PN-ABF-390
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BOLIVIA FINANCIAL SECTOR ASSESSMENT

Bureau for Private Enterprise
U.S. Agency for International Development

Prepared by: *J.S. Munson*
R. Barbery Ameller

Sponsored By: *Financial Markets Project*
Project Number: 940-2005
Prime Contractor: Arthur Young

August, 1986

Arthur Young
A MEMBER OF ARTHUR YOUNG INTERNATIONAL

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TABLE OF CONTENTS

TABLES AND FIGURES

EXECUTIVE SUMMARY

OBJECTIVES OF THE ASSIGNMENT

This assessment is intended to address the major weaknesses and problems in the financial sector in Bolivia, defined as public and private financial institutions as well the Central Bank. The goals of the assignment were to identify and define policy, structural, and operational measures that can be taken to improve conditions in the sector.

The assignment was carried out through interviews with officers from public and private financial organizations, government officials, corporate officers from private enterprise, and representatives from multi-lateral and bilateral agencies. The assessment team also reviewed many reports and selected financial sector statistics prepared by public, private and international organizations.

The interviews were carried out in La Paz during April and May of 1986. The draft report was prepared in May and circulated for comments during June and July. The final report was prepared at the end of July.

CONCLUSIONS

As a result of years of political instability, rapidly shifting economic policies and programs and deterioration in its terms of trade, the economy of Bolivia is in a deep and progressively worsening recession. Lack of public faith in the political and economic situation is reflected by extensive capital flight, an indication of which is a decline in bank deposits which have fallen to 8 percent of 1981 levels. The de-dollarization policy of 1985 resulted in the complete repayment of dollar loans, at five percent or less of the dollar value of the loans. As a result the financial sector was stuck with extensive international dollar obligations for which they are receiving no revenue and, thus, have limited ability to repay.

The acute shrinkage of accessible capital has caused many problems for the financial sector. Stuck with high fixed costs, unwilling or unable to sharply cut back variable costs, and uncertain about the potential for economic stabilization, private banks sharply increased interest rates and spreads. Several public banks, the credit cooperatives, and the savings and loans institutions, faced with a decline in their traditional markets and costs which are large proportional to their potential revenue stream, entered into direct competition with the private sector. As a result current financial transactions are almost exclusively commercial, short-term, and expensive. Working capital and fixed capital needs of productive sectors of the economy have, consequently, not been met.

Shrinkage in the availability of capital has also affected the structure of the financial sector. The five international banks which once operated in Bolivia have virtually ceased operations. The private banks are working with average deposits which have shrunk from roughly $50 million per bank in 1981 to about $7 million per bank at present. Capital and reserves fell from $196 million in 1981 to $77 million in 1985 (even though some banks moved to replacement value for fixed assets). As a result of low revenues and large obligations, several banks are close to failure.

Some structural and operational deficiencies exist in all financial organizations, although the problems caused by these do not compare with the affects of the overall problems outlined above. The most pervasive and often cited problem is the rapidly changing legal environment coupled with poor cooperation between the private sector and the government. It is clear from the interviews conducted, however, that "clear, stable rules of the game" are necessary.

Common operational problems in financial sector organizations include the lack of adequately trained management and technical staff from middle-levels on down, inadequate cost control systems, and generally poor accounting and management information systems. While these deficiencies are typically worse in public sector organizations (because of lower levels of pay, career development practices --which include the movement of professional staff to positions for which they are not trained, and poor control resulting from frequent political changes) they also exist in the private sector. One factor which contributes to these problems is an almost total lack of professional training programs for the development of relevant skills.

Poor information at the organization level is reflected by almost completely inadequate information at the systems level. The Central Bank, nominally responsible for regulation of the financial system and, thus, presumably responsible for the collection, evaluation and presentation of sectoral information, does not have high quality, timely information available. Indeed, as noted by the Controller General, it is impossible to audit the Central Bank because it lacks uniform accounting systems and keeps poor track of its own operations.

From an institutional perspective the present financial system has major deficiencies, for example, it lacks effective private development finance institutions. The capital mobilization capabilities of the system are poor. Many traditional capital mobilization instruments simply do not exist and others are not used because past experience has been poor or because the basic conditions necessary for their use does not exist. The recapture of flight capital and effective savings mobilization are largely dependent on resurrection of faith in the economy and political stability in combination with development of innovative capital market programs such as debt swaps. The system does not adequately serve the needs of regional consumers and industrial development.

Financial organizations and decision powers are centralized in La Paz, even though the foci of major development activities are in the hinterland.

RECOMMENDATIONS

Problems in the financial sector in Bolivia are severe and varied. Revitalization and rationalization of the financial sector will require extensive effort and cannot be accomplished quickly. This report presents a series of strategic recommendations and within these a series of individual activities, some of which require further assessment and definition.

The first recommendation is to focus on stabilization and growth of the economy. A resurgent economy will have direct, beneficial implications for the financial sector. As part of this recommendation several activities are recommended, these include the following:

-- the development of an organization to improve the efficiency and use of funds passed from the Central Bank through intermediate credit institutions to final borrowers;

-- development of an offshore guarantee facility to improve the access of public and private institutions to external letters-of-credit and other short term instruments for productive imports;

-- the evaluation and use of innovative programs, such as debt swaps, to recapture flight capital in the short term; and,

-- in the mid-term, following economic stabilization, the implementation of savings stimulation programs, which might include a deposit guarantee program.

The second strategy element proposed is improvement in the structure and operating conditions of the overall financial sector. Activities in this strategy element include the following:

-- support for the evaluation and rationalization of the functions of the Central Bank, currently being conducted under the leadership of the World Bank;

-- evaluation and rationalization of the roles of state banks, in particular as they compete with private sector institutions and involve themselves in developmentally important activities;

-- review, and if necessary, reform of the banking laws; and,

-- improvements in information pertaining to the financial sector.

The third element of the integrated strategy focuses on operational improvements within financial sector organizations.

-- The first activity proposed in this strategy element is to use the leverage of Government and external funds to rationalize bank operations. This will be done by establishing and enforcing clear operating standards and reporting and audit criteria.

-- The second activity in this element involves improving the technical and management capabilities of staff through training. In the short-term financial sector training can be provided through the USAID sponsored IDEA program, but in the longer-term enhanced local training capabilities will need to be developed.

The final strategic element involves increasing the developmental capabilities of the financial sector. Activities within this element include the following:

-- decentralization and regionalization of financial operations and decision authority;

-- structural changes to enhance the development banking capabilities of public and private sector organizations; and,

-- the development and implementation of a broad variety of capital market instruments.

I. INTRODUCTION

This report presents an assessment of the financial sector in Bolivia. It is comprised of three basic components including: a) a characterization of the structure and context of the sector, b) an analysis of major problems and c) the identification of changes which can reinforce and strengthen the system. This study proceeded under the direction of the Bolivia Mission of the U.S. Agency for International Development. The Scope of Work prepared by the Mission is presented in Appendix A.

This is a general assessment of the financial sector. It does not focus on highly detailed actions and operations of public and private sector organizations. The information presented in this report was developed during intensive interviews with over 80 individuals from government ministries, public and private sector banks, industry, bilateral and multi-lateral agencies, and other financial sector institutions. (The schedule of interviews is presented in Appendix B.) The consultant team also reviewed numerous USAID, World Bank and Government of Bolivia reports and publications.

During the first two weeks the consultant team focused on characterizing the system and defining major problems. As information accumulated and understanding of the sector increased the scope of the interviews and data collection narrowed to focus on increasingly specific problem analysis and recommendations. Finally, the consultant team met with a few knowledgeable individuals in public and private sector organizations to refine the analysis and recommendations presented in the Draft Assessment Report prepared in Bolivia. The Draft Assessment Report was circulated within USAID/Bolivia, within the consulting group, and to a number of individuals in the Central Bank, the private banking sector and international financing organizations for comments.

This report, consequently, reflects the comments of a large group of individuals from a variety of organizations. The conclusions and recommendations, however, are solely those of the authors.

2

II. BACKGROUND

A. POLITICAL

On August 6, 1984, Victor Paz Estenssoro, with the help of the left, narrowly defeated the candidate of the right-wing ADN party, and former President, Hugo Banzer Suarez. Since his election the President has turned his back on the left and espoused a free market approach to the resolution of the country's economic problems. The President's cabinet appointments reflected his desire to draw on a wider spectrum of support, from old guard members of the MNR to technocrats and entrepreneurs.

In response to the country's grave economic crisis the new government announced an economic austerity package within a month of taking office. Organized labor from the mining, transport and petroleum sectors responded with a series of individual and then country-wide general strikes. The government moved to control and then effectively break these strikes through, first, curfews and then wholesale arrests. In October the MNR and the ADN signed an agreement to give each other support, inside and outside Congress. This was a signal that the confrontation between the government and the unions had been won.

Since that time the GOB has moved to cope with major economic problems, primarily through stiff economic reforms such as the reduction and control of costs of governance, revenue reforms, and the decentralization, if not divestiture, of state enterprises. In these efforts the government has chosen a path that diverges radically from any attempted by previous administrations. To date it has been effective, but major tests remain.

B. ECONOMIC

There has been no consistent rational economic policy for at least the past decade. In the years preceding Paz Estensoro's

3

investiture in 1985 a number of general actions and deficiencies resulted in the current economic problems. These include:

-- Rapid and radical shifts in government economic policies led to a lack of programmatic continuity and leadership. Between 1982 and mid- 1985 six major and radically different economic stabilization programs had been tried.

-- Lack of structural reforms in an inadequate and under-operated tax system leading to a dramatic decline in real internal revenues. Further, and for a number of reasons, the tax system penalized productive enterprise.

-- Unbalanced and perhaps mis-targeted subsidies together with expansionary monetary policies resulted in increasing commercial speculation. This in turn penalized productive enterprise, increased the demand for commercial services and diverted external (and nominally productive) financing.

-- Rapid growth in the bureaucracy and emphasis on the development of state enterprises resulted in major increases in government expenditures.

-- Expansionary monetary policies and aggressive pursuit of foreign assistance and debt when coupled with deteriorating terms of trade from 1983 onwards had a major negative affect on the country's balance of payments.

The effect of these problems was progressive. By the end of 1985 Bolivia's economy was in a shambles. Some indicators of the disarray, comparing 1981 to 1985, are outlined below:

-- the current account balance fell by more than $100 million,

-- the fiscal deficit increased from 7.8 percent to 28.1 percent of GNP,

-- the debt service to export earning ratio rose from 31 to 42 percent and would have increased to 129 percent if payments to private foreign banks had not ceased,

-- unemployment rose from 9.7 to 17 percent,

-- inflation went from 32 percent per year to 4600 percent between January to July of 1985, and

-- there was a 36 percent decrease in real foreign export value and a corresponding 45 percent real increase in the value of imports.

C. ECONOMIC REFORMS

The economic program adopted by the new government departed sharply from that of previous administrations. The primary difference is that the focus is inward, emphasizing domestic control of inflation, rationalization of government spending, improvements in the revenue base, and a more dynamic and effective enterprise system.

