1983	1984	1985	1986	Total
I. Lending Activity	500	1,650	3,500	5,600	-	-	-	-	-	11,250
Portfolio from end of previous year	-	379	1,389	3,190	5,507	2,204	1,113	308	-	-
II. Repayment Activity:*										
1978 ST $ 280	(93)	(187)								(280)
LT $ 220	(28)	(54)	(55)	(55)	(28)					(220)
1979 ST $ 924		(308)	(616)							(924)
LT $ 726		(91)	(182)	(182)	(182)	(89)				(726)
1980 ST $1,960			(653)	(1,307)						(1,960)
LT $1,540			(193)	(386)	(386)	(386)	(189)			(1,540)
1981 ST $3,136				(1,045)	(2,091)					(3,136)
LT $2,464				(308)	(616)	(616)	(616)	(308)		(2,464)
III. Portfolio	379	1,389	3,190	5,507	2,204	1,113	308	-	-	
IV. Exposure	379	1,389	3,190	5,507	2,204	1,113	308	-	-	
Guaranty Fund**	15	19	60	136	16	-	-	-	-	
AID Exposure	180	681	1,555	2,663	1,091	556	154	-	-	
BCB Exposure	89	341	777	1,331	546	278	77	-	-	
Lender Exposure	95	348	798	1,377	551	279	77	-	-	

ST = Short-term.
LT = Long-term.

* Repayment activity on loans made in years indicated.
** Based on 5% portfolio losses.

TABLE 19

SALIENT RESULTS OF THE ANALYSIS (Estimated 5% Losses)
(In 000 US$)

CY	Amount of Lending	Portfolio	AID Exposure	Net Guarantee Payments* AID Funds	BCB Funds	Guarantee Fund	Fee Collections AID	BCB
1978	500	379	180	-	-	4.5	1.3	0.7
1979	1,650	1,389	681	-	-	22.9	4.1	2.0
1980	3,500	3,190	1,555	-	-	57.6	8.8	4.4
1981	5,600	5,507	2,663	-	-	107.1	14.0	7.0
1982	-	2,204	1,091	-	-	93.3	-	-
1983	-	1,113	556	3.9	1.9	10.0	-	-
1984	-	308	154	21.5	10.7	20.2	-	-
1985	-	-	-	6.2	3.1	3.6	-	-
1986	-	-	-	(1.9)	(0.9)	(2.8)	-	-
	11,250	XXXX	XXXX	29.7	14.8	316.4	28.2	14.1

Major assumptions:

1) PCGP will be effective thru CY 1981.
2) Guarantee Commissions: 5% for short-term loans (1% is allocated to Technical Assistance Fund).
   6% for medium and long-term loans (1% is allocated to Technical Assistance Fund).
3) 56% and 44% of total lending will be for short-term loans and medium-long-term loans, respectively.

* Actual payments less recuperations.

C. Social Analysis

1. Socio-Economic Profile of the Target Group*

Approximately 69% of the population of Bolivia (3,238,000 people) live in rural areas. Of this population, over 80% live in the Altiplano and Valles regions. The rural population is distributed in the following manner by Departments:

TABLE 20

Region	Population	Percentage
Altiplano	1,596,770	49.3
La Paz	829,438	25.6
Oruro	186,862	5.8
Potosí	580,470	17.9
Valles	1,016,555	31.4
Cochabamba	573,393	17.7
Chuquisaca	294,458	9.1
Tarija	148,704	4.6
Oriente	624,766	19.3
Santa Cruz	456,834	14.1
Beni	137,267	4.2
Pando	30,665	0.9

Source: GIASE, Estudio del Sistema Bancario Nacional, 1977

The primary beneficiaries of the guaranty program will be small farmers, small-scale rural businessmen, artisans in rural towns and urban areas, and rural communities in general. Secondary benefits from the artisanry and business activities financed through the program will also accrue to small farmers and other rural poor who supply inputs for, purchase the products of, or provide labor for these activities. While the guaranty program has a national

* The information for this section comes principally from James T. Riordan, "An Assessment of the Target Region for USAID/Bolivia's Agriculture Sector II Loan", and the ESEM and GIASE studies undertaken for USAID/Bolivia.

focus, based on the selection criteria designed for the program and on the past history of private bank activity in the target sectors, it is expected that the major benefits of the PCGP in Bolivia will be to the Altiplano and Valles regions. The rural areas in these regions are characterized by almost uniform poverty and contain the bulk of Bolivia's rural population.

a) Small farmers

The following socio-economic profile of the small farmer target group for the guaranty program is drawn from the recent Riordan assessment of Chuquisaca, Tarija and Potosí. While the specific data relate to agricultural year 1976-77 in these areas exclusively, it is believed that these areas are representative of the other Altiplano and Valles areas which are included in the PCGP's principal focus.

Mean net household income for rural farm households in these areas was $327 in 1976-77. On a per capita basis this represents income of only $62. This measure includes all income received by these households, including an imputed amount for consumption of products produced on the farm. Net household cash income averaged $249 or $47 per capita. Average income related directly to farming activities amounted to only $144 or $27 per capita. Approximately 47% of this amount was derived from cash transactions. Therefore, only 44% of net household income is attributable to net farm income, while a mere 27% of net household cash income is due to net farm cash income. It is clear, then, that farm households in this region derive only a relatively minor part of their income from their own farm enterprises.

The average farm size in this region is 4.0 hectares, and 50% of the farms are less than 2 hectares in size. Only slightly more than 8% have farms 10 hectares or larger. Household income estimates are relatively constant across all farm size groups, although farm income estimates are positively related to farm size.

Most of the cultivable land on these farms was in temporary crops and natural pasture. The majority of farmers owned some type of cattle (mostly oxen), sheep, goats, pigs, burros or horses, and poultry. Over 78% of the farmers in this region used animal traction. Only approximately 55% had definitive title to their land. Approximately 27% hired labor for work on their farms for an average of 58 days. Only 17% live within one hour of the place where they market their produce, while over 56% live more than 3 hours from market. Over 25% of the farm households in these regions had members employed on a daily basis off-farm in agriculture, while 24% had family members employed off-farm in non-agricultural activities. Almost 70% of the farm households were literate, i.e. either the head of the household, spouse or eldest son could read and write.

Approximately 88% of the households interviewed for the Agriculture Sector II survey produced some sort of animal by-products and 100% produced some processed products. These activities include production of wool, hides, cheese, textiles and leather articles. However, only 14% of these households sell these products, indicating that the majority is for home consumption.

Approximately 56% of the farm households sell farm products off their farms and 20% sell farm products on the farm. 39% sell their products retail in fairs, 22% sell their products retail in places other than fairs, 27% sell through middlemen, 14% to truckers and 22% to friends and relatives.

Less than 7% of the farmers in this region received credit from any source, of which approximately half was from the formal banking system. Of those borrowing from informal sources, almost all borrowed from friends and relatives. Despite this extremely low percentage of credit recipients, less than 11% felt that they did not need credit. Credit demand for the remaining 89% averaged approximately $1,100. The principal purposes for the desired credit were for the purchase of seeds, fertilizers, tools, oxen, cattle and other livestock, as well as for infrastructure improvements such as irrigation systems and fences. Over 51% of the farmers reported lack of credit as a reason impeding their adoption of new technology and 66% reported credit as a need to increase future agricultural production.

In addition to their lack of credit, over 95% of the farmers in this region received no technical training or assistance, although over 97% wanted such assistance. 77% reported lack of information as a reason impeding their adoption of new technology and over 45% felt that information or technical assistance was needed to increase their agricultural production in the future.

b) Rural enterprises and artisanry

The following data was taken from the ESEM study of rural credit demand and technical assistance for rural enterprises, agro-industry, artisanry and community development projects. Because the universe of businesses interviewed as part of that study includes persons or groups who would not be eligible for the guaranty program because they presently possess sufficient guaranties to qualify for institutional credit, the description below probably overstates the socio-economic characteristics of the PCGP target group.

