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BOLIVIAN RURAL FINANCIAL MARKETS

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III

REFINANCING FOR AGRICULTURAL SECTOR: BOLIVIAN CENTRAL BANK AND PL-480

Introduction

As noted in the previous chapter, refinancing of agricultural credit extended by Bolivian intermediary financial institutions (ICIs) has become increasingly important since 1967 when the first trust fund to refinance lending to agriculture and other productive sectors was established in the Bolivian Central Bank (BCB). The new trust fund, the Special Fund for Economic Development, was announced in Supreme Decree No. 07911. Since that time, twelve trust funds have been instituted in the BCB. In 1985 there were five active funds that were exclusively for agriculture or had important agricultural components. BCB also administers refinancing from its "own funds," which are resources from the BCB or the Bolivian government.

In 1984, PL-480 initiated a refinancing program using PL-480 Title III funds and others. PL-480 had previously had some credit programs but never on the scale of its current refinancing operations. PL-480 became involved in refinancing because of two factors. The first factor was, because of the flood and draught disasters in 1983, there was a rise in food imports. This meant that PL-480 had considerably more resources, and at a time when USAID did not have financing for credit programs through normal foreign aid channels. Therefore, USAID worked with PL-480 to use some of the new resources to establish refinancing funds. The second factor was that in this period BCB experienced considerable problems the interupted the timely and proper flows of refinancing. The Central Bank's labor union created considerable instability and turmoil as a result of the economic crisis and attempts by the government to exert more control over the Bank. Corruption was rampant as BCB officials rationed foreign exchange and refinancing. Under these conditions, USAID encouraged the development of PL-480 as a refinancing source in order to create an alternative to the problematical and troublesome BCB and to take advantage of the enlarged PL-480 resources.

This chapter consists of two main parts. The first part describes and analyses BCB refinancing for agriculture. The second deals with PL-480 refinancing. The chapter finishes with conclusions.

Bolivian Central Bank

Growth of Refinancing for Agriculture

As shown in Table III-1, the real value (expressed in 1980 prices) of total BCB refinancing for agriculture followed a downward trend between 1979 and 1982. In 1981 and 1982 there were sharp declines from the levels of

TABLE III - 1

BOLIVIAN CENTRAL BANK
PERCENT OF REFINANCED LOANS DIRECTED TO AGRICULTURE AND AGROINDUSTRY a/
1980 PRICES b/
(1,000 $b.)

SOURCE OF FUNDS	1979	1980	1981	1982	1983	1984	1985
TRUST FUNDS							
Total	658,934	625,815	296,836	367,390	669,149	1,972,512	623,057
Agriculture	517,049	495,915	243,623	250,743	562,559	1,770,362	376,298
Percent Agriculture	78.5	79.2	82.1	68.2	84.1	89.9	60.4
BANK'S OWN FUNDS							
Total	462,386	235,374	437,701	288,552	471,895	705,373	1,893,588
Agriculture	9,601	41,376	240,911	173,740	310,950	391,161	1,891,914
Percent Agriculture	2.1	17.6	55.0	60.2	74.4	55.5	99.2
TOTAL							
Total	1,121,320	861,189	734,537	656,243	1,089,044	2,677,885	2,516,645
Agriculture	526,650	537,291	484,534	424,483	873,509	2,161,523	2,268,312
Percent Agriculture	47.0	62.4	67.0	64.7	80.4	80.7	90.1

Source: Bolivian Central Bank, Development Department.
a/ Does not include Industry Refinancing Fund (FR1).
b/ Deflator, Consumer Price Index for La Paz.

1979 and 1980. Then, in 1983 there was a major shift when refinancing doubled the level of the previous year. By 1984 it increased another 247 percent and in 1985 it grew slightly. The large increases beginning in 1983 were due to the huge inflows of foreign assistance funds following the flood and draught disasters in that year as well as the government's providing increased financing for the sector, especially for BAB. Since 1983 BCB refinancing became increasingly important as a source of funds for private and public-sector bank financing for the agricultural sector.

Relative Importance of Agricultural Refinancing

Since 1979 refinancing for agriculture has grown considerably in importance, relative to total refinancing. As shown in Table III-1, in that year agricultural refinancing accounted for 47 percent of the total. During the 1980-1982 period the proportion rose to about two-thirds and by 1983 and 1984 the percentage for agriculture exceeded 80 percent. In 1985 the sector's relative importance increased to over 90 percent.

The trend of increasing relative importance of refinancing of agricultural loans was due to three factors. The first factor was that over the 1980-1982 period refinancing for non-agricultural activities declined more rapidly than that for agriculture. The second factor was that in 1983 and 1984 non- agricultural refinancing grew at a lesser rate than that for agriculture. The third factor was that in 1985 non-agricultural refinancing declined while agricultural refinancing rose. All of these factors show the government's and the BCB's policy of increasingly using the refinancing mechanism to provide credit for agriculture.

Sources of Funds for Refinancing

BCB has two generic sources of refinancing funds: trust funds and its own funds. The trust funds mostly originate from foreign assistance and are placed with BCB to be used to refinance specific types of development activity. They are employed as rotating funds, i.e., interest and principal reflows are returned to the fund for future lending. The Bank's own funds consist of monies placed with BCB annually by the federal government or monies created by BCB through emission of currency. These funds are also rotating funds, but can be increased or decreased by the BCB, depending on the perceived needs for refinancing. Most are directed to specific types of activities, especially to cover financing of regular annual agricultural production. Compared to trust funds, there is more flexibility in the use of the funds because each year the government and BCB make decisions about the activities to be refinanced and the amounts of available funds.