The legal instrument outlining the reforms and the country's new economic policy is Decreto Supremo 21060. In this decree individual provisions focus on the following goals and actions:

-- reduction of the fiscal deficit,

-- tight control over monetary emissions,

-- reduction in inflation,

-- the establishment of a single exchange rate, adjustable to market conditions,

-- decontrol of prices,

-- reorganization, control and decentralization of government owned enterprise,

-- the removal of controls on exports and imports, and

-- the removal of government subsidies.

Behind these goals lie a series of provisions focusing on improvements in private sector financial and development capabilities. To improve the climate for deposits, for example, the GOB authorized banks to provide dollar and pesos deposit (with "maintenance of value") facilities. The interest rates for these accounts are allowed to float freely and they are not subject to legal reserve requirements. Similarly, the floating exchange rate with its market ("bolsin") adjustment mechanism provides security for import and export oriented businesses and banks with extensive foreign exchange transactions.

It is, on the whole, too early to determine whether the economic reform program will work. There have certainly been major improvements: inflation has been close to zero over the past several months, major reductions in government costs have been made, the "bolsin" has done away with a majority of the speculative exchange activities, and the GOB has essentially met the IMF restructuring terms. On the other hand a number of major tests are coming up, particularly as regards the new tax structure and government salaries.

D. LEGAL OVERVIEW

The General Banking Law under which almost all public and private financial organizations are regulated was enacted on July 11, 1928: the lone exception to this is the Savings and Loan System which falls under separate legislation. Major changes to the 1928 Law were made in 1970, through Decreto 09428, the National Financing System Law. The General Banking Law, as amended, defines all aspects of the financial system including the roles and goals of public and private sector banks, the types of services which may be offered, reporting requirements, ownership, capitalization, and monitoring and regulation. The law is exceptionally detailed, setting parameters such as sectoral debt targets, liquidity and reserve ratios, and other measures of bank operations which, in other systems, are established by regulation and not by legislation.

Since 1928 there have been many amendments to the General Banking Law, the latest being Decreto 21060 which, for example, authorized changes in bank operations which include allowing dollar deposits and peso deposits with maintenance of value (mantenamiento de valor) (pcmv). Almost all public and private sector institutions have voiced two basic concerns with the General Banking Law. The first is that the Law has been amended so often, without codification and clarification, that it is often difficult to know what they are allowed to do and what they are required to do with any certainty. (Indeed there is a recent story of a judge in Sucre who refused to rule on financial cases because, in several instances, by the time he'd ruled on a case the law had changed radically.) All bankers interviewed said that the greatest need of the current system is for "clear and stable rules of the game."

The second major concern with the law is that it is inflexible and, thus, when economic circumstances change dramatically, as at present, may be counterproductive. The General Banking Law, for example, does not allow interbank transfers and deposits in a system where loans equal less than 60 percent of the deposit base.

Similarly, the reserve requirements for private banks are high, averaging around 30%, and the Central Bank does not pay interest on reserves. There are other similar legal constraints to banking operations which are counterproductive and make it difficult to provide loans. These constraints make it expensive to operate and take a great deal of money out of circulation.

Given this environment it is not surprising that financial sector organizations are not following all aspects of the law. Interbank transfers and deposits are made. No bank in the system meets the 70% industrial to 30% commercial loan targets set by law; indeed, almost all current loans are short-term commercial loans. To our knowledge no bank in the system meets the quick to fixed asset capitalization ratios set by law; assets in the system are predominantly fixed.

III. THE PRIVATE SECTOR

A. CHARACTERIZATION OF THE SYSTEM

1. Private Commercial Banks

There are 17 private commercial banking institutions in Bolivia (Figure 1). Of these, twelve are domestic and five are international. For all intents and purposes the international banks are no longer involved in domestic lending activities, and most have closed their operations in Bolivia.

Commercial banks can involve themselves in all normal commercial banking activities. They can accept current, time deposit and savings accounts as well as provide short-, medium- and long-term loans. They can offer letter-of-credit, guarantee and other commercial transaction facilities. They use their own internal resources, deposit base, refinancing lines, and multi- and bilateral financing lines for their commercial activities.

Revenues are generated primarily through loans and other commercial transactions, although some banks also derive revenue from leasing, rental and consulting activities. Costs are primarily money costs, asset costs and labor costs, in that order.

Banks are owned by family groups or by inter-locking family-owned corporations. Broad based publicly traded banks do not exist. Most banks are tied either through this inter-locking structure or through direct and long-standing commercial relations with major industrial, agricultural and commercial organizations. These relations are quite strong.

Under ordinary circumstances there is a modicum of competition at the margin for new or large accounts. In the current situation competition is intense.

All of the commercial banks belong to ASOBAN, the national banking association. All of the Bolivian banks also belong to the UBB, the Bolivian Banking Union. At present ASOBAN and UBB have the same membership. The primary purposes of these two organizations are i) to represent the banking sector in lobbying endeavors, and ii) to carry out special studies. At one time UBB was also involved in syndicating loans.

2. Special Purpose Banks

There are four private special purpose banks in Bolivia. These banks differ from commercial banks in that they operate in pre-determined sectors and involve themselves in the operation of specific financing lines. They are also supposed to operate exclusively with mid- to long-term instruments. With the exception of the Banco Hipotecario they are not allowed to hold savings accounts or fixed-term deposits. Decreto 21060 does authorize this group of banks to take dollar deposits. The four special purpose banks and their functions are outlined below.

Banco Industrial S.A. (BISA)

BISA was founded in 1963 expressly to channel mid- to long-term loans from multi- and bilateral organizations to productive sectors of the economy. It has been fairly successful in channelling these resources, which are guaranteed by the GOB. BISA also works with international commercial banking institutions.

Since 1963 BISA has channelled over $75 million of credits. Over 60% of BISA's loans have been made in the Department of La Paz and 11.5% in Santa Cruz. BISA works primarily in the industrial, tourism and mining sectors and has channelled approximately 74%, 6%, and 20% to these sectors, respectively.

Banco Hipotecario Nacional

Banco Hipotecario is the only bank in the system that was active in providing mortgage loans. This facet of its services has long since lapsed. Hipotecario now operates as a commercial bank with a full range of commercial services.

Banco de Financiamiento Industrial S.A. (BAFINSA)

This bank was founded in 1974 to provide mid- to long-term financing for small industry and handicrafts. BAFINSA also operates as a promotional organization for its clients. As of the end of 1985 BAFINSA's portfolio had reached $74 million.

Banco de Inversion Boliviano S.A. (BIBSA)

BIBSA was created in 1977. It focuses on providing medium-term financing to productive sectors, primarily industry, livestock and agriculture. As of December 1985 BIBSA's total portfolio had reached $832,000 of which 57% represented refinancing lines.

3. Savings and Loan Associations (Mutuales)

The Savings and Loan System originated in 1964 with the creation of the Mutual La Primavera. In 1966 the system was formally organized with its own legislation (Decreto 07585) and in 1967 restructured under the Caja Central de Ahorro y Prestamo para la Vivienda (CACEN). CACEN is a national, non-profit organization. CACEN regulates the functions of the Mutuales and provides training, supervisory, public relations and other types of support to the Mutuales. The Mutuales and their rural agencies are the primary savings and loan operators.

Over the last year the financial resources of the savings and loans accociations have declines sharply. Savings in the S&L system have declined from $33 million at their peak to roughly $700 thousand at present. In 1981 roughly 71 percent of total loans were mid- to long-term housing loans. At present the S&L associations make no housing loans.

4. Federacion Nacional de Cooperativas de Ahorro y Credito (FINACRE)

FINACRE is an association of credit cooperatives. The core organization provides technical and administrative support as well as training to member cooperatives. At its peak FINACRE's membership was slightly less than 300 cooperatives. This has declined to approximately 200 cooperatives with roughly 300,000 associates (although only two-thirds of all credit cooperatives were ever members of FINACRE). FINACRE has been very active as an intermediate credit institution (ICI), funneling roughly $2.6 million a year to small farmers. The federation has also been hurt by the deterioration of the economic situation. In 1978, for example, roughly 75 percent of the federation's loans were made from savings deposits but at present no loans are made from savings.

5. Insurance and Reinsurance Companies

There are 18 insurance companies and one reinsurance company currently operating in Bolivia. These companies are regulated by the the Examiner's Office for Insurance and Reinsurance (Superintendencia Legal de Seguros y Reaseguros) under the Insurance Company Law (La Ley de Entidades Aseguradores). The insurance sector has been hit very hard by the nation's economic problems, with total annual premiums falling from $40 to $20 million over the past year. Insurance companies are not major participants in capital markets in Bolivia, for several reasons: first, because of the current economic situation they feel more secure investing outside; second, there is no formal route for stock investment in the country; finally, there is less risk and better return from making short term deposits in the commercial marketplace.

B. PRINCIPAL PROBLEMS OF THE PRIVATE SECTOR

1. Structural Changes

Between 1981 and the present the financial sector in Bolivia has experienced a significant decline in capabilities, which is illustrated by the following data*:

Deposits: Total deposits in the system have declined from roughly $725 million in 1981 to $89 million at present, more than a ten-fold decrease in real terms (Table 1). Proportionally the decline in local currency deposits has been greatest. The current deposit base is composed, primarily, of extremely short-term dollar and peso with maintenance of value (pcmv) accounts.

Financial Capability Base: Funds available for loans from the private sector (essentially deposits plus refinancing, external financing and other lines passed through the banks) declined from roughly $812 million in 1981 to $88 million at present, (Table 2). While these will experience a resurgence once the IMF accord is signed the financial capability base is unlikely to approach 1981 levels in the foreseeable future.

Portfolio: The current loan portfolio of the private banks is dominated by short-term commercial loans. At present the portfolio amounts to roughly $99 million as opposed to $452 million in 1981, as seen in Table 3.

* All tables and graphs are shown in Appendix C. The data presented are drawn primarily from the Departamento de Fiscalizacion of the Central Bank. By and large, data quality is extremely poor and we noted discrepancies of up to 50 percent. The data have not been independently verified and are presented primarily for illustrative purposes.

Capital and Reserves: Capitalization in the private sector declined from $77 million in 1981 to $18.7 million in 1984, as shown in Table 4. In 1985 it appeared that the sector moved to replacement value for valuation of assets, thus the capital base increased significantly as the majority of holdings are in fixed assets. The international banks, which are largely inactive, experienced the most dramatic decline in capitalization, from $24.5 million in 1981 to five-hundred thousand dollars in 1984.

The number of banks active in the system has also declined. For all practical purposes all major international banks have closed their doors while all Bolivian banks have remained open. The number of active banks in the system has, thus, declined from 19 to 14.

Despite the decrease in the number of banks the impact of de-dollarization on the banks still operating is dramatic. On average total deposits and financing lines handled by the system have fallen from roughly $50 million per bank to $6.5 million per bank. This decrease has imposed tremendous revenue burdens on the banking system, one which in other circumstances would result in bank failures, mergers, or a sharp move to unload fixed assets and cut operating costs. In fact, none of these has happened. System wide only two major banks have moved to cut operating costs.