The value of the assets of the rural enterprises interviewed averaged $4,700 for small industry and artisanry activities and $24,400 for rural enterprises related to agriculture. Approximately 44% of all rural enterprises had assets of less than $2,500 and 64% had less than $10,000. The average annual volume of business of these enterprises was $9,000 for small industry and artisanry and $14,100 for agricultural enterprises. Net annual income from these businesses averaged $2,200 for small industry and artisanry (ranging from a low of $120 in La Paz Department to $4,800 in Potosí) and $3,300 for agricultural enterprises; 80% of these rural enterprises had annual net incomes below $10,000. The community development projects interviewed had assets valued at an average of $28,700, with annual sales (mostly of services) of $29,000 and net annual income of $4,100.

Rural enterprise activities generally employed 10-11 people, of whom 3 were classified as skilled, 3 semi-skilled, and 4-5 unskilled workers. Community development projects tended to have the same average number of employees, not including voluntary, self-help labor, although more tended to be in the unskilled category.

Only 33% of the rural businessmen interviewed had ever received credit for their business operations, and 13.5% had received credit only once. The principal reasons given for this lack of credit were the lack of credit sources, the small size of their operations, the limited amounts of guaranties they could offer and bureaucratic obstacles, many of which were related to guaranty or other documentation requirements. In addition, the majority of potential borrowers felt they required some form of technical assistance. 84% of those wanting to borrow for community development projects believed they needed technical assistance, particularly in project design and in technical aspects related to project implementation. The corresponding figure for agro-industry projects was 60%, again mostly in design, technical aspects and production. Only 40% of those wanting to establish or expand rural enterprises or urban artisanry activities felt they needed assistance, although as mentioned above, this may be an understatement of the needs of the PCGP target group for these activities.

2. Social Feasibility of Program

The social feasibility of the proposed guaranty program is demonstrated by the socio-economic characteristics of the target group described above, as well as by several additional factors. The program responds to perceived real needs of the target group, namely credit and technical assistance. The program offers access to institutional credit by reducing the guaranty requirements of lending institutions which is at present a major constraint, particularly to small private businessmen and artisans in rural areas. The target group, especially small farmers, perceive credit and technical assistance as requisites for increased production.

From another standpoint, the characteristics of the small farmer target group described above make both agricultural and rural enterprise activities socially feasible. A substantial proportion of farm households have some family member who works off-farm in agricultural activities. With sufficient resources and assistance, this labor could be tapped for on-farm activities aimed at increasing farm income. In addition, with the significant number of farm families with members working off-farm in non-agricultural activities and the underlying reservoir of skills implied by the almost universal processing of products by small farm families, the establishment or expansion of rural enterprises or artisanry activities will be facilitated.

A major factor influencing the social feasibility of the program is the perception of banking institutions by potential borrowers and vice versa. Obviously this is a major potential problem area, evidenced by the minimal amounts of credit currently received by the target group. There often exist major cultural differences between the urban-oriented and -located bankers and their potential rural clientele. The incidence of borrowing from the informal credit market demonstrates a reluctance of rural dwellers to get involved with a banking institution. Change in these aspects will come slowly and only as the banks expand their outreach into the rural areas. This process has already begun in many areas where the PCGP is expected to focus through programs such as FRA-2. Through the design of the technical assistance element, it is anticipated that the process will continue and that bankers and rural businessmen and farmers will become more and more familiar with each other. Experience on programs such as FRA-2 has been generally positive to date, the banks are becoming increasingly aware that small farmers are good credit risks and can be good clients. Therefore, while no dramatic change is expected in the short-run, the Mission believes that this factor does not present a major social constraint to the success of the guaranty program, especially given the relatively small amount of credit being projected for the life of the program.

3. Distribution of the Benefits of the Program

In general, the guaranty program will make a positive contribution to the distribution of income in Bolivia. The projects to be guarantied under the program will be principally oriented to supplying the needs of the local areas in which they are located and will create alternative and additional sources of income in these areas through the provision of new job opportunities. The areas and sectors benefitted will be those which are presently poor, both in absolute terms and relative to other areas in Bolivia. The program will provide access, often for the first time, of the target beneficiaries to credit, inputs, technical information and assistance and markets. In addition, by channelling credit in some instances through local-level organizations such as DESEC, AgroCentral and rural credit unions, as well as through the financing of projects by community and artisan groups, the program will contribute to the improvement of target group participation at the local level.

4. Role of Women

The guaranty program will benefit women through promoting lending for agricultural and business enterprises in which they are involved either as borrowers or workers. Women in rural areas in Bolivia make several important contributions to household income, both on- and off-farm. Women participate in agricultural production activities, often participate in decisions whether to use or not modern inputs, influence their husband's decisions to obtain credit, frequently market the bulk of the family's farm production, and are a potential source of off-farm income through employment in local businesses or through sales of processed products. Over 11% of the rural households in the Agricultural Sector II survey were headed by women, and these households tended to be relatively worse off than those headed by men. In the same survey, over 46% of females aged 13-60 were engaged principally in agriculture. Under the PCGP, women will be eligible to borrow from participating lenders on an equal basis as men.

D. Economic Analysis

The economic benefits of the project include employment generation in rural areas, increases in the incomes and standard of living of the borrowers and rural areas in general, and increases in food production through improved farming operations and local value added through the establishment or expansion of processing, service or artisanry enterprises.

Over the four-year implementation period of the program, 2,418 * individuals are expected to receive credit. Of these, an estimated 1,575 will be in agriculture, 225 for community development projects, and 618 for rural enterprise and artisanry investments. Based on the estimates of jobs to be created by rural enterprise and community development projects calculated in the ESEM report** these investments

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* These calculations are based on the assumptions regarding average loan amounts, distribution of the PCGP portfolio, and credit volume explained in Section III A above (see note, p. 31).

** 10 for rural enterprises and 14 for community development.

would result in the creation of approximately 9,330 new jobs over this four year period. Most of these jobs would be located in rural areas where they would provide additional off-farm income for rural poor households and increased economic activity at the local level. Using the estimated annual earnings figure of approximately $110 for off-farm non-agricultural employment from the Riordan study, these additional jobs could potentially increase off-farm income by over $1,000,000 over this period.

With respect to farm income, the project would also result in benefits through the provision of credit and technical assistance. Although based on a limited number of interviews, the Riordan survey showed that, while mean net farm income for farmers who did not receive credit was $b 2,784, average net income for farmers who received a low amount of credit (up to $b5,500) was $b 3,346 and for farmers who received larger amounts of credit it was $b 6,326. Again, while based on a limited number of observations, the same study showed that the mean net farm income of farmers who received no technical training or assistance was $b 2,554, while the corresponding amount for farmers who received only training was $b 7,181, for farmers who received only assistance was $b 10,047, and for farmers who received both training and assistance was $b 13,080. As these results demonstrate, the expected benefits from the program from an estimated $3.9 million in agricultural credit and from the provision of technical assistance and training are substantial.

4.

Part IV: IMPLEMENTATION ARRANGEMENTS

A. Analysis of BCB's Administrative Arrangements

1. Institutional Analysis

The guaranty program will be implemented by the same division in the BCB presently responsible for managing other AID-financed credit lines: the División de Desarrollo. Consequently, USAID has substantial working experience with this division and the División de Desarrollo is familiar with AID documentation, requirements and monitoring style. The División de Desarrollo is supported in the rest of the country by the BCB agency in Cochabamba and the Regional Technical Offices in Tarija, Sucre, Potosí, Santa Cruz and Trinidad.*

The División de Desarrollo presently has a staff of 22 persons organized in two sections. The Technical Analysis Section is composed of 6 engineers (including agricultural engineers), 2 economists, 1 statistician, as well as a Section Chief and Deputy Chief. This Section is primarily responsible for review of refinancing applications under the various BCB development programs and the overall promotion of these programs. The Operations Section consists of a Section Chief and Deputy Chief and 6 clerks, and is responsible for the operational monitoring and control of the BCB's refinancing activities, including the financial reporting requirements.

The División de Desarrollo has generally functioned well in the management of past and present AID-financed programs, although one major problem has been the delays caused in subloan approval due to División de Desarrollo evaluation of subloan applications and feasibility studies. This has created a substantial burden on the staff of the Division. However, partially as a result of joint BCB-USAID evaluations of the FRI and FRA-2 programs, the División de Desarrollo no longer evaluates subloan applications but only reviews them for consistency with the relevant program guidelines. This action should greatly reduce the time needed to approve or disapprove subloan financing requests and thereby make the staff available for additional activities.