As shown in Table III-2 trust funds were the principal source of refinancing resources over the 1979-1984 period. In 1985 their relative importance dropped precipitously. It should be noted that despite the relative dominance of trust funds in refinancing, their importance has followed a downward trend while refinancing from BCB's own funds has risen. This pattern reflects two interrelated factors: (a) the effects of inflation in causing a tendency of a decline in the real value of trust-funds available for refinancing over the period, and (b) the increased use of the

TABLE III-2

REAL VALUE OF ANNUAL FLOWS OF BOLIVIAN CENTRAL BANK REFINANCING FOR AGRICULTURE AND AGROINDUSTRY a/

1980 PRICES b/
(1,000 $b.)

SOURCE OF FUNDS	1979	%	1980	%	1981	%	1982	%	1983	%	1984	%	1985	%
TRUST FUNDS	517,049	92.3	495,915	92.3	243,623	50.2	250,743	59.1	562,559	64.4	1,770,362	81.9	376,298	16.5
Development 07911 c/	31,050	5.9	50,512	9.4	16,109	3.3	21,107	5.0	74,171	8.5	82,100	3.8	14,900	0.7
Refinancing Fund (FRA I)	138,890	26.4	167,581	31.2	74,182	15.3	30,966	7.4	179,206	20.5	199,211	9.7	61,777	2.7
Refinancing Fund (FRA II)	321,242	61.0	163,294	30.4	78,069	16.1	46,297	10.1	165,329	18.9	191,796	8.9	149,507	6.6
IDB-Livestock			2,856	0.5										
Agro. Industry & Artisanry	25,764	4.9	108,567	20.2	72,341	14.9	132,719	31.6	143,622	16.4	169,327	7.8	3,143	0.1
Technical Assistance Fund	103	0.1	3,105	0.6	2,922	0.6	19,634	4.6	231	0.1	767	0.1		
IDB.Agriculture/Livestock											1,127,161	52.1	146,971	6.5
BANK'S OWN FUNDS														
Agriculture	9,601	1.8	41,376	7.7	240,911	49.8	173,740	40.9	310,950	35.6	391,161	18.1	1,891,914	83.5
Total	526,650	100.0	537,291	100.0	484,534	100.0	424,483	100.0	873,509	100.0	2,161,523	100.0	2,268,312	100.0

Source: Bolivian Central Bank, Development Department.
a/ Does not include Industry Refinancing Fund (FRI).
b/ Deflator, Consumer Price Index for La Paz.
c/ Includes refinancing made for agricultural purposes.

Bank's own funds to both compensate for this decline and to be used as the main instrument to augment total refinancing.

The figures of Table III-2 show this clearly. In 1985 the real value of the level of trust-fund refinancing for agriculture was 72.8 percent of the level of 1979. Over the seven-year period the real value of annual refinancing from this source followed a downward trend except in 1982, 1983 and 1984. In 1982 the value increased slightly. In 1983 it more than doubled and then tripled again in 1984. There were two reasons for the increases in these years. First, it appears that the BCB increased the size of the trust funds as a means to recapitalize them for their loss in real value from the effects of inflation. According to USAID, BCB was supposed to do this under the conditions of the trust fund arrangements. Morevoer, this was easily accomplished by the BCB's reallocating funds or creating new money. Second, in 1983 IDB established a major new trust fund (IDB-712) valued at $32 million. Most of this was disbursed in 1984, which accounted for the very sharp increase in trust-fund refinancing in that year. In 1985 both of these factors were absent. The result was in that year the real value of trust-fund refinancing fell almost 80 percent.

The 1985 decline in trust-fund refinancing for agriculture was more than offset, however, by a large increase in refinancing from the Bank's own funds. An important source was the $10 million loan from USAID to BCB to be used for emergency relief, but as part of the Bank's own funds. Under this arrangement the government was supposed to contribute an equal amount, but did not meet all of its obligation.

Indeed, the real value of own-fund refinancing for agriculture increased over the seven-year period. In only one year, 1982, did the real value decline. The relative importance of the Bank's own funds in total refinancing illustrates the magnitude of the change. In 1979 only 1.8 percent of total agricultural refinancing came from their own funds; by 1981 the percentage had risen to 49.8. The relative importance declined between 1982 and 1984 when the trust funds were expanded, but by 1985 refinancing from the Bank's own funds accounted for 83.4 percent.

It is clear that since 1979, with the exceptions of 1982, 1983 and 1984, the BCB strategy has been to increase its own funds rather than trust funds to expand refinancing. In 1985 BCB let the real value of the trust funds decline. Rather than maintain the real value of these funds it put new resources directly in the own funds category. One reason that this may have occurred is that USAID placed restrictions on the use of the trust funds it had established. The Mission had specified that trust funds and emergency funds not to be made available to BAB. To get around this sanction, it appears that BCB chose to use their resources to increase their own funds, which they could use to refinance BAB loans.

Trust Funds

Table III-2 presents figures on the amount of refinancing from the trust funds. A brief description of each of the funds follows.

Special Fund for Economic Development 07911. This fund was established in 1967 by USAID under an agreement whereby the peso equivalent of principal and interest from a previous USAID loan to COMIBOL would be placed in a special development fund. The loan was for $6.49 million of which $3.5 million was for agriculture and the remainder for other productive sectors.

First Agricultural Refinancing Fund: FRA I. This fund was established in 1971 with a loan by USAID. Total USAID commitments have been $8.27 million. This fund was to be used to increase production of basic foodstuffs, to substitute for imports and meet domestic demand.

Second Agricultural Refinancing Fund: FRA-2. This fund was established by USAID in 1974 with a loan of $8 million to refinance loans for small farmers.

Agroindustry and Artisanry: A and A. This fund was established by USAID in 1978, with a loan of $9 million to undertake agribusiness and artisanry projects in rural areas that benefit small farmers.

Technical Assistance Fund: FAT. This fund was established by USAID in 1978 as a component of A and A. The loan was for $400,000 to be used by ICIs to undertake feasibility studies for possible A and A projects.

IDB-Livestock. This fund was established by a series of loans from IDB for refinancing of livestock. The first loan was made in 1969.

IDB-Livestock and Industry. This fund was established by Ia loan from IDB in 1983 to undertake small farmer livestock and agricultural production. The loan was for $32 million.

Distribution of Trust Funds

As shown in Table III-2, in 1985 there were only two trust funds that had significant disbursements: FRA-II and the IDB Agriculture/Livestock Loan. In 1984, FRA I, A and A, and 07911 were also important, but more than half the funds came from the newly-established IDB Agriculture/Livestock Fund. In each of the years between 1979 and 1983, FRA I, FRA II and A and A were the dominant trust funds.

Institutional Distribution of Refinancing

As shown in Table III-3, in 1985 the private banks received 67.0 percent of total BCB refinancing for agriculture and BAB the rest, except for a small amount used by the State Bank for agribusiness. When the total is disaggregated by source of funds, private banks received 72.2 of trust-fund refinancing and 65.9 percent of the refinancing from the BCB's own funds.