The banking sector has also experienced major shifts in market share. Overall, one might say that it has been democratized, with the five largest banks (which includes the State bank) experiencing declines of roughly eight and eleven percent in deposit and portfolio shares respectively between 1981 and 1986. Table 5 illustrates market shares and bank rankings from 1981 and 1986. Banco Union (up 6.6 percent) and Credito Oruro (up 3.9 percent) experienced the largest gains in the deposit market, while the Banco del Estado (down 7.3 percent and Banco Boliviano Americano (down 2.4 percent) had the sharpest losses. Banco Nacional de Bolivia (up 4.9 percent) and BAFINSA (up 5.1 percent) showed the greatest gains in portfolio share while Banco del Estado (down 8.8 percent) and Banco Mercantil (down 4.9 percent) lost the most.

In terms of rankings based on market share, Banco Union has been extremely aggressive, moving up 15 positions in the deposit market and 12 in terms of portfolio share. Banco de Inversion and BAFINSA both moved up 8 positions in the portfolio ranking, while Credito Oruro and Banco La Paz gained 4 and 3 positions, respectively, in deposit market ranking.

2. Changes in Operations

The private banking sector is now involved, exclusively, in short-term commercial and money market operations. Most loans are made at terms of 90 days or less. Only rarely do terms extend to 180 days and there are few examples of purely private banking loans at terms of more than 180 days. It should be noted that transactions in the savings and loans associations and credit unions are predominantly commercial.

The operations of the private sector reflect the nature of deposits as well as political and economic expectations. Deposits are exclusively short-term and, to a large extent, highly speculative. The percentage of dollar deposits, for example, has increased from 17 to 38 percent of total deposits since 1981, primarily as a result of high dollar interest rates paid by the banks. As the banks are sceptical about the government's ability to restrain inflation they are being extremely conservative and risk-adverse in their lending decisions. Current leverage ratios are on the order of 0.7:1 (assets to deposits) or less.

With the exception of some loans made through refinancing lines all loans are made at commercial interest rates. Such interest rates are high, as shown in Table 6. The level of interest rates partially explains the lack of demand for peso loans. At the same time, however, the passive interest rates, which for dollars approaches 2.5 times the U.S. Treasury yield, also explain the resurgence in deposits, approaching 50% a month in some banks.

Recently there has been a sharp decline in peso "sin mantenamiento de valor" (without value maintenance) (psmv) interest rates which probably reflects increased competition and lack of demand at elevated lending rate ("activo") levels, not increased faith in the economy. With the exception of interest rates on savings and psmv accounts, which have declined to approximately 28 percent and 39 percent of the September 1985 activo and deposit levels, respectively, there is no clear trend in interest rates. Indeed, dollar and maintenance of value (pcmv) account interest rates actually increased over the last six months. The current interest rate structure itself must be considered inflationary.

System-wide current interest rates on loans average 113% on psmv, 21% on pcmv and 22% on dollars. On deposits, interest rates average 61% on psmv, 13.7% on pcmv and 14.5% on dollars. There is, however, substantial variation in loan rates among the banks, ranging from 96 to 204 percent on psmv, from 10 to 30 percent on pcmv, and from 10 to 30 percent on dollars. Similarly, rates for deposits range from 40 to 114 percent on psmv, from 6.3 to 18 percent on pcmv, and from 6.8 to 20 percent on dollars. The most radical change in interest rates has been the increase in loan and deposit rates set by the State Bank between January and April; it is likely that its low deposit rate accounts to a large extent for its decline in deposit market share.

The dominance of commercial loans in the private banking sector reflects one basic fact: lack of faith in the current economy and the anticipation of near-term inflation. Depositors are making short-term deposits. Bank officers, in light of events over the past year and the nature of deposits, are protecting their institutions by maintaining high liquidity ratios and providing only short-term loans.

Competition in the financial sector is becoming increasingly intense. While interest rate based competition is a relatively recent phenomenon (with psmv rates having halved over the last two months), the entry of public banks, savings and loan institutions, credit unions, and specialized banks into the demand and time deposit market is drawing customers away from the commercial banks. The larger banks appear to be countering this with direct, concessionary and service competition for larger customers. It is unlikely, however, that such competition extends to the provision of longer-term loans at realistic rates.

3. Cost and Revenues

The private banking system operates from a financial base that is much smaller than that of 1981. Under such circumstances one would expect: a) that some banks would fail; b) that the majority of banks would be losing money; and, c) that all of the banks would move to cut costs sharply. In fact, while many of the international banks have left the system, no Bolivian bank has closed its doors, nor have any banks merged. Revenues in the current banking system (Table 8) are comprised predominantly of loan revenue and commissions.* The level of commission revenue is relatively high for commercial banks, although given the predominance of short-term loans and commercial activities this might not be surprising. The importance of commission revenue has been increasing steadily, ranging from 16 percent to 19 percent of total revenues in 1981 and 1984 respectively. It is likely that the importance of commission revenue has increased since 1984, as major lending activities have been curtailed and short-term lending with commensurate fees increased.

* The only aggregate revenue and cost information encountered is for the years 1981-1984. While these are revealing, they most probably do not reflect the current situation. With dollar loans averaging 21 percent per year and peso loans at 60 percent per year the loan commission structure imposes an additional burden of between 20 and 45 percent per year depending on the term of the loans made.

17

Interest earnings account for approximately 70 to 80 percent of revenues in the private sector, although the interest revenue to cost ratio varies greatly by bank and year. System-wide, the interest revenue-to-cost ratio went from 67 percent in 1981 to roughly 80 percent in 1984. The spread on interest rates (presumably equivalent to the interest revenue-to-cost ratio) is, at present, relatively large: averaging 60 percent per year on savings loans, 52 percent on psmv loans, and roughly 7.4 percent on pcmv and dollar loans (Table 7).

There has been a dramatic decline since September, 1985 in spreads on straight peso loans, with current spreads averaging less than 21 percent of the September level of 262 percent per year. On the other hand, spreads on pcmv and dollar loans are at or above the September level. Given the composition of the private bank portfolio it is likely that the average spread is above the level of September.

There is a great deal of difference in the spread by bank (Table 9) with variations of up to 300 percent on psmv loans and 200 percent on pcmv and dollar loans. There is no clear correlation between levels of interest and spreads, nor is there any obvious indication that banks are playing off decreases in spreads on psmv loans against spread increases (or at least smaller decreases) on pcmv and dollar loans. It is clear, however, that the basic bank justification for large spreads is high fixed and operating costs.

Operating costs in the private sector are comprised of financing costs, operating costs and commissions, in that order. Commissions are minor, less than 1 percent of gross revenue in any year (Table 8b). Interest payments ranged from 75 percent to 60 percent of total costs between 1981 and 1984, or from 51 to 66 percent of gross revenue. The remainder was operating costs.

There has been substantial discussion about the level of operating costs in the banking system. The statistics presented do not back up allegations that costs have not fallen, however, although a major shortcoming is that data are not available for 1985 and 1986. Indeed, as shown in Figure 2, costs fell at roughly the same rate as revenues for the four year period for which data were available. Operating costs, comprised primarily of fixed asset costs, overhead, G&A and labor, declined more slowly than total costs. The general consensus in interviews with private bankers is that operating costs have increased since 1983, primarily due to fixed cost obligations. It is striking, however, that only two private banks have stated that they have moved aggressively to reduce labor and other variable costs.

The final major element of the private sector cost and revenue situation is the provision for depreciation, amortization and bad debt. This item accounted for deductions of 6.5 percent and 15.8 percent of total revenue in 1981 and 1984, respectively. Given the de-dollarization policy of 1985 it is likely that this item, or the reciprocal debt obligation imposed by private sector external debt renegotiation, will have a major affect on the private sector balance sheet.

Despite high levels of interest and large commissions, bank revenues in the private sector do not cover costs, nor have they over the last three years; the ratio of costs to revenues has ranged from 0.99 in 1983 to 1.05 in February of this year. This raises the obvious question of how banks can operate with continuous deficits. Three alternatives, and several combinations, are possible. First, they are dipping into retained earnings or capital. This is unlikely. It is also possible that they are financing operations through the deployment of deductions from income for amortization, depreciation and bad debt. If this is the case then re-valuation of assets will provide a substantially greater basis for depreciation and, thus, income deployment. It is also possible that banks are financing their operations from

19

unreported revenues. For example, although illegal, banks are known to make interbank deposits. It is unlikely that such income is formally reported.

4. Technical Capabilities

By-and-large the private banks appear to be well managed at the senior officer levels. Senior officers are generally well trained, aggressive, well-connected and thoroughly knowledgeable of the Bolivian financial sector. The layer of competence is not terribly deep, however. The individuals we interviewed suggested that there are major technical staff needs in the financial sector, including staff trained in cost management, accounting, management information systems, personnel management, credit analysis and other technical areas. Further, they noted that staff with a real understanding of the relationship between private sector finance, banking and the economy were almost totally lacking. In fact, one of the major problems in defining the role of the private banking sector vis-a-vis economic development is that the Bolivian financial system is largely lacking in individuals with a real understanding of this relationship.

5. Capital Formation

At present, capital formation capabilities in the private sector are almost nonexistent. Deposits in the current banking system are all short-term, and have fallen by 1000 percent since 1981. Deposits in the savings and loan system have fallen from $30 million in 1981 to $700,000 at present. Similar decreases have been made in the credit union system. The size and terms of deposits in the private sector negate any real short term capital development from this source. Two basic problems explain the lack of capital growth in the financial sector: low levels of public faith in near term economic improvements and political instability. It is unlikely that internal, long-term, deposits will increase in the near future.

Additionally, most traditional capital market institutions and instruments simply do not exist in Bolivia. There is no active stock exchange, thus no opportunity to raise public capital for private businesses. Private institutions are generally restricted from issuing securities. Specialized banks authorized to issue securities, such as Banco Hipotecario and the Savings and Loans institutions which can issue mortgage instruments, are not doing so because of economic instability and lack of demand.

Institutions that can help with capital formation, such as venture capital companies, merchant banks and leasing companies are generally dependent for success on the presence of two conditions: economic growth and capital availability. Because of the short-term nature of deposits and lack of liquid capital, private banks are unlikely to pursue the opportunities offered by the development of such institutions.

There is, however, a great deal of cash in Bolivia, much of it stemming from the black market and narco-traffic, although a large part is handled by private financiers, investment firms and individuals. Estimates of this liquid capital range from $300-$1500 million. A substantial portion of this will flow back into the banking and institutional investment system when it is clear that the economy has stabilized and inflation is under control.

6. Dependence on External Resources

Access of the private financial system to external resources (defined as external financial and BCB refinancing lines) is, at the moment, close to zero as all external resources except for BCB refinancing lines have been temporarily curtailed. Between 1981 and 1984, the private financial sector's dependence on external financial resources climbed from 19 to 36 percent of total resources (Table 2b). Although we have not seen the figures, we assume that dependence on external resources climbed to well over 50 percent in 1985.

It can be argued that external financing is an absolute necessity if short-term economic stability and mid- to long-term economic growth are to be achieved in Bolivia. Additionally, the availability of such financing might help to stabilize and rationalize the private sector credit system. The relative importance of such lines of credit to the private sector generally (in terms of revenues and operating costs stabilization) can only be estimated. There are a number of potential revenue sacrifices involved, including the following:

-- the banks will have to move a portion of their portfolio from short to mid- and long-term loans,

-- the banks may have to adjust their current interest rates downwards, from current market levels to levels set by multi- or bilateral organizations,

-- the banks will sacrifice commission income on repeated short-term loans, and

-- the banks may have to reduce their spreads.