Because of the unique nature of the guaranty program, a special unit will be created in the División de Desarrollo to administer the PCGP. This unit will depend on the regular Division staff for technical support as needed. It is not expected, however, that the program will add a significant burden on the existing staff, especially considering that this staff will be involved to some degree anyway because the major portion of PCGP loans will be refinanced. Responsibility for activities related to this refinancing will remain with the present staff and not be part of the PCGP unit's functions. However, the administrative burden of these activities should decrease because of

*/ Consideration is presently being given to establishing an additional Regional Technical Office in Oruro.

the automatic rediscounting aspect of the guaranty program. Therefore, the Mission concludes that the División de Desarrollo is capable of performing its role in the implementation of the PCGP.

At present, the BCB has only one agency in Cochabamba, although it is considering converting the Santa Cruz Regional Technical Office into an agency also. The Cochabamba agency has a staff of 34, of which 14 are professional personnel. The agency has an economist and an agricultural engineer who work exclusively on BCB development programs. The technical personnel are competent and have performed their duties on related programs well.

In addition to the Cochabamba agency, the BCB maintains 5 Regional Technical Offices. These offices are normally staffed with an economist and an agronomist, although the Santa Cruz office is somewhat larger with 3 economists and 2 agronomists. The Regional Technical Offices were originally created to assist the commercial banking community with BCB programs and to help promote and supervise these programs. In general, the offices are performing their duties well, have adequate staff, and have the capabilities to assist in the implementation of the guaranty program. They are in close contact with the commercial banks in their regions and have demonstrated themselves to be efficient administrators in the FRA-2 program where they have had subloan approval authority.

2. Role of the BCB in the Administration of the Guaranty Fund

The PCGP Fund will be administered by a special unit to be established in the División de Desarrollo of the BCB. Initially, this unit will be staffed with two additional personnel - one economic-financial analyst to be in charge of the technical aspects of the program and one technician to manage the operational and administrative aspects. This staff will be supported by specialized technical expertise, as needed, from the existing División de Desarrollo personnel, especially in cases where loans guaranteed by the Fund are refinanced by the BCB and for specialized program evaluations. In addition, the existing staffs of the BCB's Regional Technical Offices will assist in the implementation of the program by serving as conduits for the monthly lender reports, by following up with participating lenders on the status of delinquent guarantied loans, by assisting in the provision of technical assistance to borrowers, and by participating in the monitoring and periodic evaluations of the program to be conducted by the BCB and USAID. The Banco del Estado, as the BCB's agent in areas where it does not have an agency (everywhere except La Paz and Cochabamba), will also assist in the implementation of the program by receiving guaranty commission and making guaranty payments to lenders in these areas. Given the considerable support to be given to the Fund administrative unit by the División de

Desarrollo, the Regional Technical Offices and the Banco del Estado, the Mission believes the two additional personnel to staff the unit on a full time basis will be sufficient. If, as the program grows during implementation, this staff proves to be inadequate, the BCB will assign another person full-time to the unit.

The role of the BCB administrative unit for the Fund in the operation of the guaranty mechanism is described above in Section II.B.1 (pp. 16 - 21). The operating manual for the administration of the program will describe precisely all of the activities of the PCGP administrative unit and the manner in which these duties will be carried out. Basically, these functions will be the following:

a) Operations and control

i) Maintenance of a central file concerning:

(a) borrowers and loans made
(b) delinquencies, delinquency periods, and losses
(c) doubtful recuperations
(d) guaranty payments from the Fund
(e) register of participating institutions, both lenders and technical assistance organizations
(f) accounting and administrative data

ii) Execution and preparation of:

(a) payments of guaranties and guaranty fees to AID and BCB
(b) collections from recuperations after payment of guaranties
(c) audits, including contracting for external audits
(d) financial statements of the Fund
(e) operating reports, including annual report of Fund operations
(f) requests for payments to the Fund by AID and BCB, if necessary.

iii) Monitoring of:

(a) trends in approvals and disbursements
(b) loan amortizations and delinquencies
(c) lender's operations and portfolio status, with follow-up action as necessary to limit losses insofar as possible to anticipated levels
(d) Fund financial operations, including investments.

(iv) Development and implementation of an adequate accounting system for the Fund.

b) Technical aspects

i) Research and planning

(a) establishment of an implementation plan for program on an annual basis.
(b) periodic surveys and analyses to identify investment opportunities for PCGP-type projects and determine priority areas of credit need.
(c) analyses to determine the applicability of current monetary policy and financial systems and needs for modification.
(d) analyses of financial aspects of the program, such as: (i) delinquency and loss histories for each eligible loan category; (ii) adequacy of guaranty commission to cover anticipated losses; (iii) historical trends in portfolio composition by short-, medium-, and long-term loans and by loan category; (iv) mobilization of private sector resources through the program; and (v) annual financial projections for the Fund.

ii) Implementation

(a) development and updating of operating manuals and information systems.
(b) approval of participating lenders and training of key lender personnel.
(c) promotion of the program through dissemination of information and regular meetings with lenders, potential borrowers, technical assistance institutions, and other interested entities.
(d) publication of special studies.
(e) organization and monitoring of technical assistance program.
(f) periodic inspection of PCGP loans.
(g) review of delinquent loans as end of delinquency period approaches.
(h) make required system modifications based on implementation experience and evaluation result.

iii) Evaluation

(a) periodic review of project objectives and

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achievements, including economic and statistical analysis of the following factors:

(i) total volume of loans by lending institution
(ii) distribution of credit by lenders, region and rural and urban areas
(iii) mobilization of private lender resources
(iv) levels of capitalization of the Fund
(v) provision of technical assistance to borrowers
(vi) operations plan for the guaranty system
(vii) lender compliance with additional collateral limitations and with program regulations in general
(viii) benefits and impact of the program for borrowers and lenders, including increased incomes and living standards of borrowers
(ix) global development benefits of program

(b) special studies of system features (e.g. policy, organization, methods and procedures) and recommendations to improve their effectiveness and efficiency.

B. Role and Responsibilities of Participating Lenders

The participating lenders will have primary responsibility for implementing the program, based on the criteria, procedures and regulations in the operating manual. Prior to initiating operations under the program, key personnel on the lender's staff will be provided training in the concepts of and regulations governing the operation of the PCGP, including the use of the operating manual. As described above in Section III, A.1. (p .27), the lenders in most cases will be responsible for assisting the borrower in filling out his/her application form and for determining the economic and financial feasibility of the proposed loan. The lender will also determine what, if any, additional guaranties are required from the borrower, up to a limit of 100% of the face value amount of the loan. The lender will make the loan without prior approval from the BCB, except in cases of refinanced loans over $25,000. It will also be responsible for supervision of the loan to assure proper use of the credit resources. In the event a loan is not repaid on time, the lender has the obligation to report this to the PCGP administrative unit and for taking all action necessary to extend or reschedule the loan if feasible or to recover all or a portion of the delinquent loan. This responsibility extends beyond the receipt of a guaranty payment by the Fund.

C. Pole and Responsibilities of USAID

The Mission will monitor the implementation of the guaranty program and work closely with the BCB administrative unit for the Fund and the División de Desarrollo to assure the program's timely implementation, to help solve any problems which arise, and to assure compliance with the terms and conditions of the PCGP Guaranty Agreement. The BCB will send quarterly reports to USAID concerning the financial status of the program and its implementation. USAID will participate in all program evaluations. In addition, the Mission will approve all major changes in program operating policies and regulations.

The program will be managed within the Mission by the Development Resources Office (DR), in close collaboration with the Rural Development and Controller's Offices.

The major USAID input into the implementation of the PCGP will be the provision of a qualified technician with guaranty program experience to assist the BCB to initiate and evaluate the program. This technician will be contracted initially for a period of four months as soon as possible after AID/W authorization of the program. During this period, he will work with the BCB to assist in the development of the operating manuals for the program, in the promotion of the PCGP with potential participating lenders, and in the training of BCB and lender personnel in the operation of the program. In addition, he will work with the Fund administrative unit to establish the basic operating guidelines and procedures of that unit, especially related to the planning and evaluation functions. This will result in a detailed implementation plan including a plan for promotion of the program during the first year of operations and implementation procedures. It will also result in the development of a detailed evaluation plan for the program. Following this initial phase, the technician will be contracted for one month every six months during the first two years of the program and one month a year for the last two years to participate in program evaluations and to provide assistance and guidance to the BCB in all aspects of program planning, promotion, policy and design, implementation, and organization.