Between 1979 and 1984 the private banks received a majority of total financing in all years except 1984. They dominated trust-fund refinancing in all years except 1981 and they had more than half of refinancing from the Bank's own funds in all years except 1983 and 1984. Thus, it is clear that

TABLE III-3

DISTRIBUTION OF ANNUAL DISBURSEMENTS FROM BOLIVIAN CENTRAL BANK REFINANCING LINES FOR AGRICULTURE BY CLASS OF BANK, 1979-1985

1980 Prices
(1,000 $b.)

FINANCING LINE	1979	%	1980	%	1981	%	1982	%	1983	%	1984	%	1985	%
TRUST FUNDS														
Social Funds D.S. 07911	31,047	100.0	50,512	100.0	16,110	100.0	21,107	100.0	74,171	100.0	82,100	100.0	14,371	100.0
B.A.B.	11,912	38.4	11,316	22.4	9,891	61.4	4,797	22.7	57,861	78.0	8,953	10.9	5,354	37.3
State Bank			35	0.1							21	0.1	964	6.7
Private Banks	19,135	61.6	39,161	77.5	6,219	38.6	16,310	77.3	16,310	22.0	73,126	89.0	8,053	56.0
FRA I	138,890	100.0	167,581	100.0	74,182	100.0	30,986	100.0	179,206	100.0	199,211	100.0	61,777	100.0
B.A.B.	63,644	45.8	53,293	31.8	38,241	57.5	12,048	38.9	11,068	6.2	33,929	17.0	395	0.6
State Bank	2,520	1.8	747	0.4					5	0.0	362	0.2		
Private Banks	72,726	52.4	113,541	67.8	35,941	48.5	18,938	61.1	168,133	93.8	164,920	82.8	61,382	99.4
FRA II	321,242	100.0	163,294	100.0	78,068	100.0	46,297	100.0	165,329	100.0	191,796	100.0	149,507	100.0
B.A.B.	157,524	49.0	104,820	64.2	50,026	64.1	13,963	30.2	88,726	53.7	71,624	37.3	86,522	57.9
State Bank											4,265	2.2	286	0.2
Private Banks	163,718	51.0	58,474	35.8	28,042	35.1	32,334	69.8	76,603	46.3	115,907	60.5	62,699	41.9
D.B.- Livestock Program			2,856	100.0										
B.A.B.			1,781	62.4										
State Bank														
Private Banks			1,075	37.6										
Agroindustry & Artisanry	25,764	100.0	108,568	100.0	72,341	100.0	132,719	100.0	143,622	100.0	169,327	100.0	2,124	100.0
B.A.B.	1,194	4.6	5,193	4.8	30,689	42.4	7,887	5.9	61	0.1	51,918	30.7	1,087	51.2
State Bank			1,124	1.0	470	0.7	446	0.3	657	0.4	18,993	11.2	397	18.7
Private Banks	24,570	95.4	102,251	94.2	41,182	56.9	124,386	93.8	142,904	99.5	98,416	58.1	640	30.1
F.A.T.	103	100.0	3,105	100.0	2,922	100.0	19,296	100.0	231	100.0	767	100.0		
B.A.B.														
State Bank														
Private Banks	103	100.0	3,105	100.0	2,922	100.0	19,296	100.0	231	100.0	767	100.0		
D.B.- Agriculture/Livestock											1,127,161	100.0	146,971	100.0
B.A.B.											654,361	58.0	9,091	6.2
State Bank											313	0.1		
Private Banks											472,487	41.9	137,880	93.8
Total Trust Funds	517,046	100.0	495,916	100.0	243,623	100.0	250,405	100.0	562,559	100.0	1,770,363	100.0	374,749	100.0
B.A.B.	234,274	45.3	176,403	35.6	128,848	52.9	38,695	15.5	157,715	28.0	820,785	46.4	102,488	27.4
State Bank	2,520	0.5	1,906	38.4	470	0.2	446	0.2	662	0.1	23,954	1.4	1,647	0.4
Private Banks	280,252	54.2	317,607	64.0	114,305	46.9	211,264	84.3	404,182	71.9	925,624	52.2	270,654	72.2
Banks Own Funds														
Agriculture	9,601	100.0	41,377	100.0	240,911	100.0	173,740	100.0	310,950	100.0	391,161	100.0	1,891,915	100.0
B.A.B.	3,106	32.4	18,370	44.4	83,182	34.5	46,780	26.9	250,429	80.5	365,973	93.6	644,448	34.1
State Bank							4,888	2.8						
Private Banks	6,495	67.6	23,007	55.6	157,729	65.5	122,071	70.3	60,521	19.5	25,188	6.4	1,247,467	65.9
TOTAL	526,647	100.0	537,293	100.0	484,534	100.0	424,144	100.0	873,509	100.0	2,161,524	100.0	2,266,664	100.0
Total B.A.B.	237,380	45.1	194,773	36.3	212,030	43.8	85,475	20.2	408,144	46.7	1,186,758	54.9	746,896	32.9
Total State Bank	2,520	0.5	1,906	0.4	470	0.1	5,334	1.3	662	0.1	23,954	1.1	1,647	0.1
Total Private Bank	286,747	54.4	340,614	63.3	272,034	56.1	333,335	78.5	464,703	53.2	950,812	44.0	1,518,121	67.0

Source: Bolivian Central Bank, Development Department.

a/ Real values at 1980 prices, deflator Consumer Price Index for La Paz.

the private banks have been the primary beneficiaries of BCB refinancing.

Nevertheless, it is important to note that beginning in 1983 and 1984 BAB received very substantial increases in real refinancing. Then, in 1985 the real value declined. This pattern reflects BCB's use of refinancing, especially from its own funds, to compensate BAB for the loss in real value of its own loanable funds. As will be shown in Chapter IV, BCB provided 91.1 percent of BAB's loanable funds in 1985. Furthermore, it is important to note that BCB used increasing portions of its own funds to finance BAB. As noted previously, this was to compensate for USAID's sanctions against BAB having access to USAID-financed resources. Indeed, BAB would have probably had a much bigger share of total BCB refinancing in 1985 had not the new Emergency Agricultural Fund come on stream as part of the Bank's own resources.

The institutional distribution of refinancing by the individual trust funds shows that BAB has been a principal user of FRA-II, A and A, and the Special Fund for Economic Development lines.

The Refinancing Mechanism

BCB informs the ICIs of the amounts of credit that will be available for each agricultural cycle. The amounts are based on: (a) an agricultural plan (described below) prepared by the BCB's Development Department, the entity that administers refinancing, and (b) the availability of refinancing resources as determined by BCB and government policy. Refinancing is available from both trust funds and BCB own funds; although the Bank's own funds are more flexible because they have fewer constraints on their use.