Offsetting these losses, of course, are the facts that the Intermediate Credit Institutions (ICIs) will be leveraging their own financing by anywhere from 5:1 to 10:1 and reducing their operating costs per unit financed.

It does not appear to be in the immediate commercial interests of the Intermediate Credit Institutions to make use of external financing lines if it requires diverting their own resources. Table 10, for example, presents a hypothetical example of a $9 million dollar external financing line to be matched by $1 million from internal resources. The assumptions and parameters are normal for bilateral and existing commercial finance in Bolivia. Under these conditions the ICI would actually sacrifice $23,000 in revenue if it chooses to use the external finance line. The bank will also have greater risk exposure with the longer-term loan, at least to the extent that its principal is unrecovered and its resources exposed to inflation over ten years. With the rapid decline in interest rates and spreads, however, this situation may soon reverse itself. To be sure, the offsetting benefits in the example given result primarily from differences in the fee structure: the status quo loans roll over nine times a year and in each case a four percent front end fee is charged. The example, nonetheless, is representative of the current situation.

Further, the Intermediate Credit Institutions are constrained by their existing capital and deposit base from too large a participation in multi- and bilateral on-lending programs. Assistance agencies and multi- and bilateral organizations generally require that ICI's provide 10-20% of the credit for each project financed. Using an average of 15%, the banks, at present, can pass through no more than approximately $280 million if they were to make all loans at mid- to long-terms. This is unlikely. Assuming that banks are willing to put no more than 20% of their portfolio out at mid- to long-term they can handle no more than $56 million of pass through financing under current requirements.

7. Potential for Bank Failure

The current system is too large for the amount of deposits currently available and likely to be available over the next six months to a year. Additionally, private banking costs are high and a major portion of their costs are in fixed assets. There is an obvious potential for bank failure. All of the government officials and bankers interviewed are extremely concerned, as they feel that the failure of one bank will lead to a general bank run with detrimental impacts on the economy.

At the same time several factors must be made clear. First, the banks themselves are not major agents in current economic development, although their potential is great once depositors move to longer-term deposits. Additionally, depositors are extremely well insulated against bank failures. System-wide reserve levels average 30%. Of the remaining bank liquidity, slightly more than

60% is out on high interest short-term loans. As banks are leveraged at roughy 1:1, rolling repayment of loans and sale of fixed assets cover deposits by about 200%. It is likely that 60-70 percent of deposits can be covered immediately and the remainder can be repaid, with interest, within three months.

Given the current level of competition in the financial system it is probable that bank sales or mergers would be attractive.

At the same time it is also clear that a great deal of fluid capital exists in Bolivia in the hands of black-marketeers and drug traffickers. The existence of this capital presents tremendous problems for the financial system, and industry and commerce generally. The most pressing danger is that financial institutions moving towards insolvency will allow themselves to be taken over and, indeed, there have been rumors that one regional bank is already in this position.

IV. THE PUBLIC SECTOR

A. CHARACTERIZATION

1. Overview

At present there are five distinct public sector financial organizations, each with distinct services and goals. On one side are the regulatory, treasury and monetization functions undertaken by the State Bank, on the other are the economic development functions of the public banks. All of these organizations have departed from their original legislative mandates, and all have undergone major restructuring in terms of goals, functions and staff.

All of these public sector organizations have suffered from the ineffectiveness of past governments and are undergoing or have planned major restructurings, both in terms of staff levels and functions. The Central Bank and the Banco Agricola have moved the farthest having already reduced staff levels by 30-40 percent.

2. Banco Central de Bolivia (BCB)

The Central Bank was created by the General Banking Law of 1928. It is the pivotal organization in the national financial system. Its principal responsibilities are i) to monitor and regulate financial organizations, ii) to monetize, iii) to maintain national and international reserves, iv) to exercise overall control and maintain stability of the financial system, v) to control exchange (which has moved from a system of fixed control to market levels established by the "bolsin" system) and vi) to act as the agent of the GOB in accepting and disbursing international credit and financing lines.

25

Over the past decade it has developed a number of subordinate functions, such as development finance carried out through the Departamento de Desarollo, which are more appropriate roles for the state banks or the private sector.

3. Banco del Estado (State Bank)

The Banco del Estado was created in 1970. It is the largest public financial institution in the country after the Central Bank. In 1981 Banco del Estado was the largest commercially active financial institution in the country. It accounted for 19 percent of total deposits and 21 percent of the total national loan volume. By 1986 its participation had dropped to slightly less than twelve percent of total deposits and 12.4 percent of total loan volume.

The structure of the Banco del Estado deposit and financing lines have also changed sharply. In 1981, for example, external financing and refinancing lines accounted for approximately 40 percent of its financing capability. By 1984 these lines accounted for over 73 percent.

The Banco del Estado competes openly with private commercial banks. It offers all of the deposit, loan and transaction facilities of a normal commercial bank. It is also active in refinancing lines and the disbursement of international development finance.

The Banco del Estado does not have a good reputation. The private sector resents its interference in the commercial marketplace, particularly as they believe it operates under different "rules of the game". Its financial statements give some indication that it is inefficient and requires GOB subsidies to maintain operations (see income statements below). On the other hand, officers of the Banco del Estado state that this is not true, that they are the most audited and efficient of all financial sector organizations. Because of its size and role this situation should be clarified.

4. Banco Minero

Banco Minero was created in 1936 with support from both the public and private sectors and only later became an exclusive public sector bank. Banco Minero focuses on providing working and development capital support for small mines and related industries such as smelting. Banco Minero sets minimum size standards for its clients, for example minimum tin production levels of 5.5 metric tons/year. It is currently working with 24 independent businesses and 16 groups. It grants loans, letters of credit and warrants. Almost all of Banco Minero's financing activities are based on external support.

The activities of Banco Minero are not restricted to short and long-term financing, however. Banco Minero also acts to provide training, technical support and commercialization services to its customers. It buys and resells minerals from small producers. It also purchases equipment and needed materials for its clients and arranges to have these imported.

5. Banco Agricola de Bolivia (BAB)

The BAB was created in 1942 to finance and promote agricultural development. It involves itself in activities in the agro-forestry, agro-industry and livestock areas including storage, processing and marketing. Its client focus was originally on small farmers and cooperatives. It provides both short- and long-term loans. It acts as an intermediary in foreign credit operations. It also handles agricultural refinancing and rediscount operations from the Central Bank. The BAB rural and small farmer financing programs are carried out through some 63 regional branches.

21

Over the years the BAB's focus on small farmers and cooperatives was diverted to major agro-industrial projects. As a result of this diversion and deficient credit policies (not necessarily of its own making) focused on agro-industrial projects such as cotton, rice and sugar the financial position of BAB deteriorated.

The Banco Agricola is now undergoing a major restructuring. It has severed approximately 30 percent of its staff and plans to make additional major cuts. It is withdrawing from agro-industrial activities and renewing its focus on small farmer and rural credit operations.

6. Banco de la Vivienda S.A. (BANVI)

Banco de la Vivienda was created by Decreto 11308 in 1974. It is a mixed public-private bank with the State allowed to hold up to 51% of its capital. BANVI has never reached its target capitalization of $5 million. BANVI's operations focus on providing credits to the home construction industry and for mortgages. Its loan portfolio has declined from $14 million (to 8000 families) in 1981 to $1.5 million at present. It is currently making no housing loans.

BANVI no longer provides construction and mortgage loans. Its activities are all commercially oriented and it provides a full range of commercial facilities. It is has not, however, undergone major management changes. It is doubtful whether BANVI can compete in the commercial marketplace.

B. PROBLEMS

1. Structural

The problems associated with public sector banking and finance institutions are so rampant as to defy realistic description in an overview, such as this one. On one hand the Central Bank suffers from over-reach. It simply has too many functions: as a national reserve, as treasury and as superintendent of banks. It is also responsible for development finance, monetization and planning. As a result of this multiplicity of goals and functions, rapidly changing staff assignments, lack of staff competence and bureaucratization, the Central Bank does not perform any single function well. Among the specific problems noted in discussions at the Central Bank and with private sector bankers were the following:

-- too many goals and functions

-- no clear objectives

-- overly bureaucratic and slow

-- little understanding of banking system needs

-- inconsistent internal accounting and management systems

-- top-heavy and inefficient

-- method of rotating staff assignments (carrera bancaria)

-- lack of competent staff

-- inconsistent enforcement of bank law and BCB policy

At the other end of the public spectrum lie specialized banks such as Vivienda, Agricola and Minero. These organizations originated as special purpose development banks designed to serve specific economic sectors, and within these sectors specific target groups. As a result of close ties to the government they gradually became over-staffed with unskilled individuals. Then, as political and economic conditions changed they found themselves saddled with government sponsored debt, high costs and sharply reduced funding capabilities. Efforts in these organizations over the past year have focused on cost cutting, service rationalization and attempts to find market support.

A recent study carried out by the Controller General of Bolivia raised a number of serious issues regarding the accounting, control and financial management capabilities of the Central Bank. In discussions these issues were expanded to embrace public sector financial organizations. Among the major problems identified were that the Central Bank does not follow standard accounting practices, that different organizations within the Bank followed different accounting practices and methods, that internal controls and accountability were completely lacking, and that the books were riddled with factual errors. In discussions concerning this report the Controller General stated that all public sector organizations, including the banks, suffered from similar problems. His office, indeed, had found that they were incapable of auditing individual financing lines because of these problems.

There can be little doubt that the problems of the past five years have hurt public sector banks as much, if not more, than those in the private sector. On the other hand, the GOB has assumed major responsibility and with the conclusion of IMF negotiations the debt burdens of the public banks will be eased significantly. These institutions will, thus, have the freedom to focus on structural issues, basically staffing and cost control, and negotiating participation in emerging financing lines.

One of the major institutional issues that is emerging, however, is the role of public sector financial institutions in the commercial marketplace. Two of the major public financial organizations, Banco del Estado and Banco de la Vivienda, are openly competitive for consumer accounts with commercial banks. While this might be necessary to underwrite their current survival it must be clear that because they are government supported they have certain benefits not accruing to the private sector; for example, they can subsidize interest rates by writing off some of their costs against the GOB's tab. This is not generally available to their competition.

At the same time, however, there are trade-offs. If the government sees the current interest rate environment as unhealthy, for example, it might induce public sector banks to reduce their rates. To remain competitive the private sector must follow. Similarly, the Banco del Estado and Banco Agricola reach a broader spectrum of the population and are more regionally disbursed than the entire private banking system. If the GOB were to require that these public banks compete on an equal basis or withdraw from commercial activities the likely result would be that they would reduce or cut off services to exactly that spectrum of the population not served by the private sector.

2. <u>Operations</u>

The economic problems of the recent past have hurt public sector banks as much, if not more, than private institutions. The extent of the damage can be seen from the following:

-- Deposits in public sector banks fell from roughly $143 million in 1981 to less than 12 million at present, or from 19 to 11 percent of the total national deposit base.