Since the PCGP has no resources which could be used to pay this technician, it is proposed that he be funded from USAID Special Development Problems Technical Support funds. It is estimated that $27,150 in FY-1978 funds and $34,450 in future year funds will be required (see Annex E), and the Mission requests that the corresponding amount be included in its FY-1978 Technical Support Budget.

In addition to the above mentioned technician, the Mission requests the services of a guaranty programs specialist from AID/W for 3-4 weeks in November-December 1977 to assist in the development of the operating manuals and the initiation of the PCGP in Bolivia. The participation of this specialist would also be desirable in subsequent program evaluations.

USAID will also provide funding for the travel of the two BCB members of the Fund administrative unit to attend annual intercountry evaluations of PCGP progress. These evaluations would continue the dialogue begun at the Bogotá PCGP seminar in June 1977, and will allow the BCB personnel implementing the guaranty program to exchange experiences with those implementing similar programs in Honduras, Nicaragua, Colombia and Paraguay. The estimated cost of this contribution is $7,100, ($2,700 in FY-1978) which is also requested from SDP Technical Support funds (see Annex E).

D. Implementation Plan

1. Approval of program by AID/W - August 31, 1977
2. Signature of Guaranty Agreement - October 15, 1977
3. Arrival of contract technician - October 15, 1977
4. Development of operating manuals - October 15 - November 30, 1977
5. Conditions precedent met - December 15, 1977
6. PCGP seminar for BCB staff - November 30 - December 15, 1977
7. Approval by BCB of at least 5 applications to participate as lenders in PCGP - December 23, 1977
8. PCGP seminar for participating lender personnel - January 9 - January 13, 1978
9. Initiation of program - January 15, 1978
10. First evaluation - July 1978
11. Second evaluation - January 1979
12. Third evaluation - July 1979
13. Fourth evaluation - January 1980
14. Fifth evaluation - January 1981
15. Final evaluation - December 1981
16. Program ends pilot project phase - December 31, 1981

E. Evaluation Arrangements for Program

The program will be continually monitored by the BCB and USAID and regular joint BCB-USAID evaluations will be held every six months during the first two years of the program and annually thereafter. These evaluations will examine both financial aspects of the operation of the PCGP and quantitative and qualitative results of the program for borrowers and participating lenders. The basic aspects of the program are detailed in the discussion of the BCB role in the guaranty program above in Section IV.A.2. (p. 64). These points will be defined in more detail during the early phases of PCGP implementation and the necessary baseline data will be collected by BCB personnel. In addition to these points, the evaluations will serve as a basis for making adjustments in the design of the program. On the basis of the results of the evaluations to be conducted in January of each year, a decision will be made whether or not to continue with the program.

It is anticipated that the USAID-contracted technician and hopefully an AID/W guaranty programs specialist will participate in each of the joint BCB-USAID evaluations. The schedule of evaluations planned is indicated above in the Implementation Plan.

In addition to these evaluations, the BCB staff members responsible for the guaranty program in Bolivia will participate in annual intercountry PCGP evaluation seminars with their counterparts in Honduras, Nicaragua, Colombia and Paraguay.

F. Conditions, Covenants and Negotiating Status

1. Conditions Precedent to Issuance of the First Letter of Acceptance

a. Prior to the issuance of the first guaranty for an eligible loan under the PCGP in Bolivia, the BCB, as the Administrator for the Program, shall submit to USAID, in form and substance satisfactory to AID, the following:

i) An opinion of the Controller General of Bolivia or of other counsel acceptable to AID that the Guaranty Agreement signed between AID and the Government of Bolivia has been duly authorized and/or ratified by and executed on behalf of the Administrator, and that it constitutes a valid and legally binding obligation of the Administrator in accordance with all of its terms;

ii) A statement of the names of the persons holding or acting in the office of the Administrator, and a specimen signature of the person(s) specified in that statement, appropriately certified as to its authenticity;

iii) A time-phased implementation plan for the program;

iv) Evidence that a special PCGP unit has been established by the Administrator and has been staffed with at least two qualified technicians.

v) A standard guaranty agreement form to be executed by and between the Administrator and each eligible lender.

vi) A copy of operating manuals to be used by the Administrator and eligible lenders governing the functioning of each in the implementation of the program;

vii) Evidence that the program for training personnel of the Administrator and of eligible lenders has been established;

viii) Evidence that the Administrator has established and will implement with the program a policy of automatically rediscounting eligible loans up to a specified amount mutually agreed upon by the Administrator and AID.

ix) Evidence that the Administrator has established the technical assistance fund and that the fund is adequately staffed.

x) An implementation plan for the first year's operations of the technical assistance fund.

b. Prior to the commencement date for each eligible lender, the Administrator shall have in its records, in form and substance satisfactory to AID:

i) An executed original of the guaranty agreement between the Administrator and the eligible borrower; and

ii) Evidence that the personnel to be involved in the eligible lender's PCGP operations have satisfactorily completed the required training.

2. Covenants

BCB shall covenant and agree to:

a) Pay to the eligible lender an amount equal to seventy-five percent (75%) of the total of the outstanding principal balance of each defaulted loan plus the interest thereon accrued during the first one hundred and eighty (180) calendar days following the date on which the default occurred;

b) Pay the administrative and promotional expenses associated with the guaranty system until the program is self-sufficient under criteria agreed upon by the Administrator and AID;

c) Obtain AID approval prior to effecting any substantive change in plans, procedures, policies and manuals approved by the Administrator and AID;

d) Rediscount through existing or newly created refinancing lines, as mutually agreed by the Administrator and AID, those eligible loans made under the program by eligible lenders, according to procedures and conditions mutually agreed to by the Administrator and AID;

e) Cause the program to be carried out in conformity with all the manuals, plans, schedules and other arrangements, and with all modifications therein, approved by the Administrator and AID;

f) Provide qualified and experienced management for the program and train such staff as may be appropriate for the effective maintenance and operation of the program.

3. Negotiating Status

The guaranty program in Bolivia has been developed in close coordination with the BCB. Preliminary discussions have been held with BCB officials and the Ministry of Finance concerning the terms and conditions of the program and they are in basic agreement. The Guaranty Agreement is being drafted.

If the legal issue raised in issue number 1 in Part I.E is resolved in such a way to necessitate a simultaneous agreement between the participating lenders and the BCB, signature of the Guaranty Agreement might be delayed beyond what would otherwise be expected. Although several potential lenders have expressed much interest in the program, to date no discussions with the private banking community have been undertaken to agree upon the form and substance of such an agreement. With a positive resolution of this issue, joint BCB/USAID discussions with the private financial community will be begun as soon as possible.

MINISTERIO DE FINANZAS
BOLIVIA

La Paz,

Annex A
Page 1 of 2

RECEIVED
USAID
21 JUL 1977
LA PAZ

Señor
Frank B. Kimball
DIRECTOR USAID/B
Presente.-

Ref: Solicitud del "Programa de Garantía para Créditos Productivos" P G C P para su implantación en Bolivia.

De nuestra consideración:

El Gobierno de Bolivia considera que uno de los objetivos de su política económica y social es el elevar el ingreso neto per cápita y el nivel de vida de la población, especialmente de escasos recursos. Un medio para lograr dicho objetivo es la implantación en el país de un Programa de Garantía de Créditos Productivos, que permita ampliar el alcance del sistema financiero del país de manera que incluya prestatarios privados con ideas de inversión viables y que no hayan tenido acceso al -- crédito, sobre todo por falta o insuficiencia de garantías.

El actual sistema de crédito en el páis está limitado a prestatarios que poseen requisitos de colateral a satisfacción de los bancos, y a financiar actividades a corto plazo que aseguran el pronto repago del préstamo. El otro sector que no tiene acceso al crédito es considerado por los banqueros como prestatarios de riego elevado. Consiguientemente, los intermediarios financieros son reacios a incluir este sector en sus sistemas de crédito en las condiciones actuales.

El PGCP neutralizará en gran medida el riego de -- los bancos intermediarios y abrirá un canal de créditos para el grupo marginado en condiciones razonables, por supuesto mejores que las ofrecidas por el sistema informal de crédito.