The ICIs prepare loan applications and present them to the BCB's regional office, usually in batches with a summary sheet listing the name of borrowers and key factors about each loan. Now, in a major change from the past practice of the BCB carefully reviewing each individual loan, refinancing from BCB's own funds, but not most trust funds, is subject to the new Automatic Refinancing System(SIRA). This means that upon presentation of the loan documents by the ICI the refinancing is automatically placed in the ICI's account at BCB. The process normally does not exceed 48 hours and therefore avoids the long delays in disbursements that used to occur when the BCB reviewed each farmer's application prior to disbursement. Previously, in many cases, the BCB undertook field inspections and feasibility studies before the loan was disbursed. SIRA is a major improvement. It places the responsibility for loan approval with the ICI and avoids delays in disbursements. Unfortunately, it is not employed with most trust funds because the BCB and foreign donors consider it important that inspections and careful loan application reviews take place to try to ensure that credits are to be used for their intended purpose.

Nevertheless, BCB continues to review the individual borrower applications, but after the funds are disbursed. If discrepancies are encountered, the ICI must return the refinancing and assume full responsibility for the loan. This BCB review procedure is probably mostly a

costly excercise in futility. It is clearly designed to try to avoid credit diversion by directing credit to the intended class of farmer and the targeted activities. It is doubtful that the review obtains the latter objective because of fungibility and substitution of borrowed funds for a farmer's own resources.

Private-sector ICIs can refinance up to 80 percent of the value of the loan, with the other 20 percent coming from their own resources. In contrast, BAB receives 100 percent refinancing because it does not have funds of its own to use. In the case of farmer-borrower default the ICI assumes all of the risk. Past due amounts on refinanced loans made to an ICI are substracted from the ICI's account with BCB. Therefore, BCB does not have any significant delinquency in its refinancing portfolio.

The current refinancing rate from BCB to the ICI is 8 percent. To this amount the ICI adds 4 percent and usually at least a 1 percent flat commission on the value of the loan as it onlends to the farmer. Thus, the ICI has a 4 to 5 percent spread. Most ICIs argue this spread is insufficient since they assume the bulk of the lending transactions costs and the risk.

The exchange rate risk is borne by the borrower. The loans have a maintenance of value clause pegged to the exchange rate for the dollar.

The loan interest rate is 13 percent. This rate is considerably lower than the free-market rates for similar loans in the commercial banking system; hence, it is concessionary. Therefore, the concessionary rate will encourage all classes of borrowers to prefer refinanced loans if they can obtain access to them. This situation undoubtedly leads to the diversion of agricultural credit for non-agricultural purposes. One effect is agricultural illusion which means that data on agricultural credit overstate the amount of resources that are used to finance this sector. If the refinanced rate were raised to the level of the market rate much of the BCB's concern for diversion would disappear and the costly control procedures could be cut considerably.

Planning

Since 1981 the BCB Development Department has prepared a financing plan for the agricultural sector for each agricultural cycle. The manner in which the plan is prepared is very simple and subjective. It is mostly undertaken by one person, Lic. Hugo Ossio, sub-director of the department.

The plan is designed to direct credit towards targeted activities. It is disaggregated by geographic region and ICI. The end result is that each ICI knows about how much refinancing will be available for specific activities in each region. Thus, the end objective is to allocate the distribution of refinanced credit according to pre-established criteria and goals.

According to Lic. Ossio, the base of the plan is last year's refinancing. This amount, broken down by regions and institutions, is then

adjusted for changes in production costs and hectarage. This information is obtained from the annual operating plan prepared by the Ministry of Agriculture and Peasants (MACA), regional development corporations, BAB, and producers associations. Finally, the amounts available are adjusted in accordance with the availability of foreign and domestic funds. The latter, of course, is influenced by government monetary and fiscal policies.

ICIs have complained about the timing of the planning process. ICIs are informed about the availability of refinancing funds without sufficient lead time to plan their lending nor to extend loans prior to the time that farmers need funds for land preparation and planting. Furthermore, ICIs report that they are unable to shift unusued funds from one region to another. As a result, some of the funds allocated for refinancing are unused.

The planning process may be useful to help estimate the demand for agricultural credit in a cycle. Yet it is naive to assume that credit will flow to the targeted objectives, especially if the refinanced loans carry concessionary interest rates; credit diversion is certain to occur on a wide scale. Therefore, the rigidity of the plan with respect to allocation of funds by activity, region and institution is going too far. Flexibility should be permitted to allow financial resources to flow in accordance with supply and demand. If the concessionary aspect of the interest rate were eliminated, credit diversion would be an unnecessary concern.

Conclusions

The BCB is the most important source of funds for agricultural credit in Bolivia today. Using the weighted average monthly exchange rate for 1985, BCB refinancing accounted for $59.4 million in agriculture credit in that year. Currently, the refinancing lines in Bolivia cover more than 90 percent of BAB's lending and the large majority of the agricultural credit extended by the private banks. If BCB refinancing were withdrawn, the Bolivian agricultural credit system would be in serious trouble. BAB would not have other viable sources of loanable funds, because its capital base is so small and its financial situation is very weak. The private banks would need to make more loans from their own funds. There is no doubt that if BCB refinancing were unavailable that the amount of agricultural credit would decline drastically.

BCB refinancing activities are concentrated in agriculture. In 1985, 90.1 percent of the total refinancing went to this sector.

In the last few years, BCB has been the recipient of several new sources of funds for refinancing; in 1983 it obtained $32 million from IDB and in 1985 the $10 million for the Agricultural Emergency Fund from USAID. These funds, plus increased injections by the BCB itself, have caused tremendous increases in the real value of refinanced agricultural credit since 1982, with the biggest rise occurring in 1984 after the agricultural disasters of 1983.

It is clear that in recent years BCB has decided to follow a strategy

of placing the bulk of its additional resources in its own-fund refinancing lines rather than in the trust funds, as it is supposed to do under its agreements with USAID. A probable explanation for this policy is that the Bank has much more flexibility with its own funds and that it wants to have additional resources for BAB, which is now excluded from access to USAID-sponsored trust funds. Furthermore, since SIRA is applied to their own funds and not the trust funds, disbursement is easier and more timely, something that appeals to both BCB and the ICIs.

In spite of these increases in funding, BCB continues to be plagued by a number of difficulties that have to one extent or another been present since the Bank entered refinancing in the late 1960s. These difficulties limit its effectiveness in refinancing.

First, the Development Department is undoubtedly inefficient. Records and ledgers are kept by hand. There is a need to computerize this department. If this were done, the work could be accomplished with far fewer employees. Indeed, this may be one reason it has not been done; the Bank's labor union is very strong and would resist labor-saving innovations.