-- The ability of the public banks to provide debt financing (the sum of deposits plus refinancing and external financing lines) fell from $304 million in 1981 to $48 million in 1984, but increased from 29 to 39 percent of the total national base.

-- Capital and reserves of the public banking sector declined from $118 million in 1981 to $3.9 million in 1984. Their share of total national capital and reserves fell from 60 percent in 1981 to 18 percent in 1984. (It is puzzling

31

that the Bancos de Fomento, which had a capital base of almost $98 million in 1981, experienced a loss of more than $96 million, or more than 7 times the national average. As they accounted for more than 50% of the total capital base in 1981 this deserves some explanation.)

-- Between 1981 and 1984 the importance of external financing and refinancing lines increased markedly, from 31 to 75 percent of the total financing base for the public commercial banks and from 77 to 94 percent for the development banks.

As a result of the dramatic decline in external financing since late 1985 public sector financing operations have been sharply curtailed. The results vary. Banco Minero and Banco Agricola have used the crisis to rationalize their costs and improve their performance, primarily by reducing staff and refocusing projected financial services. Banco Agricola, for example, has reduced staff by 40% and made a decision to revert to its original small farmer and cooperative orientation.

Banco del Estado and Banco de la Vivienda, on the other hand, expanded their operations to extend a greater focus on commercial banking. The Banco del Estado is apparently thriving in this atmosphere. Between January and April Banco del Estado actually increased its interest rates on dollar and pcmv loans and deposits by roughly 90 percent. This was the largest increase by far in interest rates and put them well above the national average rates. The situation is quite the reverse at Banco de la Vivienda, which appears to be paralyzed.

3. Operating Costs and Revenues

The state banks provide sharply different services to different sectors. Several, and notably the Banco Minero, have costs and revenues which are not directly related to their financial services.

Additionally, 1985 and current income statements are not available. As a consequence of these facts only the most general observations can be made.

According to Central Bank reports, in each year from 1981 to 1984 public sector banks suffered operating losses or broke even. A review of combined public sector income statements raised a number of points of particular interest, including the following:

-- Despite the fact that state banks were operating with subsidized financing lines, they actually paid more interest than they earned in 1981 and 1982.

-- In 1984 the state banks actually paid more commissions than they earned.

-- In 1983 and 1984 two non-operating incoming categories, "otros ingresos" and "ingresos extraordinarios" wiped out 60 to 90% of operating losses. Normally "ingresos extraordinarios" might be, for example, a one time sale of assets. We can find no information to corroborate this and, pessimistically, assume a large part of this non-operating income to be government subsidy.

The income statements of the development banks, Minero and Agricola, are difficult to interpret. Banco Minero, for example, reported income of 252 billion pesos and financing costs of only 5 billion pesos in 1984. A large part of this income is, presumably, from the direct sale of minerals and not related to their financial services. It is interesting, however, that Banco Minero reported 1984 administrative costs that exceed operating costs by 120 percent, potentially reflecting increased inefficiency.

Overall the Banco Agricola suffered operating and net income losses in all years from 1981 to 1984. A number of facts are interesting:

-- Their spread on interest was only about 20% in 1984.

-- Commissions accounted for 40% of their operating revenues.

-- Operating costs were 75% of operating revenues in 1984. That is, compared to other state banks they were relatively efficient.

-- Adjustments and provisions for depreciation, amortization and bad debts (that is, non-operating costs) account for the entire net income deficit.

Several extrapolations from the past to the present are possible, particularly as they have been confirmed in discussions. First the state banks are not efficient. If operating costs ranged from 75-150 percent of revenues in 1984, then they must have deteriorated since then particularly as i) the banks have simply lost sources of revenue and ii) only over the past 4 months have they moved to reduce costs. Secondly, the state banks involved with commercial activities have apparently received greater proportional GOB subsidies than the development banks; this seems to be backwards.

4. Regional and Rural Coverage

As a group, the state banks provide greater rural and regional coverage than private sector organizations. There are several problems with this coverage, however. First, the development banks provide single credit lines for specific target consumers. The coverage of the Banco Agricola, for example, is often focused on regions targeted by specific external project financing lines. Such growth is not always efficient from a system point of view and might equally well be provided or combined with other organizations already represented in the target region.

A second problem with the regional and rural programs of the public sector banks is that control resides in La Paz. Development banking, even at extremely low levels, is a highly personal business. Project evaluation, credit acceptance, and project monitoring and repayment decisions are best made in the field. Centralized decision making in La Paz can be slow and is often ineffective.

V. OVERVIEW OF FINANCIAL PROBLEM

A. BASIS FOR A SYSTEMS PERSPECTIVE

Despite, or perhaps, because of the current chaos in the financial sector it is a good idea to look at the public and private elements of the sector as parts of a single entity. There a number of basic reasons for taking this perspective, including the following:

-- The system is going through rapid competitive and perhaps evolutionary changes, it is unlikely that in the near future it will look or operate in the manner it does at the present.

-- All public and private sector organizations are offering essentially the same short-term, commercially oriented services. They are competing for the same public deposits, they are offering similar lending services, and they are looking to the same external resources for major support in the near to mid-term.

-- Finally, all of the institutions lack professional skills from the upper middle management levels down.

From a systems perspective it is possible to outline a number of common problems for which common solutions may be possible.

B. STRUCTURAL PROBLEMS

- There are too many financial organizations in the system for the amount of money currently available. Bank failures are possible, particularly for single purpose development banks, unless substantial savings and foreign financing lines can be generated rapidly.

- There are too many "nominally" single purpose credit organizations in the system. These are unlikely to be self-supporting without major cost cutting programs combined with substantial new external financing lines.

- Public and private financial organizations are competing in the same commercial markets but with different "rules of the game". This is clearly inefficient and not in the best interests of capital market and financial sector development.

- The delivery of rural credit is pursued by too many single-purpose organizations, and too few commercial entities. Costs for rural credit delivery are consequently too high and consumer utility too low.

- Public and private capabilities for rapid utilization of external financing lines are restricted by the inadequacy of the Development Department of the Central Bank. The effectiveness of the delivery of targeted financing lines is poor, basically due to lack of adequately trained staff and strong ties between traditional customers and their public and private financing organizations.

- The General Banking Law is old, convoluted by numerous amendments, and overly restrictive, particularly with regard to bank operations and capital development.

- Enforcement of the General Banking Law is lax, at best. The Fiscalization Department is seen as an overly bureaucratic, inefficient impediment to national financial sector operations.

- The Central Bank has too many functions (some of which are potentially conflicting) and few pragmatic objectives. It is overly staffed with inadequately trained staff.

C. OPERATIONAL ISSUES

- Operating costs in both public and private sector organizations are much higher than they should be. The reason for high costs differ, however. In the private sector high costs are the result of fixed costs. In the public sector high costs are due to excessive staffs. While both are moving to lower their costs, neither is moving rapidly.

- Operating revenues are significantly larger than might be expected given their activity base. (With some exceptions: the Banco Agricola, for example, is not involved in short-term commercial transactions.) This is due to high interest rates, rolling commissions, and complete short-term portfolios. Given that deposits in all institutions are short-term, and given uncertainty as to the economic situation, it will be difficult to persuade the system to move to longer-term loans.

- The requirements for participation in external financed on-lending programs make participation problematic. From a revenue standpoint the ICIs will sacrifice short term income and security. (As interest based competition increases, however, this particular aspect may soon change.) From a participation standpoint they are limited in the amount of actual on-lending they can handle.

D. CAPITAL MARKET DEVELOPMENT

- Public faith in economic stability and future growth is lacking, as seen through essentially speculative short-term deposits. Significant short-term capitalization through public deposits is unlikely in the short-term.

- There is no security for depositors beyond that offered by low leverage ratios and high fixed assets in the banking system. Security stemming from economic growth and political stability are obviously lacking and there is no deposit guarantee program.

- There is almost a complete lack of capital market instruments in Bolivia. Some of this is due to legal problems, but more generally due to the nature of development, political instability and economic deterioration over the last five years.

- At present the potential for deposit and capital mobilization is great, at least as measured by ratio of savings to total pesos and dollars in the economy. It is primarily concentrated in urban and suburban areas, areas with the largest concentration of population, of industrialization, of income, and of underground economic activities. Savings mobilization programs targeted at these areas will have larger total and proportional returns than programs targeted at rural areas. Further, the proportional cost of reaching potential depositors in urban areas is small compared to the cost of reaching depositors in rural areas.

A rather simple example will serve to illustrate this. Assume population is split 60/40 (rural/urban), per capita income is roughly 3 times larger in urban than rural areas, and discretionary income (available for savings) is 5% of per capita income in rural and 8% in urban areas. Under these assumptions the portion of discretionary income available for savings is $324 million in urban areas and $42 million in rural areas.

34

E. MANAGEMENT AND STAFFING

- Technical and management capabilities from the upper-middle management levels on down are almost completely lacking in financial organizations in Bolivia.

- While technical deficiencies are endemic in all financial organizations they are particularly prominent, and increasing, in public sector organizations.

- To our knowledge there are no existing training programs in Bolivia which can adequately prepare individuals for careers in the financial sector. Additionally, mid-career or special technical programs offered in either the public or private sectors are sparse.

F. DEMAND

- Financial supply and demand are not closely linked in Bolivia. Demand for financing is great for commercial purposes, for re-capitalization, for working capital, for productive input, and for industrial expansion. Generally only short-term commercial loans for purely commercial transactions, inventory, or production material (for which short-term pay back is possible) are made, however. Little, if any, debt and investment is currently flowing for other than commercial purposes.

- The most economically productive demand is for recapitalization, expansion and productive materials. Demand for these is high but current interest rates and fee levels prohibit the use of commercial loans. Until confidence in the government and the economic situation is expressed through growth in longer term deposits it is unlikely that the banking system will be able to provide loans at reasonable terms from their capital base.

- There is and has been a mismatch between the terms of financing by external multi-and bilateral organizations and the short-term financing needs of the country. Productive enterprises need working capital loans on terms (interest and length) that match their production and marketing requirements; if it takes two months for a farmer to purchase seed and other materials, plant and market his produce the loan-term should be 10-12 weeks. Similarly, the loans must be available with the appropriate timing. If a textile manufacturer must purchase wool six months ahead of time to have his sweaters hit the market at the end of the summer, the peak purchasing season, it does little good to provide him a working capital loan for the purchase of wool only three months ahead of time. Too often working capital loans are either too highly defined or too slow in coming.

- Demand is not confined to one sector, region or income class; it is highly diffuse and democratic. All productive sectors lack finance. The distribution of financial organizations and agencies, and more particularly of loan decision authority, does not match the distribution of demand.

- The current focus of multi- and bilateral economic development support loans and grants is primarily in income redistribution, long-term, projects in agriculture and, to a much lesser extent, industry. This focus often precludes support for recapitalization, expansion and mid-term working capital loans which will provide more immediate economic and employment benefits and proportionally greater returns.

VI. FINANCIAL SECTOR SUPPORT STRATFGY AND RECOMMENDATIONS

A. STRATEGY RECOMMENDATIONS

The financial sector in Bolivia suffers from many problems and no "quick-fix" solution to these are possible. This section sets out a four element strategy designed to address the major weaknesses of the financial sector.