Como los objetivos que persigue el Gobierno de Bolivia, son parte integral de la estrategia de AID en el desarrollo rural y del sector de menores ingresos solicitamos la cooperación del Gobierno de los Estados Unidos de Norte América, para qué, a través de la Agencia Internacional para el Desarrollo brinde el respaldo económico al proyecto con la suma de $us.2.500.000.-- que percibirán como retribución un 0.25% sobre el valor nominal de cada préstamo. Asimismo, solicitamos que con fondos de donación, AID contrate los servicios de un técnico-asesor para las fases de: diseño, implementación, capacitación y evaluación del programa de garantía y financie los gastos de viaje de personal del Banco Central de Bolivia a seminarios internacionales sobre programas de garantía a realizarse en cada uno de los paises que están implementando dicho proyecto (Nicaragua, Honduras, Paraguay).

El Gobierno de Bolivia para la implantación del PGCP destinará la suma de $us.1.250.000.-- a través del Banco Central de Bolivia, Institución que además brindará el apoyo económico necesario para el pago de los costos administrativos del Fondo de Garantía, durante el primer año de desarrollo del programa.

El Fondo de Garantía se establecerá en el Banco Central de Bolivia, bajo cuya dirección se desarrollará el programa, para el efecto se creará una unidad técnica y operativa dentro de su estructura orgánica. El propósito del PGCP es el de garantizar el 75% de los préstamos seleccionados y otorgados al sector privado por las Instituciones financieras del país bajo el programa de garantía.

El PGCP se capitalizará, cubrirá sus costos administrativos y pagará sus comisiones a los aportes de AID y del Banco Central de Bolivia a través de una comisión de garantía que se pagará por cada crédito concedido con cargo al programa, que gozará del respaldo de AID y el Banco Central de Bolivia.

Los fondos para la concesión de créditos en el PGCP, provendrán de recursos propios de las instituciones financieras del país, y/o de líneas de refinanciamiento administradas por el B.C.B. La asistencia técnica y supervisión de los préstamos otorgados a los beneficiarios estará a cargo del personal técnico de las I.F. y de las instituciones especializadas públicas y/o privadas. Antes del inicio del programa el B.C.B. y USAID/B elaborarán manuales y reglamentos de operación que principalmente contendrán criterios de elegibilidad, procedimientos y directrices que serán utilizados por las instituciones participantes en el PGCP. El proyecto del Fondo de Garantía sería implementado, como un programa piloto hasta el 31/12/81 y será objeto de evaluaciones periódicas por parte del Banco Central de Bolivia y USAID/B con el fin de determinar en qué medida se estarían cumpliendo los objetivos del mismo, para en su caso introducir acciones de enmienda necesarias.

Estamos seguros que la presente solicitud tendrá favorables acogida por parte de ese organismo, que tán decididamente está colaborando al proceso de desarrollo que actualmente vive el país.

Con este motivo, aprovechamos la oportunidad para saludarle muy atentamente.

Carlos Calvo

ELK.gb/

STATE 094013
27 APRIL 1977

FM SECSTATE WASHDC
TO AMEMBASSY LA PAZ 2347
BT
UNCLAS STATE 094013

AIDAC

E.O. 11652: N/A
TAGS:

SUBJECT: DAEC REVIEW - BOLIVIA PRODUCTIVE CREDIT GUARANTY PROGRAM (PCGP) PRP

THE DAEC REVIEWED THE SUBJECT PRP AND AUTHORIZED INTENSIVE REVIEW.

THE FOLLOWING GUIDANCE
IS BEING PROVIDED THE MISSION FOR THE PREPARATION OF THE PP

-----A. TARGET GROUP: THE TARGET GROUP OF THE PCGP SHOULD BE GENERALLY CONSISTENT WITH THE TARGET GROUP DEFINITIONS REQUIRED BY AID'S CONGRESSIONAL MANDATE. THE PP SHOULD IDENTIFY AND PRESENT A SHORT SOCIO-ECONOMIC PROFILE OF THE CATEGORIES OF BORROWERS THAT THE PCGP WILL ATTEMPT TO REACH, KEEPING IN MIND THIS REQUIREMENT. THE PP SHOULD ALSO INCLUDE DETAILED ELIGIBILITY CRITERIA FOR ALL CATEGORIES OF BORROWERS AND THE RATIONALE FOR THE ADOPTION OF SUCH CRITERIA. IN ADDITION, THE PP SHOULD INCLUDE THE RATIONALE FOR THE PROPOSED UPPER LIMITS ON LOANS TO THE VARIOUS CATEGORIES OF BORROWERS, AND SHOULD DEMONSTRATE THAT THESE RELATIVELY HIGH UPPER LIMITS ARE RESPONSIVE TO THE CREDIT REQUIREMENTS OF THE RURAL POOR/SMALL FARMER TARGET GROUPS.

-----B. FUNDING LEVEL: AS MISSION IS AWARE, AID'S OVERALL GUARANTY AUTHORITY IS LIMITED TO 15 MILLION DOLS. OF THIS TOTAL, 12.5 MILLION DOLS IN GUARANTY AUTHORITY HAS BEEN UTILIZED BY PCGP'S IN OTHER LA COUNTRIES. CONSEQUENTLY, THE BOLIVIA PROGRAM SHOULD INITIALLY BE DESIGNED FOR A 2.5 MILLION DOLS GUARANTY LEVEL. ADJUSTMENTS TO THIS LEVEL COULD LATER BE MADE BY REALLOCATING

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UNUTILIZED GUARANTY AUTHORITY TO PROGRAMS UNABLE TO MEET CREDIT DEMAND WITH EXISTING GUARANTY LEVELS. A PROVISION IN ALL FUTURE PCGP AUTHORIZATIONS WILL ALLOW FOR THE POSSIBILITY OF SUCH REALLOCATION.

------C. PROJECT LIQUIDITY NEEDS: THE PRP IDENTIFIES THE AVAILABILITY OF LIQUIDITY IN THE PRIVATE FINANCIAL SYSTEM OF BOLIVIA AS A CRITICAL REQUIREMENT FOR THE SUCCESS OF THE PCGP. THE PRP FURTHER STATES THAT THE MISSION IS CONDUCTING A COMPREHENSIVE STUDY TO EXAMINE THE LIQUIDITY QUESTION. THE PP SHOULD INCLUDE THE RESULTS OF THIS STUDY AND SHOULD INDICATE THE LEVELS OF LIQUIDITY AVAILABLE. IN THE EVENT THAT INCREASED LIQUIDITY IS REQUIRED MISSION SHOULD EXPLORE WAYS TO PROVIDE SUCH LIQUIDITY, PERHAPS THROUGH THE ESTABLISHMENT OF AN ADDITIONAL REDISCOUNT LINE (OR THE EXPANSION OF AN EXISTING ONE) AT THE CENTRAL BANK. HOWEVER, IN VIEW OF THE EXPERIMENTAL NATURE OF THE PCGP PROGRAM, RESOURCES MADE AVAILABLE UNDER OTHER AID PROGRAMS SHOULD NOT BE USED AS A SOURCE OF LIQUIDITY FOR, OR GUARANTEED UNDER, THIS PCGP, NOR SHOULD THESE RESOURCES BE INCLUDED IN THE LIQUIDITY ANALYSIS.

------D. RELATIONSHIP TO OTHER AID PROGRAMS: INTENSIVE REVIEW SHOULD EXPLORE WHAT EFFECTS, IF ANY, THE PCGP MAY HAVE ON OTHER ON-GOING OR PROJECTED AID SMALL CREDIT PROGRAMS. PARTICULAR ATTENTION SHOULD BE GIVEN TO THE POSSIBILITY THAT PRIVATE INTERMEDIATE CREDIT INSTITUTIONS MAY FIND THE PCGP MORE ATTRACTIVE THAN OTHER AID CREDIT PROJECTS SUCH AS FOOD PRODUCTION AND MARKETING AND SMALL FARMER DEVELOPMENT BECAUSE OF THE GUARANTY.