Second, BCB refinancing has excessive targeting of credit both by clientele and activities financed. This has come about because of restrictions placed by foreign donors and domestic planning. The targeting requirements are likely to be futile in reaching the intended objectives, due to fungibility and substitution of funds for ICIs. Moreover, they increase BCB and ICI costs because of the additional reporting requirements. Efforts should be made to consolidate lines whenever possible and then reduce targeting to the bare minimum.

Third, there is a problem for the participating banks in the timing of information about the amount of available BCB refinancing. The root is that the government often does not make this decision until it is near the time for farmers to prepare land and plant, or even later. Thus, the banks cannot plan on specific amounts of resources. These circumstances lead to inefficient allocation of credit, delays in loan approval and the inopportune timing for credit use. Some results are that delinquency and credit diversion are increased.

Fourth, BCB is inflexible on the institutional and regional distribution of credit. Thus, whereas excesses of available funds may exist in one part of the country or for specific institutions, shortages may exist elsewhere. Means should be established to make the system more flexible.

Fifth, although SIRA is a big improvement to get around delays in disbursements it is not applied to all refinancing lines, i.e., the trust funds. This should be changed.

Sixth, BCB should demphasize the post-disbursements reviews of loan applications. This is time consuming for BCB and requires extra paper work by ICIs. The purpose of the review is to try to control credit use and ensure that the ICIs follow the rules. Means should be devised to accomplish the same objectives through less onerous methods such as spot

checks. The fact that the ICI has to assume the risk for the loan in case of borrower default, places a substantial burden on the ICI to make good loans.

Seventh, BCB has been accused of corruption in allocating credits. These practices should not be permitted. Fortunately they appear to have been reduced considerably since the propitious conditions of hyperinflation and a rapidly depreciation of currency have been eliminated. Nevertheless, the possibility for corruption arises anytime there is an excess demand for refinancing funds.

Finally, with the reorganiation of the financial system the role of the BCB refinancing program needs to be examined. My examination of the program suggests that the procedures and policies need to be thoroughly examined and revised to make the system more efficient and flexible. Alternative systems such as other second story institutions should be examined to make a decision whether or not the BCB deficiencies should be corrected within the bank or that a new refinancing institution be created.

PL-480 Executive Secretariat

Introduction

In 1979, the PL-480 Executive Secretariat was established in Bolivia to administer local currency derived from PL-480 sales of basic grains in Bolivia. The agreement to set up the Executive Secretariat contained provisions for PL-480 to extend credit. Between 1979 and 1984 its credit activity was confined to a grant to BAB to provide additional funds to the Bank for its Small Farmer Credit Program. Since 1984, the Secretariat has rapidly become an important source of refinancing for agricultural production, artisanry and agribusiness.

USAID has worked closely with the Executive Secretariat in the development of a number of special credit programs that are targeted towards specific ICIs including private banks, FENACRE and cooperatives, CACEN, and the UCFs of the regional development corporations. USAID's interest in developing PL-480 as a second-story refinancing institution came about as a result of its dissatisfaction with the handling of refinancing by BCB, the mission's discontinuation of support for BAB, a shift to private-sector emphasis from public-sector institutions, and the lack of new program funds to establish credit. Meanwhile, PL-480 had increasing funds as a result of the large inflows of basic grains following the 1983 disasters. It was natural, therefore, that USAID should look to the development of PL-480 as a refinancing institution, at least as a stop gap measure, until more program funds were available and problems with BCB could be resolved.

In 1984, a pilot trust fund program was established to refinance national private-sector banks with Title III funds (derived from sale of wheat under the 1978 agreement that was later augmented with an agreement in 1986). Based on the success of the pilot program, the bank trust refinancing program was formalized in 1985. Now, in addition to Title III funds, PL-480 also undertakes refinancing with Title I (based on sale of

wheat under a 1985 agreement) and Title IV (based on disaster relief in 1984) funds.

It is noteworthy that PL-480 does not provide refinancing for public-sector institutions, including BAB. This policy is consistent with USAID's recent emphasis on the private-sector and the mission's dissatisfaction with BAB.

Although, PL-480 refinancing has assumed an important role in Bolivia, it has been considerably less important than BCB refinancing. In 1985, the Secretariat had dirsbursed only 7 percent of the amount disbursed by BCB. Roughly, PL-480 refinancing for agriculture is about one-sixth of that of the Central Bank. The Secretariat, however, has programmed many other funds for disbursement, and, therefore, could become relatively more important in the future.

The PL-480 Secretariat entered refinancing with operational norms, policies and procedures that were designed to be simple, direct, flexible and easy to implement. Their program design appears to have been been successful in this regard. Participating ICIs have been very satisfied with the results, finding them much more desirable and functional than those of BCB.

Refinancing Lines

Overview and Distribution by ICI. There are three major refinancing lines administered by the Executive Secretariat: (a) trust funds for private banks, (b) trust funds for FENACRE to onlend to cooperatives, and (c) regional development projects. In addition, there are a number of other credit programs. Some of the more important are: (a) housing credits for CACEN, (b) agricultural credit for CACEN, and (c) trust funds for the Chapare. Each of these is discussed in detail below, following a brief overview.

Table III-4 shows the level of activity. As of July 23, 1986, $10.4 million was disbursed (dollar values are figured at the exchange rate at the time a commitment or disbursement took place). Of the total, the private bank trust funds were clearly the most important, accounting for 56.8 percent of the disbursements. Next in importance were the regional development projects with 30.8 percent of the disbursements. FENACRE followed with 9.8 percent. The Chapare trust fund had 2.6 percent. No disbursements had taken place under the two CACEN refinancing lines; these programs were only established in July 1986.

Norms and Procedures. The norms the Executive Secretariat established for each refinancing line are quite similar. Nevertheless, there is some variation in the specific requirements. The norms are established in a letter of understanding between the Secretariat and each ICI. The fundamental elements of the letter are the following.

First, under most lines the Secretariat makes the funds available to the ICI to establish a trust fund within the ICI, as is the case with

private banks and FENACRE. When trust funds are established, the ICI has to keep the monies active in loans or return them to PL-480. The funds from the regional development lines are a major exception. In this case, the ICI repays the refinancing to the regional UCF, where it is placed in a rotating credit fund. Thus, in effect, the PL-480 funds end up as a grant to the UCF.

Second, there are conditions placed upon the use of funds. The purpose of loans may be specified. For example, for reconstruction of housing destroyed by floods (CACEN housing loans) or for agricultural production, artisanry and agribusiness (bank trust funds).

Third, there are limits placed on the size of loans in order to try to ensure that the refinancing is used to make credit available to the targeted groups of small- and medium-sized farmers or agribusiness and artisanry enterprises.