Each of the strategy elements is comprised of a number of proposals focusing on improvement of the overall financial sector. Implementation of these proposals can be accomplished through projects and/or policy dialogue, although in a number of cases further study will be required. Section C provides more detail on the elements of proposed projects.

The strategies recommended are predicated on three overall goals. The first goal is to improve the performance of the existing financial sector. The second is to increase the capabilities of the financial sector to participate in economic development activities. The last goal is to establish a sound institutional system from which to address income redistribution and regional development.

Strategy Element 1: Increase capital mobilization through a combination of economic stimulation and capital formation

Proposal a: re-target multi-lateral and bilateral financing lines to address capacity utilization and working capital needs of the existing industrial base.

Bolivia's economy is in a severe recession. Capacity utilization is low and falling. As a result unemployment is high, revenues and personal income low, and importation pressures increasing. Increasing capacity utilization in existing industry will provide higher short- term employment, income and revenue gains than any alternative form of investment.

USAID should immediately target funds for working capital and capacity utilization loans. It should encourage other multi-lateral and bilateral organizations to do the same.

Proposal b: maintain the proportional financing requirements for working capital and capacity utilization loans (normal to multi-lateral and bilateral financing activities).

Bolivian financing organizations should be encouraged to participate in the financing of medium to long-term productive activities, rather than short-term commercial needs. The analysis presented in this paper suggests that it does not make financial sense for banks to finance long-term development projects so long as interest rates remain high and capital availability low. Access to external financing lines and the subsequent leveraging of bank capital provides substantial incentive to move to longer-term loans.

Proposal c: evaluate and initiate short- to medium-term activities to mobilize local capital and attract external capital.

The vast majority of capital in Bolivia is now outside of traditional public and private financial organizations.
Equally importantly, private external financing has completely dried up.

It is, consequently, unlikely that traditional methods will have any significant effect on local capital formation in the short- to mid-term. There are, nonetheless, several possibilities. One of these, which has been tried with some success in other countries, is debt swaps. These alternatives should be evaluated for potential use in Bolivia.

Proposal d: when the economic climate improves initiate savings stimulation programs. These programs can include direct marketing through existing banks as well as the development of a deposit guarantee activity.

The total savings and deposit base in private banks is extremely small in total, proportional to estimated income, and proportional to liquidity in the Bolivian economy.

In order to increase deposits and savings two conditions must be met. First, and most important, disposable income must increase. This can only be accomplished by increasing productivity and providing jobs. Second, depositors must have some assurance that their deposits will be protected from political and economic instability. Conditions are not yet appropriate for active deposit mobilization programs.

Strategy Element 2: Improve the structure and operating conditions of the existing financial sector

Proposal a: increase the access of financial sector organizations to international agents.

The financial sector in Bolivia is having a difficult and/or expensive time accessing international credit and security for trade instruments such as letters-of-credit and warrants. An off-shore guarantee fund, sponsored by USAID, should be established as an intermediate guarantor of such short-term instruments.

Proposal b: rationalize the functions of the Central Bank.

The Central Bank is a monolithic, overly bureaucratic organization which has too many functions and operates inefficiently. USAID should continue to support the current World Bank evaluation of BCB, outlined in Table 11. The World Bank study is focusing on the functional and operational aspects of the Central

Table II

GOVERNMENT OF BOLIVIA
DIAGNOSIS AND PROJECT PREPARATION FOR FINANCIAL SECTOR RESTRUCTURING
April – July, 1986

	Responsible Agency	Funding	April P	April P W	May P	May P W	June P	June P W	July P	July P W	IBRD Intl	IBRD Nat	USAID Intl	USAID Nat	IDB Intl	Unfunded Intl	Unfunded Nat	Totals Intl	Totals Nat
											Person – Weeks								
A. INTEGRATED FINANCIAL MANAGEMENT																			
1. Diagnosis. Min. Fin. budget, cash and debt mgt, accounting, including Tax and Customs, and EDP	Min. Fin. & CGR	USAID	4	20	4	4							24					24	0
2. Designs. Min. Fin. budget, cash and debt mgt,	Min. Fin. &	IBRD					3	12	3	15	27							27	0
accounting and ECP	CGR	USAID					3	12	3	15				27	45			0	27
3. Diagnosis and design Tax Administration	Min. Fin.	IDB	2	10	2	8	3	12	3	15								45	0
4. Diagnosis and Design Customs Administration	Min.Fin.	N/A					3	12	3	15						27		27	0
5. Diagnosis and program development of accounting	CGR	IBRD/IDB					3	12	5	25	19				18			37	0
and internal controls for decentralized agencies		USAID/IDB					3	12	5	25				37				0	37
6. Project inventory, evaluation and complete prep.	Min. Plan	IDB	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
7. Government contracting, project management and control	CGR	IBRD					2	8	3	15	23							23	0
		USAID					3	12	5	25				37				0	37
Subtotal				30		12		92		150	69	0	24	101	63	27	0	183	101
B. FINANCIAL INTERMEDIATION																			
1. Design of accounting, internal controls and	BCB & CGR	IBRD	1	1	1	3	2	6	2	2	12							12	0
information systems of BCB		USAID	2	3	6	19	7	28	4	4			6	48				6	48
2. Analysis of alternatives for rationalizing Banking	BCB, Min. Fin.	IBRD			3	3	3	10	3	9	24							24	0
System and Development Banks	& Min. Plan	USAID			3	3	4	16	4	12				31				0	31
3. Define standards, organization and procedures	BCB	N/A			3	6	3	12	2	10						28		28	0
for Bank Inspection		USAID			3	6	6	24	6	30							68	0	60
Subtotal				4		40		98		67	36	0	6	79	0	28	68	70	139
C. PROJECT DESIGN AND PREPARATIONS																			
1. Project design integration. International	CGR, BCB	IBRD	1	2	1	2	3	8	3	15	27							27	0
National	& Min. Fin.	IBRD					3	12	3	15		27						0	27
2. Prep. for Specialized Training	CCR																		
– Accounting Guide publication and evaluation of CPAs		IBRD			1	1	1	4			5							5	0
– One week Orientation for Senior Executives		USAID			2	8	2	8	2	10				26				0	26
Subtotal				2		11		32		40	32	27	0	26	0	0	0	32	63
Total				36		63		222		257	137	27	30	236	63	55	60	285	293
Grand Total												164		236	63		115		578

Legend: CGR = Comptroller General's Office
BCB = Bolivia Central Bank
IBRD = International Bank for Reconstruction and Development
P = Persons
P W = Person – Weeks
IDB = Interamerican Development Bank
Min. Plan = Ministry Plan

Bank and the development banks. One major component of the study is an analysis of alternatives for rationalizing the banking system and the development banks, including structural changes in the Central Bank and the identification of functions which might best be undertaken independently.

<u>Proposal c</u>: rationalize the roles of the state banks.

No formal evaluation of the appropriate roles for state banks in Bolivia has been carried out. Further, there has been no formal assessment of the banks themselves nor has the Government established functional objectives and operating parameters which the banks continue to follow. As a result the banks have developed operations which compete with the private sector and which are not complemented by the quality or size of their staff.

Clearly defined objectives and functions for the state banks should be established. Similarly, the roles of state banks in the commercial market place should be defined regarding both competition and collaboration with private financial organizations.

<u>Proposal d</u>: carry out an analysis of the banking law and, if necessary, encourage reforms.

Problems with the existing bank law were raised repeatedly during the interviews carried out in this assessment. It appears that there are a number of clauses in the law which are counter-productive. It is more likely, however, that the major objections are not to the law, per se, but to frequent and radical amendments and changes to the law.

<u>Proposal e</u>: improve the quality and availability of financial sector information.

Timely, high quality, standardized information describing financial institutions and their operations is simply not available;

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this is true for both public and private entities. No true understanding or characterization of the strengths, weaknesses, and capabilities of the system or its components is possible without comparative information. Further, lack of information makes regulation difficult, at best.

The lack of reasonable information appears to result from three factors. These factors are: (1) lack of standardized audit and reporting procedures, (2) inadequately trained staff and (3) inadequate internal information systems and technologies. Although the problem is particularly apparent at the Central Bank (as the Central Bank is where one would start when collecting descriptive information of the financial sector) it exists at all levels of financial organizations.

Proposal f: selectively encourage the merger of financial organizations and discourage development of new private sector institutions.

In terms of financial capabilities the financial sector is less than one-tenth the size it was in 1981, yet only the international banks have closed their doors. The financial system in Bolivia is, at present, very small. (For comparison, for example, one bank with two branches in Smithtown, Long Island, with a population of roughly 200,000 and well over 15 other banks in operation, has a deposit and savings base roughly 20 percent larger than the entire financial system of Bolivia.)

There are too many banks in the system and, as a result, operating costs are high. Banks should be encouraged to merge. New banks should be discouraged from opening unless they focus on a clear market niche (e.g. provide products and services which do not exist in the current system).

Strategy Element 3: Improve the internal operations of public and private sector financial organizations

Proposal a: establish and enforce clear operating standards and reporting and auditing criteria for the use of external financing lines.

While some standards and criteria are in place they are not reasonably enforced. During interviews a number of specific problems were noted, for example, the inability to audit individual financing lines because of inadequate documentation and record maintenance. Similarly, it is not uncommon for ICIs to "require" that the borrower finance the ICIs proportional contribution required to access external financing lines.

This analysis suggests that the basic problem is more likely to be enforcement rather than the lack of standards and criteria. If this is true, then technical assistance should be provided to the agency approving access of external financing lines to improve their monitoring and enforcement capabilities.

Proposal b: improve the technical and management capabilities of professionals in the financial sector.

Most financial institutions in Bolivia lack adequately trained management and technical staff below the senior officer level. In most cases capable professionals received some or all of their university training abroad. The university system apparently lacks reasonable programs in all sectoral related skills, and there are few short-professional courses available in the country. In the short- to mid-term financial sector training programs should be integrated into the existing IDEA project. Long-range opportunities to integrate financial sector training into existing university curricula should be examined.

Training programs should be integrated with technical assistance in at least three specific areas, these are i) accounting and internal management information systems, ii) project analysis and portfolio evaluation and iii) cost evaluation and control.

Strategy Element 4: Increase the developmental capabilities of the financial sector

Proposal a: decentralize bank operations and decision authority.

Regional and rural development is of high priority to the Government of Bolivia as well as a focal point of multi-lateral and bilateral financing activities. Financial sector organizations and decision authority are, however, centralized in La Paz. Development banking is a highly personalized, market responsive activity, however, and is most effective where direct and frequent contact with clients and potential clients is possible. Banks should be encouraged to decentralize.

Proposal b: in the mid-term to long-term encourage structural changes in the financial sector.

The financial sector in Bolivia is lacking in effective development banking organizations. The state banks with development banking characteristics (Agricola and Minero) are rigidly focused on specific sectors, and within these sectors on specific types of clients and opportunities. The Banco del Estado and the private banks are almost entirely focused on commercial transactions. Other financial organizations such as Banco de la Vivienda, the credit unions and the savings and loans institutions are focused on consumer and not development markets.

With the possible exception of the Banco del Estado no institution exists with a mandate to invest in development oriented projects across the board.