------E. INSTITUTIONAL CAPABILITY: THE PP SHOULD DESCRIBE IN DETAIL THE NATURE AND SCOPE OF RESPONSIBILITIES TO BE EXCERCISED BY THE CENTRAL BANK THROUGH THE UNIT TO BE CREATED TO ADMINISTER THE PROGRAM. THE ADEQUACY OF THE FOUR EMPLOYEES NOW PLANNED FOR THIS UNIT SHOULD BE EXAMINED AND ADDITIONAL PERSONNEL PROVIDED AS MAY BE REQUIRED BY ITS PROJECTED WORKLOAD. THE INSTITUTIONAL ANALYSIS SHOULD ALSO DESCRIBE HOW THIS UNIT WILL FIT INTO THE CENTRAL BANK AND WHAT ADMINISTRATIVE AND TECHNICAL SUPPORT IT WILL RECEIVE. IN ADDITION, THE PP SHOULD INCLUDE A DESCRIPTION OF HOW THE PROPOSED AID-FINANCED TECHNICIAN WILL ASSIST THE CENTRAL BANK IN IMPLEMENTING THE PROGRAM.

------F. TECHNICAL ASSISTANCE TO SUB-BORROWERS: THE PP SHOULD DESCRIBE IN DETAIL THE MANNER IN WHICH THE TECHNICAL ASSISTANCE ELEMENT OF THE PROJECT WILL FUNCTION.

THE PP SHOULD INCLUDE ONE OR MORE DETAILED EXAMPLES ILLUSTRATING THE DIFFERENT STEPS THAT WOULD LEAD TO THE SUB-BORROWER AND T.A. CONTRACTOR GETTING TOGETHER AND AGREEING ON THE SCOPE AND PRICE OF SERVICES. THE PP SHOULD ALSO DEMONSTRATE THAT THERE EXISTS A REASONABLE CAPACITY WITHIN BOLIVIAN PRIVATE SECTOR (INSTITUTIONS AND INDIVIDUALS) TO ADEQUATELY MEET THE T.A. NEEDS OF THE PROJECT. ADDITIONALLY, THE PP SHOULD DESCRIBE THE LIKELY IMPACT OF THE T.A. REQUIREMENT ON THE ANTICIPATED DEMAND FOR CREDIT, I.E., HOW THIS REQUIREMENT MIGHT AFFECT THE INTEREST AND WILLINGNESS OF POTENTIAL BORROWERS TO PARTICIPATE IN THE PROGRAM.

-----G. EFFECTIVE INTEREST RATES CHARGED BORROWERS: THE PP SHOULD ILLUSTRATE THAT THE EFFECTIVE INTEREST RATES CHARGED BORROWERS (MARKET RATES PLUS ONE-TIME 5 PERCENT GUARANTY COMMISSION) ARE NOT LIKELY TO BECOME A DIS-INCENTIVE FOR PARTICIPATION IN THE PROGRAM.

-----H. COLLATERAL REQUIREMENTS: THE DAEC EXPRESSED CONCERN OVER THE POSSIBILITY THAT INTERMEDIATE LENDING INSTITUTIONS PARTICIPATING IN THE PROGRAM MIGHT REQUIRE BORROWERS TO PLEDGE EXCESSIVE COLLATERAL. HIGH COLLATERAL REQUIREMENTS WILL MOST LIKELY CONSTRAIN TARGET GROUP PARTICIPATION, SINCE, BY DEFINITION, THIS PROGRAM IS AIMED AT THOSE WHO DO NOT POSSESS SUFFICIENT COLLATERAL TO PERMIT THEM TO OBTAIN INSTITUTIONAL CREDIT. ON THE OTHER HAND, THE NEED OF THE LENDER TO COVER THE 25 PERCENT OF EACH LOAN NOT COVERED BY THE GUARANTY AND THE CENTRAL BANK IS ACKNOWLEDGED. THE COLLATERAL REQUIREMENT SHOULD BE SUCH THAT THESE TWO CONCERNS ARE ACCOMMODATED. TO THAT END, THE MISSION MAY WANT TO CONSIDER THE COLLATERAL POLICY ADOPTED BY THE PCOP PROGRAM IN PARAGUAY. UNDER THAT PROGRAM, BORROWER ASSETS THAT MAY BE PLEDGED FOR COLLATERAL MAY NOT EXCEED ONE HUNDRED PERCENT OF THE VALUE OF THE LOAN. THESE MAY INCLUDE ASSETS ORIGINALLY OWNED BY THE BORROWER AND CONSIDERED PART OF THE PROPOSED PROJECT OR ASSETS PROCURED UNDER THE LOAN. THE MISSION MAY WANT TO REFINE THIS GENERAL CONCEPT FURTHER.

------I. PARTICIPATION OF NON-BANK INSTITUTIONS IN PROGRAM: THE PP SHOULD INCLUDE AN ELIGIBILITY CRITERION FOR COOPERATIVES AND OTHER NON-BANK INSTITUTIONS TO PARTICIPATE IN THE PROGRAM. THE PP SHOULD ALSO TREAT CURRENT BOLIVIAN BANKING LEGISLATION AND CENTRAL BANK RESTRICTIONS THAT MAY CONSTRAIN THE DIRECT PARTICIPATION OF SUCH ORGANIZATIONS IN THE PROGRAM, AND IF FEASIBLE IDENTIFY STEPS TO BE TAKEN BY THE CENTRAL BANK TO GRANT RELIEF FROM THESE RESTRICTIONS.

PAGE 4. FROM STATE 094013 UNCLASSIFIED

-----J. ENVIRONMENTAL REQUIREMENTS: BASED ON THE MISSION'S INITIAL ENVIRONMENTAL EXAMINATION, THE AAA/LA HAS APPROVED A THRESHHOLD DECISION FOR THIS PROJECT INDICATING A NEGATIVE DETERMINATION. VANCE

GUARANTY AUTHORIZATION

Provided From: FAA Section 222A

BOLIVIA: Productive Credit Guaranty Project

Pursuant to the authority vested in me as Assistant Administrator, Bureau for Latin America, by the Foreign Assistance Act of 1961, as amended ("the Act"), and the delegations of authority issued thereunder, I hereby authorize the issuance of a guaranty for an aggregate amount not to exceed two million five hundred thousand United States dollars ($2,500,000)("Guaranty") to eligible private lenders in Bolivia ("eligible lenders") pursuant to Section 222A of the Act and in furtherance of the Alliance for Progress. The Agency for International Development ("A.I.D.") will enter a contract of guaranty with the Central Bank of Bolivia ("Administrator") which will administer the Productive Credit Guaranty Project ("Project"). The Administrator shall establish a Productive Credit Guaranty Fund ("Fund") pursuant to the Project for the purpose of repaying eligible loans ("loans") made by any eligible lender on which a default has occurred. The Guaranty shall be subject to the following terms and conditions:

I. Period of Eligibility

(Intentionally left blank until resolution of issue of length of PCGP authorization).

II. Amount of Guaranty

Upon a showing by the Administrator that the resources of the Fund have been totally depleted, A.I.D. shall pay to each eligible lender pursuant to the Guaranty an amount equal to fifty percent (50%) of the total of the oustanding principal balance of each defaulted loan plus the interest thereon accrued during the first one hundred and eighty (180) calendar days following the date on which the default occurred. Payment by AID may be made by means of reimbursement to the Administrator after payment by the Administrator to an eligible lender pursuant to the Guaranty. Notwithstanding anything herein to the contrary, the aggregate A.I.D. liability under the Guaranty shall in no event exceed two million five hundred thousand United States dollars ($2,500,000).

III. Commissions and Fees

Each borrower shall pay to the eligible lender a guaranty commission in an amount that shall not exceed five percent (5%) of the amount of each loan made by such eligible lender under the Project ("guaranty commission"), which guaranty commission shall be paid immediately into the Fund by such eligible lenders. The Administrator shall pay to A.I.D. in United States dollars, on a quarterly basis, a guaranty fee in an amount of .25 percent (1/4%) of each loan guaranteed ("guaranty fee").

IV. Term of an Eligible Loan

The term of an eligible loan shall not exceed ten (10) years.

V. Conditions Precedent

A. Prior to the issuance of the first guaranty for an eligible loan under the Project, the Administrator shall submit to A.I.D., in form and substance satisfactory to A.I.D.:

(1) an opinion of the Controller General of Bolivia or of other counsel acceptable to AID that the Guaranty Agreement signed between AID and the Government of Bolivia has been duly authorized and/or ratified by and executed on behalf of the Administrator, and that it constitutes a valid and legally binding obligation of the Administrator in accordance with all of its terms;

(2) a statement of the names of the persons holding or acting in the Office of the Administrator, and a specimen signature of the person(s) specified in that statement, appropriately certified as to its authenticity;

(3) a time-phased implementation plan for the Project;

(4) a standard guaranty agreement form to be executed by and between the Administrator and each eligible lender.