Fourth, the conditions under which the ICI receives the refinancing is spelled out. These include the refinancing interest rate, term of refinancing and reporting requirements. In most cases the refinancing rate is 8 percent and the loan interest rate to the final borrower is specified at 12 percent plus a 1 percent commission for a reserve for bad debts. PL-480 uses the development loan rate specified by the Central Bank as a guide in establishing its loan interest rate to the final borrower.

Fifth, the ICI is assigned the total responsibility for selecting clients to be refinanced (an exception is the Chapare Project, where the SDTB is involved), subject to the terms of the agreement. The ICI presents minimal paperwork to PL-480 to PL-480 in its loan application. This includes the final borrower's name, amount of credit and purpose of credit. There is no review of final borrower loan applications. This makes for speedy approval and disbursement. The Executive Secretariat, however, follows up the credit with the ICI in the course of the loan to try to ensure that the refinancing is being used as intended.

Sixth, the broad conditions of the terms of loans to the final borrowers are established. Of particular importance are the terms of the loan and the interest rates and commissions. The loan guarantees are left to the ICI to establish, but they should not be set so as to exclude target clientele. Provisions are established for extending a delinquent loan if there is a just cause.

Seventh, there are provisions for risk bearing and risk sharing. To guard against the effects of inflation and devaluation, all transactions, between PL-480 and the ICI, as well as between the ICI and the final borrower, have a maintenance of value clause pegged to the U.S. dollar at the official exchange rate. Most also provide for the creation of a reserve fund, financed by a one-time flat commission of 1 percent of loan value within the ICI, to be used to cover losses. If the losses in the ICI were to exceed the amount in the reserve fund, then the loss is assumed by the ICI.

Finally, there are provisions for amendments to the letter of understanding should circumstances warrant.

Bank Trust Fund

This program was initiated in December 1984 on a pilot basis. Based on the success of the pilot program, the bank trust fund was regularized in early 1986. Capital in this fund comes from Title I, and Title III. Only national private-sector commercial banks that have development departments are eligible. Refinanciable projects are agricultural production, artisanry and agribusiness. To obtain a disbursement, the ICI must present PL-480 a list of the needs for financing including the names of farmers to be financed, the amount of credit and the purpose of the credit. A letter of understanding is drawn up. PL-480 disburses the funds for a period of five years in the form of a trust fund. These funds must be disbursed by the ICI to the final borrower within 30 days. The ICI has use of the money for the period of the trust fund. A condition to keeping the money for this period is that the ICI must relend the interest and principal reflows from the loans within a period of 30 days.

In order to ensure that funds are lent to farmers and individual artisans, at least 60 percent of the amount refinanced must be lent to this clientele. Loan terms are up to one year for operations and up to five years for investment. Loans can be made to individuals or groups. There are upper limits on loan size of $15,000 for individual farmers and artisans and $70,000 for agribusiness firms. There is also a provision for larger loans for special projects, where the loans meet the objectives of the program. All special projects must be submitted to the Executive Secretariat for approval.

The interest rate structure consists of an 8 percent rate between PL-480 and the ICI. The ICI onlends to the borrower at 12 percent. It also charges the borrower a 1 percent one-time flat commission on the total loan that is used to establish a reserve fund for bad debts. This fund is held in the form of a time deposit account at the ICI. It is made in the name of PL-480 and earns a 10 percent rate of interest.

The ICI is free to choose the form of loan collateral. In case of a loan default, the ICI can recover the amount from the reserve fund, subject to the approval of PL-480. If the amounts in default exceed the available funds in the reserve fund the ICI assumes the rest of the loss.

FENACRE Trust Fund

On April 24, 1986, PL-480 entered into a letter of agreement with FENACRE to establish a trust fund so that FENACRE could operate as an ICI and make loans to integral cooperatives, its affiliated cooperatives and central cooperatives for purposes of agricultural production, artisanry and agribusiness. The initial trust fund was established for a three-year period beginning January 1, 1986, and consisted of the $475,134 in outstanding debt that FENACRE had with the Secretariat, all of which had been encumbered since September 1985. The bulk of FENACRE refinancing has

been directed to the four integral cooperatives.

FENACRE receives the funds from PL-480 at 7 percent. It onlends the funds to the cooperatives at 10 percent, which charges its members 12 percent. The cooperative members are charged a one-time flat commission of 1 percent, which is to be placed in a reserve fund for bad debts within the cooperative.

Of the funds that FENACRE receives from PL-480, FENACRE discounts 1 percent to place in a reserve funds for bad debts. In the case that this fund is insufficient to cover bad debts FENACRE must assume responsibility for the difference.

Regional Development Projects

PL-480 funds are used to promote regional development under the USAID-sponsored Departmental Development Corporations Project (DDC). There are grant funds for institutional development and credit funds. The credit funds are administered by the Credit Financing Units (UCFs) of the regional development corporation. The program was initiated in 1978, but was interrupted in the early 1980s due to Bolivia's political instability. In 1984, the credit line was activated. Refinancing is available for agribusiness, agriculture and livestock production and small- and medium-sized industry and artisanry. Agribusiness and livestock production loans are the biggest receipients of this credit. Most financing is directed to longer-term investment.

PL-480 refinances specific projects with some going for annual operations. It is important to note however, that, under this program the ICI loan contract is between the ICI and the UCF and not PL-480. Therefore, when the ICI cancels its loan the proceeds are paid the UCF to form part of a UCF revolving credit fund. In effect, the PL-480 refinancing is a donation to the UCF.

Under this arrangmenet, the ICI pays PL-480 6 percent and earns a 4 percent spread. The UCF receives a 2 percent spread and the final borrower pays 12 percent plus a 1 percent flat commission.

The DDC Project will terminate in March 1987. A follow-on program, the Market Town Capital Formation Project, is scheduled to carry on this important regional development effort.

CACEN--Housing Credit

On July 10, 1986, an agreement was reached between PL-480 and CACEN for a $7 million credit from Title I funds. The funds are to be used for housing loans and family necessities in the region of Lake Titicaca that was severely damaged by floods in February 1986. The loan was for 25 years and after a five-year grace period is to be paid back in equal one-year installments over a period of 20 years.

CACEN obtains the funds from PL-480 at 4 percent. It then onlends them

to its mutuals, which extends credit to the borrowers. The interest rates for the last two borrowers are not specified.

CACEN-Agricultural Credit

On July 10, 1986, CACEN entered into an agreement with PL-480 to use $300,000 in funds from the Disaster Recovery Component of the Agroindustry Reactivation Fund for purpose of establishing a trust fund at CACEN to extend credit for agricultural production by small farmers whose crops were destroyed by the February 1986 floods. Credit can be extended for up to two years for operations and up to five years for investments.