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There is a clear need for a project development/finance institution to provide project identification and packaging capabilities in developmentally important sectors, including both export and import-substitution oriented sectors. This option should be examined in detail.

Proposal c: in the mid- to long-term encourage development of capital market instruments and institutions.

Capital market instruments are almost completely lacking in Bolivia. Debt instruments (such as bonds, treasury notes, mortgage instruments) are either not used or there is no public forum in which they may be sold (e.g., stocks). Other capital market institutions such as venture capital companies, leasing companies, and the like require capital and economic stability. Neither of these exist in Bolivia.

B. STRATEGY PRIORITIES AND INTERRELATIONSHIPS

The weaknesses of the financial system in Bolivia result from years of poor economic policies and political instability. It will take time to strengthen the system and to correct many of the current problems. The proposals outlined above are among the fundamental actions which need to be taken.

Priorities can be attached to these. The first and most important address economic stability and growth. Without revitalization of the economy, which will set the stage for true growth, the financial sector will continue to suffer from problems. The most important priorities, as shown in Table 12, address economic stabilization and growth.

Rationalization of the overall structure of the banking system and selected improvements in the operations of individual financial sector organizations are of short-to mid-term importance. They are

60

of lower priority for two basic reasons. First, internal financing capabilities are of only moderate importance in stabilizing the economic situation. Secondly, structural and operational changes take longer to implement, and economic support should not be predicated on the rationalization of a sector which is not the direct target of loans.

The final priorities, mid- to long-term activities, focus on increasing capital market and development banking capabilities. These activities are of lowest priority for several reasons. The most important is that development of these capabilities depends on a sound and growing economy, the availability of capital, and investor faith in the economic and political situation.

The relationships between the strategy proposals and the proposed projects are shown in Table 13. The strategy elements and proposals and the proposed projects are tightly connected. The Fund Channeling Unit, for example, is proposed in order to increase efficiency in channeling funds from the Central Bank through the ICIs to the final borrower. The unit will displace certain activities of the Development Department of the Central Bank (activity 2b). Increased economic support for productive activities and improvements in the efficiency of the financing process will stimulate productivity and, thus, increase revenues and income. Over the mid-term such gains will stimulate savings (1c). The Fund Channeling Unit will also establish, monitor and enforce clear criteria and guidelines for the ICIs (1b and 3a). This, in turn, will result in improved financial sector information (2e) and, hopefully, in improved technical and management capabilities (3b).

TABLE 12

FINANCIAL SECTOR PRIORITIES

Strategy Element/Proposal		Priority
1. Increase Capital Mobilization		
a. re-target external financing lines	1	short-term
b. maintain co-financing requirements	3	short-term
c. capital mobilization	4	short-to mid-term
d. stimulate savings	13	mid to long-term
2. Improve Sector Operating Conditions		
a. increase access to external agents	2	short-term
b. rationalize BCB functions	6	short-to mid-term
c. rationalize state bank functions	11	mid-term
d. evaluate/reform banking law	9	short-to mid-term
e. improve sectoral information	8	short-to mid-term
f. encourage mergers	7	short-to mid-term
3. Improve internal operations		
a. set clear guidelines and criteria	5	short-to mid-term
b. improve tech. and mgmt. capabilities	10	mid-term
4. Increase Developmental Capabilities		
a. decentralize operations	12	mid-term
b. increase development banking	14	mid to long-term
c. develop capital market instruments	15	long-term

TABLE 13

Strategy Element/Activity	Policy and Project Activity	Strategy Link	Link to Other Activities
1. Increase Capital Mobilization	Fund Channeling Unit	1a	1b,2b,2e,3a,3b
a. retarget external financing lines	Project Development/ Finance Company	4c	1b,1c,2a,2e,3a, 3b,4a,4b,4c
b. maintain co-financing requirements	Guarantee Facility	2a	1b, 3a
c. capital mobilization	Debt Swaps	1c	2a, 4c
d. stimulate savings			
2. Improve Sector Operating Conditions	IDEA Financial Sector Training	3b	2e,3a,4b,4c
a. increase access to external agents			
b. rationalize BCB functions	BCB Reform	2b	2c,2e,2f,3a,4b,4c
c. rationalize state bank functions			
d. evaluate/reform banking law			
e. improve sectoral information Project	Technical Assistance	various 4a,4b,4c	1b,1d,2c,2e,3a,3b,
f. encourage mergers			

TABLE 13 (continued)

Strategy Policy and Element/Activity	Strategy Link to Project Activity	Link	Other Activities
3. Improve Internal Operations			
a. set clear guidelines and criteria			
b. improve tech. and mgmt. capabilities			
4. Increase Developmental Capabilities			
a. decentralize operations			
b. increase development banking			
c. develop capital market instruments			

Inter-relationships among the other strategy activities are similarly strong. Regulatory failure results from a combination of a lack of trained staff, unclear operating guidelines and standards and poor information. These three problems can be addressed through an integrated technical assistance program.

The technical assistance program will be reinforced through the monitoring and control activities of the Fund Channeling Facility, which will serve as significant leverage to ensure that the ICIs upgrade their operating standards.

C. PROJECT RECOMMENDATIONS

1. Fund Channeling Unit

a. Problem Definition

At present, project financing channeled through the ICIs requires prior evaluation and approval of the Development Department of the Banco Central. The Development Department suffers from a number of major problems. First, it is slow in handling project financing. Second it intervenes in the evaluation of projects. Finally in terms of monitoring and control of the ICIs the Development Department has not performed well. (Further, our information suggests that the Banco Central is considering either dissolving the Development Department or relocating it to an independent organization; the Banco del Estado has been suggested as a possible location.)

It is unlikely that the Development Department will be able to evaluate and place the volume of resources available for project financing over the next year.

The need for rapid and professional placement of project financing has been clear for many years. One alternative that has been studied many times since the early '70s, culminating in the

1985 study by Miguel Angel Garcia for USAID, is that of a "Banco del Segundo Piso" (SSB). This organization would have one primary and numerous sub-ordinary functions, these being:

Primary Function

-- channel multi- and bilateral project financing through Intermediate Credit Institutions Subordinate Functions,

-- establish and monitor clear criteria and standards for ICI participation,

-- select and implement appropriate ICIs for targeted financing lines,

-- monitor project financing lines to ensure that financing is reaching target groups and projects are attaining objectives,

-- identify technical support groups for the ICIs and potential entrepreneurs,

-- publicize credit availability and terms to reach small and mid-sized industrialists, generally, and

-- streamline the financial application process.

A number of additional functions have been suggested, these, basically, are oriented toward direct participation of the SSB in project financing and capital mobilization. One possibility suggested, for example, would be to enable the SSB to issue development bonds or other types of securities. To our mind, however, these are mid- to long-term possibilities subordinate to the immediate need to create an efficient professional fund channeling organization.

b. Recommendation

There is a clear need for a professionally managed and operated unit to channel and monitor external project financing through the ICIs. The studies available clearly establish this need, and there is wide-spread support for such a concept. We would propose that a professionally administered Fund Channeling Unit (FCU) be established. Two options are possible. The first is for USAID to establish a unit for USAID financing lines alone.

The second option is for a slightly larger unit which would displace the Development Department of the Central Bank.

i. Basic Functions

The FCU would have two basic functions, these are:

-- to channel multi-lateral and bilateral project financing through Intermediate Credit Institutions, and

-- to establish and enforce clear operating, technical and management criteria and guidelines.

ii. Organization

The organization of the FCU will depend on the option selected.

In the first case, a unit to channel and monitor USAID financing lines only, it would be organized as a 3-5 person team (depending on the level of financing available) with access to external consultants. It would be contracted by and report directly to USAID.

In the second case, in which the FCU would displace the fund channeling and monitoring activities of the Development Department of the Central Bank, the unit would be substantially larger, perhaps

5-10 individuals to start with. It would be a private organization reporting directly to the President of the Central Bank.

iii. Criteria and Standards

The FCU's principal responsibility is to ensure that the ICIs operate appropriately in channeling external finance to projects.

The FCU should be empowered and provided with capabilities to monitor and regulate the operations of ICIs, at least as regards project funds channeled through the ICIs and the capabilities of ICIs to participate in on-lending programs. These monitoring capabilities would include direct audits to international standards of project lending. These standards should conform to the standards of multi- and bilateral organizations.

c. Costs

i. Phase 1: Organization

This phase is a purely consulting stage. It is intended to define and negotiate agreement on the structure and function of the FCU. It will require senior development and project banking specialists at rates equal to or in excess of USAID standards. A team of three individuals would be desirable, and the work might involve two to three trips for each individual. Total costs will further depend on the length of time it takes to obtain agreement on the issues above, which might include direct negotiation with multi- and bilateral organizations, and will include discussions with the GOB. We estimate total costs to range from $100-$200 thousand.

ii. Phase 2: Incorporation and Start-up

This phase involves the incorporation and support of the initial operations (1-2 years) of the FCU. Total costs for this

Phase will depend on the option selected. We would estimate that direct costs to USAID would range from \$1.0 - \$2.5 million for the first two years of operation.

2. Offshore Guarantee Facility

a. Problem Statement

The economy of Bolivia is in a deep recession. The financing of productive inputs by means of Letters of Credit or other instruments is difficult because of the unresolved foreign private debt burden. USAID guarantees are not currently available, and when they are available are quite expensive because of USAID's slow payment history.

b. Recommendation

We would suggest that USAID evaluate the possibility of establishing an offshore guarantee facility for letter of credit financing for productive inputs and short-term industrial recapitalization. The facility might be established as follows:

i. USAID would establish an offshore guarantee facility. (Question: Is domestic capital available, from who, on what terms? What should the size of the Guarantee Facility be?)

ii. Credit is sub-allocated to ICIs based on their capabilities, needs, and other criteria (to be established).

iii. Management and use of Credit would be overseen by a local private financial organization with direct relations to the account custodian.

iv. The guarantee capital is held in a custodian account in a U.S. bank which would collateralize payment confirmations at 100% and pay interest on the guarantee account.

v. In the event of payment default the Custodian would disburse dollars to the creditor and USAID would disburse dollars in an equal amount to the Custodian Account. USAID's disbursal would be regarded as a loan, payable at commercial terms, to the defaulting ICI.

c. Costs

Again, the costs of a establishing and operating a Guarantee Facility is broken into two Phases.

Phase 1 would be a consulting study oriented towards defining the structure, size, capitalization, operations and participation in the Guarantee Facility. We estimate that this would study, which might include actual formation of the Guarantee Facility short of capitalization and start-up, would cost between $125-$250 thousand.

USAID's costs for the Second Phase can be estimated only roughly. The costs depend on needs and terms. For example, a $10 million Guarantee Facility financing 30 day LOC's could guarantee up to $100 million a year. It's more likely, however, that 60-180 day guarantees would be necessary. In this case, if you are looking at an annual demand of $50 million, then a desirable size would be between $16 and $24 million. If USAID pays all the formation costs and 80% of capitalization, its costs would run between $13 and $20 million.