(5) a standard guaranty agreement form to be executed by and between the Administrator and each eligible lender;

(6) a copy of the operating handbook for eligible lenders and the handbook for the Administrator in charge of the Project;

(7) evidence that the program for training personnel of the Administrator and of eligible lenders has been established;

(8) evidence that the Administrator has established and will implement with the Project a policy of automatically rediscounting eligible loans up to a specified amount mutually agreed upon by the Administrator and AID;

(9) evidence that the Administrator has established the technical assistance fund and that the fund is adequately staffed; and

(10) an implementation plan for the first year's operations of the technical assistance fund.

B. Prior to the commencement date for each eligible lender, the Administrator shall have in its records, in form and substance satisfactory to A.I.D.:

(1) an executed original of the guaranty agreement between the Administrator and the eligible lender; and

(2) evidence that the personnel to be involved in the eligible lender's PCGP operations have satisfactorily completed the required training.

IV. Covenants

The Administrator shall covenant and agree to:

A. pay to the eligible lender an amount equal to seventy-five percent (75%) of the total of the outstanding principal balance of each defaulted loan plus the interest thereon accrued during the first one hundred and eighty (180) calendar days following the date on which the default occurred less the aggregate amounts paid to such eligible lender by the Fund or by A.I.D. pursuant to the Guaranty;

B. pay the administrative and promotional expenses associated with the Guaranty system until the Project is self-sufficient under criteria agreed upon by A.I.D. and the Administrator;

C. obtain A.I.D. approval prior to effecting any substantive change in plans, procedures, policies and handbooks approved by the Administrator and A.I.D.; and

D. rediscount through existing or newly created refinancing lines, as mutually agreed by the Administrator and AID, those eligible loans made under the Project by eligible lenders, according to procedures and conditions mutually agreed to by the Administrator and AID.

VII. The contract of guaranty between A.I.D. and the Administrator shall provide that upon request by either party, representatives of A.I.D. and the Administrator shall meet to discuss the possibility of increasing or decreasing the total amount of the Guaranty.

VIII. Other Conditions

This Guaranty shall be subject to such other terms and conditions as A.I.D. and the Administrator deem advisable.

Assistant Administrator
Bureau for Latin America

Date

ANNEX D

CERTIFICATION PURSUANT TO SECTION 611 (e) OF THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, Frank B. Kimball, the principal officer of the Agency for International Development in Bolivia, having taken into account among other factors the maintenance and utilization of projects in Bolivia previously financed or assisted by the United States, do hereby certify that in my judgement Bolivia has both the financial capability and human resources capability effectively to maintain and utilize the capital assistance project: PRODUCTIVE CREDIT GUARANTY PROJECT.

Frank B Kimball

Frank B. Kimball
Director, USAID/Bolivia

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ANNEX E

Cost-Estimates for AID Grant Financing

I. Advisor to BCB

The AID-financed advisor will work for a total of 10 months, 4 months between October 1977 and February 1978, and 1 month in July 1978, January 1979, July 1979, January 1980, January 1981 and December 1981.

A. Cost estimates for four month consultancy:

International travel	$880
Excess baggage	100
Local perdiem*	4,560
Local travel	200
Salary**	9,200
Benefits	1,196
Overhead	4,600
Total	$20,736

B. Cost estimates for 1 month consultancies:

	1978	1979	1980	1981
International travel	$900	$950	$1000	$1050
Excess baggage	100	100	110	110
Local perdiem	1350	1350	1350	1350
Local travel	150	150	150	150
Salary	2400	2500	2600	2700
Benefits	310	325	338	351
Overhead	1200	1250	1300	1350
Total	$6412	$6652	$6848	$7061

C. Summary cost estimates for advisor

October 1977-February 1978	$20,736
July 1978	6,412
January 1979	6,625
July 1979	6,625
January 1980	6,848
January 1981	7,061
December 1981	7,061
Total (10 months)	$61,368
Rounded	$61,500

* (30x45=1350) + (21x31=651) + (30x45=1350) + (39x31 = 1209) = $4,560

** base salary - $2,300/month, equivalent to FSR-4/5

II. Travel of BCB Personnel to Intercountry Evaluation Seminars*

A. First year - Managua, Nicaragua

Transportation	$770
Excess baggage	115
Perdiem (10 days)	400
Other costs	50
	$ 1335x2 = $2670

B. Second year - La Paz, Bolivia

(no AID-financed costs)

C: Third year - Tegucigalpa, Honduras

Transportation	$853
Excess baggage	116
Perdiem (10 days)	450
Other costs	60
	$1479 x 2 = $2,958

D. Fourth year - Asunción, Paraguay

Transportation	$278
Excess baggage	43
Perdiem (10 days)	320
Other costs	51
	$700 x 2 = $1400

E. Summary cost estimates for seminars

First year		$2,650
Second year		-
Third year		$2,958
Fourth year		1,400
	Total	$7,028
	Rounded	$7,100

* All estimates are for 2 people to attend seminars.

III. Summary of Grant Financing Requested

FY	1978	1979	1980	1981	1982	Total
Advisor	27,148	13,350	6,848	7,061	7,061	61,368
Seminars	2,670	-	2,958	1,400	-	7,028
Totals	29,818	13,350	9,806	8,461	7,061	68,396
(Rounded	29,850	13,350	9,800	8,500	7,100	68,600)

AID [illegible]
SUPPLEMENT I

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY ________ to FY ________
Total U.S. Funding ________
Date Prepared July 25, 1977

Project Title & Number: PRODUCTIVE CREDIT GUARANTY PROGRAM 511-[illegible]

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal. The broader objective to which this project contributes:	Measures of Goal Achievement:		Assumptions for achieving goal targets:
To increase the per capita income and standard of living of the rural and urban poor.	1. Increased farm family income among PCGP borrowers 2. Increased economic activity in rural areas 3. Increased number of jobs for rural poor 4. Increased economic activity by urban artisans.	PCGP evaluations and GOB statistics.	1. Receipt of credit by persons presently without access to it will increase income of borrower. 2. Rural enterprises, agroindustry and artisanry activities will create additional jobs in rural areas and will be primarily oriented to the local market.

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title & Number: PRODUCTIVE CREDIT GUARANTY PROGRAM 511-0486

Life of Project:
From FY ________ to FY ________
Total U.S. Funding ________
Date Prepared: ________

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Purpose:	Conditions that will indicate purpose has been achieved: End of project status.		Assumptions for achieving purpose:
1. Expand the reach of the private financial system in Bolivia to include small farmers, artisans, rural business-men, and community groups presently without access to the formal credit system.	1. a) Private financial institutions include in their lending activities small farmers, community groups, artisans, and rural businessmen who were not previously their clients. b) At least 35% of the funds lent under the PCGP in 1981 come from the lending institutions.	1. a) Private financial institution records b) PCGP system records and evaluations.	1. a) Effective demand for credit for viable investments among non-clients of the private financial system remains high b) Technical assistance to lenders and borrowers is available. c) BCB refinancing for guarantied loans is available, but under conditions which require use of some lender resources for each loan made.
2. Demonstrate the viability of a self-financing guaranty mechanism.	2. a) Paid-in guaranty commission minus administrative costs exceed guaranty payments from the Fund through 1986. b) Fund capitalization is at least $200,000 by the end of 1981. c) $11,000,000 in loans to target group guarantied through 1981.	2. PCGP system records and evaluations.	2. a) Average loss rate on loans guarantied is a maximum of 4% b) Efficient fund management with administrative costs $40,000 a year or less. c) Recuperations on defaulted loans equals at least 25% of defaulted amount. d) Guarantied portfolio grows through 1981.