PL-480 disbursements to CACEN are for a period of five years. They must be onlent to the borrowers within a fifteen-day period after disbursement. PL-480 makes the funds available to CACEN at 6 percent on the value of the loan. The final borrower pays 12 percent. In addition, the mutual charges the borrower a one-time flat commission of 1 percent that is placed in a reserve fund for bad debts at that level. The loan to CACEN from PL-480 is guaranteed by the assets of CACEN and the mutuals.

Chapare Trust Fund

Funds had been assigned to the Chapare project in previous years. However, on June 30, 1986, this effort was formalized when PL-480 entered into an agreement with the Bank of Cochabamba to establish a $2,603,700 trust fund for revolving credit to support the Chapare coca-substitution project. Loans from this fund are for agricultural production, artisanry and agribusiness. The Bank of Cochabamba works very closely with the Secretariat for Bolivian Tropical Development (SDTB) in this endeavor. SDTB provides technical assistance and planning for the coca-substitution project in the chapare. The essence of the collaboration is that all of the Bank's loans and disbursements need to be approved by SDTB. This is obviously a mechanism to try to control the use of credit in this highly conflictive zone.

The loans can be up to ten years for investments. The upper loan limits are $25,000 for individual farmers and $100,000 for agribusiness.

PL-480 lends the funds to the Bank at 8 percent which onlends them to the borrower at 12 percent. The borrower also pays a one-time flat fee of 5 percent to be deposited in a reserve fund for bad debt.

Because these loans have a special risk, the provisions for covering bad debts are unique. The first recourse is the reserve fund for bad debts but it is only to be used for loans that are guaranteed by harvest. In this case, 80 percent of the bad debt is to be covered by the fund and 20 percent by the Bank. If the reserve funds are exhausted, the Bank will cover 30 percent and PL-480 70 percent. For loans that have a guarantee of urban property, the Bank must assume all the risk and has no recourse to the reserve fund.

Conclusions

In the last two years PL-480 has rapidly established itself as a refinancing entity for the agricultural sector, including agribusiness, in Bolivia. Originally employed as a temporary stopgap institution to get around obstacles that threatened agricultural credit the Executive Secretariat has developed into an important institution. Moreover, because of its simple and flexible approach to refinancing it has been well received by the various ICIs. It has proven much easier to work with that the BCB.

Another strength of the PL-480 program is that it has funds for longer-term investment financing. At present, Bolivian banks do not tie up their own money for more than 90 days, because of their fears of devaluation. Moreover, most Central Bank refinancing is limited to production credit. It is clear that PL-480 refinancing is filling an important void.

PL-480 has concentrated its refinancing activity in the bank trust funds. The funds have been an important source of funding for the banks. The Executive Secretariat has been the lifeblood of FENACRE's refinancing, and has compensated the Federation for the decline in available funds in the inflation-riddled CROFOC and BCB refinancing. Under the new 1986 agreement, PL-480 promises to be even more important to the Federation. CACEN has also been an important beneficiary of PL-480. Because of the Secretariat's refinancing, CACEN will be able to enter rural housing and agricultural credit. This will allow CACEN to obtain goals that it has long sought.

The Executive Secretariat is negotiating additional refinancing lines, including a wheat and seed line. In addition, it is restructuring procedures and norms for the UCFs of the new Market Town Project. It is exploring working with FINCA.

The fundamental strengths of PL-480 as a refinancing entity are its simplicity and that it places the bulk of the responsibility for loan approval and risk on the ICIs. These features mean that the Executive Secretariat can work with a small staff and low overhead. At present, the Executive Secretariat runs its credit program with only about five or six persons: a coordinator, three field technicians who spend about 85 percent of their time on credit, and bookkeepers. Since their records and documents are computerized, PL-480 estimates that bookkeeping time per loan averages one hour per month.

The Executive Secretariat does not spend extraordinary time in loan approval and control. The only documentation that an ICI must provide the Executive Secretariat at the time of loan application is a list of borrowers, the amount of credit and purpose of credit. On the basis of these documents there is immediate disbursement, which facilitates the timely use of credit. Afterwards, the field agents make periodic checkups on the loans in the ICI offices to make sure that all is in order. They review about two loans per week.

This system places the responsibility on the ICI for selecting clients

and assuming risk. This properly puts pressure on the ICI to manage its loans well. The maintenance of value clause protects both the ICI and PL-480 against the potential loss of real value with devaluation.

The way that the reserve funds for bad debts are structured, with one-time flat commissions, means that the final borrowers pay the cost of this risk. However, if the commission were not assessed, the ICIs would probably want to charge a higher interest rate, explicit or implicit, to compensate for the risk. It remains to be seen if the commissions are sufficient to cover the risk. Experience in the program will provide the answer.

Another strength is that PL-480 is willing to negotiate and adjust the terms of refinancing depending on the situation. For example, the terms of CACEN housing and the Chapare credit are considerably different than the others. This is a positive feature, allowing flexibility when the situation warrants.

The trust fund arrangement that is typically employed is also an attractive feature because it gives the ICI at least a fixed sum of money to work with over a period of three to five years. The regulations requiring the ICI to keep the funds in specified purposes and clientele should minimize credit diversion by the ICIs.

Although the PL-480 program has many strengths there are some features that are problematical.

First, PL-480 refinancing is not subject to control by Bolivian monetary and credit authorities. In its present form, it is an ad-hoc financial institution. This condition, imposes limits on the Executive Secretariat to function as a financial institution, and does not allow the government to directly control PL-480 under monetary and credit policy.

Second, PL-480 depends upon Title I, III and IV grain sales as sources of revenues for loanable funds. These sources do not depend upon financial markets. As such, the Executive Secretariat has limits to its lending. It may also encounter problems with funding because the amounts available, from sales must be released to PL-480 by the Bolivian government. Furthermore, there are competing uses, e.g., grants, for available PL-480 funds. One solution to get around these constraints would be for the Executive Secretariat to enter financial markets and borrow to additional resources. To do this, however, it would need to have adequate collateral. This probably implies the government would need to provide a guarantee. Whether this would be forthcoming is uncertain.

Third, since PL-480 depends on the government to provide the Bolivian currency resulting from the grain sales there can be delays in the Executive Secretariat receiving the funds. Indeed, PL-480 has experienced this very problem in recent times as the government has tried to limit expenditures and money emission. This dependence on the government can be disruptive to the flow of disbursements and provides short-term limits to the availability of funds for refinancing.