ANNEX F, Page 3 of 4

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY ________ to FY ________
Total U.S. Funding ________
Date Prepared: ________

Project Title & Number: PROTECTIVE CREDIT GUARANTY PROGRAM 511-0[illegible]

PAGE 3

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Outputs:	Magnitude of Outputs:		Assumptions for achieving outputs:
1. Viable guaranty system which will guaranty up to 75% of eligible credits made.	1. PCGP fund established in BCB with (a) trained, full-time personnel (b) policies and procedures developed (c) promotion program (d) guaranty authority, supported by AID & BCB inputs.	1. PCGP system records and evaluation	1. a) BCB support for program continues b) Technical advisor available and provides services in a timely fashion. c) AID guaranty authorization effective through December 31,1981 d) BCB continues to provide guaranty support to fund.
2. Viable technical assistance fund providing assistance to lenders and borrowers.	2. Resources in T/A fund equal at least: 1978 1979 1980 1981 $5,750 $[illegible],000 $57,750 $[illegible],400	2. PCGP system and BCB records	2. a) Expected level of lending occurs. b) Efficient programming of technical assistance funds by BCB.
3. Credits made by private lending institutions to target group borrowers who were not previously their clients.	3. a) At least 5 private banks and 2 other private financial institutions participate in program by 1980. b) Loans made as follows: (see table below)	3. PCGP system records and evaluation	3. a) Private lender interest in program remains high b) Technical assistance to lenders exists. c) No major changes in interest rate structure that would negatively influence lender participation in program. d) Availability of BCB refinancing.

	78	79	80	81	T
agriculture	70	231	490	704	1575
enterprises	10	33	70	112	225
Commun.level.	27	121	192	306	613
Total	107	355	752	1204	2415

AID 1020-28 (7-71)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY ________ to FY ________
Total U.S. Funding ________
Date Prepared: ________

Project Title & Number: PRODUCTIVE CREDIT GUARANTY PROGRAM 511-0086

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Inputs:	Implementation Target (Type and Quantity)		Assumptions for providing inputs:
1. AID a) Section 222A Guaranty Authority to support PCGP fund b) Technical advisor to Fund Administrative unit in program implementation and evaluation c) Costs for BCB personnel to attend intercountry PCGP evaluations. 2. BCB: a) Guaranty authority to support PCGP fund b) Administrative costs during first year of program implementation. 3. Participating lenders/borrowers: a) Guaranty commissions b) Commissions for T/A fund.	1. a) $[illegible],500,000 b) 10 mm - $61,500 grant c) $7,100 grant (3 seminars) 2. a) $1,250,000 b) $40,000 3. a) 4% on loans up to 2 years term and 5% on loans longer than 2 years b) 1% of loans guaranteed	Guaranty system records	1. a) AID guaranty authorization effective through 12/31/81 b) Technical support grant funds available c) Qualified advisor available. 2. BCB will make its contributions as required. 3. Lenders/borrowers willing and able to pay guaranty and technical assistance commissions.

COUNTRY	PROJECT NO	PROJECT TITLE	DATE	[X] ORIGINAL / REVISION # ____	APPROVED
Bolivia	511-0486	Productive Credit Guaranty Program	7/25/77		

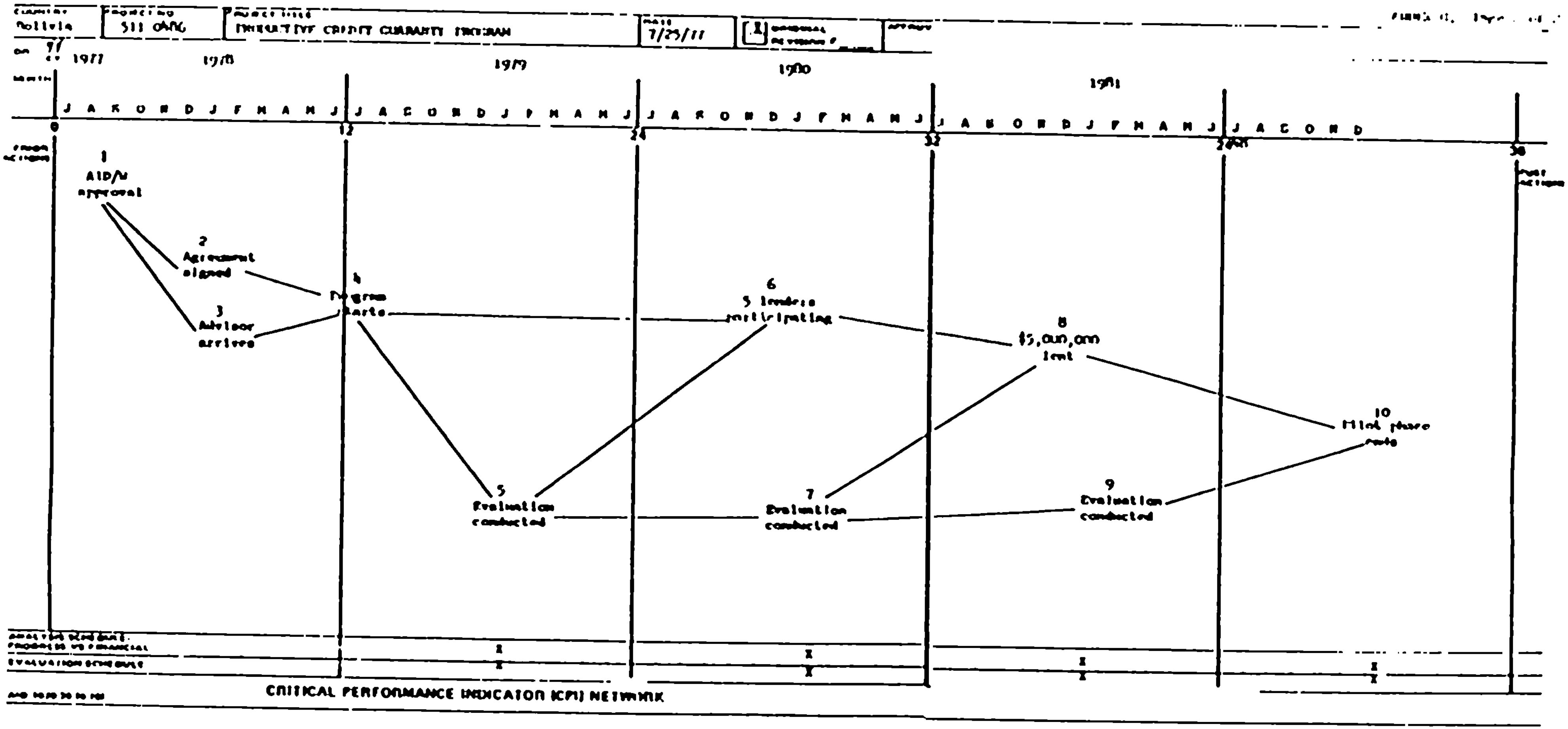
PROJECT PURPOSE (FROM PRP FACESHEET)

1. Expand the reach of the private financial system in Bolivia to include small farmers, artisans, rural business-men, and community groups presently without access to the formal credit system.
2. Demonstrate the viability of a self-financing guaranty mechanism.

CPI DESCRIPTION

1. 8/31/77 AID/W approved PP for ICGP. Action: AID/W
2. 12/31/77 Guaranty agreement signed between AID and GOB. Action: USAID, BCB, Ministry of Finance.
3. 1/15/78 Technical advisor arrives. Action: USAID, BCB.
4. 6/30/78 Operating manuals developed, BCB and lender personnel trained, and program is initiated. Action: BCB, technician, USAID.
5. 1/31/79 First evaluation conducted. Action: BCB, USAID, technician.
6. 12/31/79 Agreements with at least 5 private financial institutions to participate in program and training provided to key lender personnel. Action: BCB.
7. 1/31/80 Evaluation conducted. Action: BCB, USAID, technician.
8. 12/31/80 A minimum of $5,000,000 in loans guarantied under program. Action: lenders, BCB.
9. 1/31/81 Evaluation conducted. Action: BCB, USAID, technician.
10. 12/31/81 Final evaluation conducted and pilot project phase ends. Action: BCB, USAID, technician.

CRITICAL PERFORMANCE INDICATOR (CPI) DESCRIPTION


Bolivia
511 0486
INCENTIVE CREDIT GUARANTY PROGRAM
7/25/77
1977
1978
1979
1980
1981
J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D
0
12
24
36
48
1
AID/W approval
2
Agreement signed
3
Advisor arrives
4
Program starts
5
Evaluation conducted
6
5 lenders participating
7
Evaluation conducted
8
$5,000,000 lent
9
Evaluation conducted
10
Pilot phase ends
X
X
X
X
X
X
X
X
CRITICAL PERFORMANCE INDICATOR (CPI) NETWORK