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Table III-4

PL-480 DISBURSEMENTS FROM REFINANCING LINES
AS OF JULY 23, 1986
(Millions U.S. Dollars)

Refinancing Line	Disbursed	Percent
Bank Trust Funds	5,888	56.8
FENACRE and Cooperatives	1,019	9.8
Regional Development Projects	3,196	30.8
Chapare Trust Funds	.265	2.6
CACEN Housing	-	-
CACEN Agricultural Credit	-	-
TOTAL	10,368	100.0

Source: Executive Secretariat, PL-480.

Fourth, although the letters of understanding are legal documents, if an ICI encounters severe repayment problems from refinanced loans the Executive Secretariat does not have any immediate recourse to recover the delinquent funds, as does BCB. The BCB taps an ICI's reserves at the Central Bank. In contrast PL-480 does not have any such recourse available to it.

Fifth, it is not clear that the typical 12 percent interest rate is appropriate. This rate plus the one percent commission, means the final borrower pays an effective interest rate of 13 percent, which is the same that BCR employs for development loans. Compared to levels of interest for regular commercial bank loans, this credit is underpriced. This leads to credit diversion by borrowers and all of the other negative aspects of concessionary interest rates. Furthermore, the refinancing interest rate charged the ICI is low compared to the market interest rates paid on deposits. This condition encourages the ICIs to use the PL-480 funds rather than to mobilize savings and to substitute the refinancing for its own resources.

Sixth, the PL-480 program does not contain provisions for voluntary savings mobilization, only the forced mobilization for the reserve funds that are the property of the Executive Secretariat.

Finally, experience shows that the private banks tend not to lend to small farmers but rather they prefer to deal with medium-sized farmers and agribusiness. This would be expected. Indeed, to deal with this tendency the private bank trust fund has established requirements that at least 60 percent of the amount lent goes to farmers. Despite this provision there still appear to be problems in getting the banks to lend to small farmers.

The conclusion is that the PL-480 system cannot be expected to reach large numbers of small farmers through the banks. Transaction costs are too high relative to the size of the loan, given that the banks have the alternative to lend to larger producers. When lending to small farmers the banks typically use the group loan credit delivery system as a means to reduce risk and lending costs. This practice should be encouraged.

In contrast, PL-480 refinancing through FENACRE and CACEN should be more successful in dealing with small farmers. This type of farmer is the basic clientele of these institutions.

It is premature to make a definitive judgement on PL-480 refinancing. Due to the newness of the program the Executive Secretariat has had limited experience and much will be learned with the passage of time. Nevertheless, PL-480 has rapidly become recognized as a de facto refinancing institution for Bolivian agriculture and agribusiness. Furthermore, in contrast to the BCB experience, PL-480 has demonstrated that refinancing can be done simply by placing the bulk of the responsibility for loan approval and risk where it should be, with the ICI. One of the important questions is what is the future role of the Executive Secretariat in refinancing? This interrogation must be answered as part of the study of the reorganization and restructuring of the financial system.

Conclusions

The reader is referred to the previous and more detailed sections that summarize and draw conclusions about BCB and PL-480 refinancing. In this final section some broad conclusions are presented.

Refinancing from BCB and PL-480 is the backbone of the Bolivian agricultural credit system. Without it, there is little doubt that credit flowing to the sector would precipitously decline. Given BAB's precarious financial situation that Bank is unable to obtain other financing and, as such, is virtually totally dependent on BCB refinancing as a source of loanable funds. The private banks are also major users of refinancing. In comparison to using their own resources to finance agriculture, they strongly prefer refinancing because financial costs are less and because they do not want to tie up their own funds in loans with terms that exceed several months. In addition, refinancing provides them access to additional resources.

In the total picture, BCB refinancing is much more important than that of PL-480. There are several reasons. First, the BCB has many more resources than PL-480. BCB not only has direct access to foreign assistance but also can create its own funds. In contrast, PL-480 is limited by the volume of U.S. grain sales.

Second, BCB refinancing is not limited to private-sector institutions. Therefore, it is available to BAB, whereas PL-480 refinancing is not.

Third, the private banks rely on refinancing from BCB for the large bulk of their agricultural credit. In contrast, their use of the PL-480 refinancing is limited in scope and is used to refinance relatively small and specific projects.

PL-480 refinancing, however, has been very significant. Beginning in 1984 the Executive Secretariat entered into a variety of refinancing lines that benefit not only clients of private banks but also clients of institutions such as FENACRE and CACEN, entities that have limited access to BCB refinancing. The PL-480 program is more successful than BCB in directing funds to small farmers through the private banks. Furthermore, it provides the banks with a source of intermediate-term investment credit, whereas most BCB refinancing is limtied to annual operations. In addition, PL-480 lending filled a void for USAID to fund some special programs, when the Agency was unable to obtain program funding for agricultural credit from the normal foreign aid sources.

Perhaps, the most significant long-run contribution of the PL-480 program, however, has been its demonstration effect. Its policies and procedures appear to have offered significant improvements over those of the BCB. Although the PL-480 program is too new to make definitive judgments, the available evidence and early indicators show that simple and flexible PL-480 refinancing norms and procedures work effectively. They properly place the responsibility on the ICI for loan approval and risk, thus

eliminating costly record keeping and multiple reviews of loan applications. An important testimony to PL-480's success is that the ICIs definitely prefer it to BCB refinancing. Under the Pl-480 system, costs for both the ICI and the refinancing institution are lowered. When the financial system is restructured and new policies and procedures as well as the institutional location of refinancing are determined, the PL-480 experience will be invaluable.

The tendency of both BCB and PL-480 to overplan and overtarget refinancing is another important factor for consideration in the restructuring process. Targeting should be limited as much as possible; it serves to raise administrative costs and often is not successful in avoiding credit diversion. Another factor for consideration is the loan interest rates. At present, the fixed interest rates of 13 and 12 percent appear to be too low and, thus, concessionary. The distortions created by this policy have considerable consequences including credit diversion, misallocation of financial and real resources, lack of incentives to mobilize domestic savings, and the creation of of opportunities for corruption. With financial market restructuring. With the restructuring of financial markets a policy of flexible rates should be established, to allow the rate to be the same as the market-determined rate for agricultural loans.

Refinancing will have an important role in the future of Bolivian agricultural credit. With the current changes being made in the Bolivian economy, the times are propitious to establish new norms, procedures and institutional structures. The roles that BCB and PL-480 as well as other alternative institutions need to be carefully examined. The above presents some ideas that should be useful in the process.

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