We might note, however, that correct operation of the facility and resultant economic growth provides some off-setting repayment options for USAID. One of the affects, for example, might be that the ICIs re-establish their creditworthiness overseas. If one assumes this to be the case then one option for USAID might be to extend a balloon loan for the "capital" to the Guarantee Facility at U.S. Treasury rates for 10 years. Repayment is made from interest on the custodian account. After 10 years the Guarantee Facility expires and the principal repaid.

3. Short-to Mid-Term Capital Mobilization

a. Problem Definition

Development capital is extremely limited in the formal financial sector in Bolivia. Some of it circulates through informal financing channels in the local economy, and a large portion is flight capital. Private external financing has ceased as a result of the economic policies of past governments and perceptions of current political and economic instability. Further, the GOB has been saddled with extensive external debt obligations. As a result of these and other factors the potential for capital mobilization by traditional methods is small.

b. Recommendation

We recommend that AID help establish a procedure with the Central Bank for the swapping of foreign dollar loans guaranteed by the Central Bank into local currency for the funding of non-traditional local projects. Many countries (e.g. Chile, Brazil, Argentina) are using this technique as a way to attract foreign investment.

The key is to have the Central Bank offer to redeem dollar loans at par (or minimum discount) which they can present to fund proper projects. This step will permit investors in the Bolivia project to cheapen their investment in local currency by the discount that they receive when they acquire the dollar loan from the original creditor. For example it may be possible to acquire such debt for 30 cents on the dollar or a 70% discount. This would greatly enhance the investors risk.

61

c. Cost

The costs of arranging debt swaps cannot be accurately estimated. A rough estimate of the costs of negotiating the concept and establishing criteria and regulations with the governments, and then selecting appropriate projects would be from $75k - $200k.

4. Project Development/Finance Company (PDFC)

a. Problem Statement

As described in this assessment the financial sector in Bolivia lacks broad development banking capabilities. Commercial organizations have limited capital, are closely tied to specific economic groups and are commercially oriented. The public banks are generally oriented to specific sectors and operate with targeted external financing lines. As a result the identification and financing of economically important projects outside of agriculture and mining and/or not linked to existing economic groups is minimal.

b. Recommendations

We recommend that AID support the development of a PDFC. The PDFC will play a critical role in supplying much needed project identification and packaging capabilities to Bolivia. The PDFC would consider project assembly and finance skills under its roof and should be a private institution. Its initial capital could come from a cross section of private individuals and institutions in Bolivia. It should not, however, be the captive of the commercial banks.

The PDFC should be supported by AID in the form of a grant to meet its budget for up to 24 months. This would give the PDFC sufficient time to "get up to speed" and start a positive cash flow from fees, capital etc.

The initial focus of PDFC would be to spot 3-4 investment clients in Bolivia of a non-traditional nature and to package projects or partnership with a local operating partner in these target areas. The goal would be to develop and help finance 3-4 new projects that would seem to encourage others to follow suit.

The projects could be start-ups (new) or add on to existing businesses (new departures). The latter approach might make more sense initially since it could help reduce project risk.

The PDFC should have access to AID financing to help it centralize financing for projects. For example, it might pick up 20-30% of its capital needs from AID and use this financing to attract the remainder from others.

The important difference between this proposal and the typical project development function is that PDFC would open its doors to all comers. It would take the initiative to spot opportunity areas and then develop new projects in these areas. In this fashion it would serve more as an investment company.

The PDFC would be structured to compliment the capabilities of other institutions in Bolivia. It would not provide a redundant service. A successful PDFC could enhance local capital mobilization and encourage the development of viable projects that could attract outside (external) participation.

5. Technical and Management Training

a. Problem Statement

All public and private financial institutions interviewed stated that they have major technical and qualitative deficiencies from upper middle management down.

Many major technical deficiencies have been noted. The Controller General, for example, stated that accounting and auditing capabilities are almost completely nonexistent in the public sector, nor are there any national institutions providing more than the most rudimentary training in such specialties. Broader and more general studies have indicated major deficiencies in areas such as cost control, marketing, development finance, customer service, management information systems (and computer applications generally), financial analysis, report preparation, budgeting, forecasting, and administration.

While the problem is most severe in the public sector, and likely to get worse as comparative salaries decrease, it is prevalent throughout the financial system. Rational bank management, control and growth are dependent on qualified staff at all levels. Further, the role of the financial system in underwriting economic development, and particularly the redistribution of financing and income to middle to small industry, is based on the capabilities of middle level staff.

b. Recommendation

USAID should move immediately to integrate financial sector training into the existing IDEA project. It should seek to define training needs and programs which are common to both public and private sector financing organizations, first. The initial courses might focus on the following:

- project analysis
- credit analysis
- cost evaluation and control
- banking policy and development
- project monitoring
- management information systems and computer applications

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USAID should also evaluate current university programs to determine whether financing courses and majors could be integrated into existing curricula.

c. Costs

To be borne through the existing IDEA budget.

6. Reform of the Central Bank

USAID should continue to support the World Bank led study of the Central Bank, as outlined in Table 11. This study is intended to define major functional and operation improvements and changes that need to be undertaken at the Central Bank. Specific recommendations will result from this study.

7. Financial Sector Support Project

a. Problem Definition

The analysis presented in this report outlines a series of problems and weaknesses with the existing financial sector. Many of the problems are common to both public and private institutions, including the following: inadequately trained middle management and technical staff, poorly designed and operated accounting and management information systems and weak marketing and project evaluation groups. Additionally, the relationships between public and private financial organizations are poor and the existing banking law appears to contribute to unproductive conflict and activities.

At this stage, however, information is inadequate to establish true priorities and define precise programs.

65

b. Recommendation

That USAID sponsor a Technical Assistance Project to define, establish priorities, and implement programs to rationalize and revitalize the financial sector. The Technical Assistance Project will be responsible for the evaluation, design and implementation of incrementally funded activities in, among others, the following areas:

-- evaluation of the national banking law, identification of major weaknesses, priorities for reform;

-- evaluation of public and private sector banks to define their existing activities and appropriate roles in development, particularly as regards regional and non-traditional development activities, and the development of alternative designs to strengthen the participation of public and private banks in development activities;

-- the identification of training needs in the financial sector. Design and implementation of short- and long-term programs, to be offered in Bolivia and internationally, to strengthen management and technical capabilities in the financial sector;

-- the design and implementation of adequate information systems in public and private sector financial organizations; and,

-- evaluation and design of appropriate programs for the delivery of rural credit and the development of rural savings programs.

c. Organization

The technical assistance project team would be comprised of six long-term individuals, three from international organizations and three local counterparts. The team will, at a minimum, bring the following skills:

-- broad financial sector and development experience;

-- management experience in public and private banks;

-- accounting and management information experience;

-- experience in public and private banks in Bolivia;

-- project implementation experience in Bolivia;

-- experience in the development of banking institutions in developing countries;

-- experience in regional and rural development; and,

-- hands-on training experience.

Additionally, provisions for up to 36 months of international consultants and 44 months of local support will be required.

The proposed project will run for a period of 30 months. Four individuals (two local and two international) will be provided for the full term of the project. Two additional long-term staff will be provided for a period of 18 months for combined tasks in the training and information segments of the technical assistance project.

The initial task of the project will be to define, establish priorities, and implement programs which address the structural and technical weaknesses of the financial system. This will require a 3-5 month, detailed evaluation of the financial sector, and several months to define and negotiate the structure and scope of work of specific support programs.

d. Costs

Costs of the Technical Assistance Project can be estimated only roughly at this time. Total costs will depend on the nature of specific sub-projects to be undertaken, as these will vary in length, costs for individual consultants, and other factors. Costs for a 6 person team, as outlined above, will approach $1.8 million and the incremental costs for consultants, travel, equipment, communications and the like could double this figure.

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APPENDIX A

USAID/BOLIVIA

SCOPE OF WORK

EVALUACION DEL SECTOR FINANCIERO

Objetivo: Realizar un estudio del sector financiero con el proposito de identificar sus mayores problemas a ser tratados para mejorar su funcionamiento.

Recomendar medidas de politica gubernamental para majorar el entorno dentro del cual operan las instituciones financieras Bolivianas y sugerir posibles de intervencion que tratan los problemas claves relacionados con el sector financiero.

Medios: Entrevistas con autoridades gubernamentales financieras de las instituciones financieras del sector privado y empresarios que participan en el sector financiero de las diferentes regiones geograficas del pais. Revision de los programas mas importantes sobre la economia Boliviana, propuestas sobre el Banco de Segundo Piso y leyes que regulan las transacciones del sector financiero.

Requerimientos: Dos expertos del sector financiero por dos semanas cada uno, mas un especialista en credito agricola por cuatro semanas. Un informe preliminar sera presentado a USAID en La Paz y complementado con el trabajo de una semana adicional en Estados Unidos.

SUMARIO DEL ALCANCE DE TRABAJO

Sugerencias para el Optimo Porcentaje de Esfuerzo (SOPE)*

I. Estudio sobre la situacion del Sector Financiero y Recomendaciones

15% A. Politicas del Sector Financiero Gubernamental

1. Revision de politicas anteriores
2. Revision de las actuales politicas monetarias gubernamentales
3. Problemas - identificacion y prioritizacion
   a) Futuro rol de las principales instituciones financieras
      i) Departamento de Desarrollo (BCB)
      ii) Banco del Estado
      iii) BANVI
      iv) Banco Minero de Bolivia
      v) Corporaciones Departamentales de Desarrollo
   b) Otros problemas
4. Restricciones para la solucion de problemas
5. Recomendaciones especificas para obviar las restricciones/soluciones/nuevos proyectos, tales como -
   Cambios necesarios de politica para:
      i) Permitir operar a entidades del sector, publicas/privadas
      ii) Fomentar la expansion del sector financiero
      iii) Promover una movilizacion de ahorros
6. Estimar los costos para la implementacion de las recomendaciones

10% B. Marco Legal

1. Revision de las leyes vigentes
   a) Ley gubernamental bancaria
   b) Regulaciones gubernamentales para las ICIs
2. Problemas - identificacion y prioritizacion
3. Restricciones para la solucion de problemas

* Nota. En cada seccion de I.A. - E., 30% debera ser asignado a la descripcion (incluyendo descripcion de problemas) y 70% al analisis (restricciones, recomendaciones, costos estimados).

4. Recomendaciones especificas para obviar restricciones/soluciones/nuevos proyectos - nuevas reyes requeridas
5. Costos estimados para la implementacion de las recomendaciones

17% C. Instituciones del Sector Provado

1. Composicion del sector - Breve descripcion cuando sea necesario, de como trabaja cada institucion, a quienes se sirve, y su importancia relativa.
   a) Bancos bolivianos
   b) Asociaciones de Ahorro y Prestamo
   c) Cooperativas - Cooperativas de Credito
      - Cooperativas multi-activas
      - Otras Cooperativas
   d) Bancos extranjeros
   e) Companias de Seguro
   f) Otras
2. Principales Problemas del Sector - identificacion y prioritizacion
   a) Potencial movilizacion de ahorros, que instituciones? sus requerimientos?
   b) Captacion de otros recursos locales
   c) Asistencia Tecnica y necesidades de entrenamiento
   d) Falta de competencia entre bancos
   e) Mentalidad de banca comercial
   f) Dependencia de recursos externos
   g) Investigacion de necesidades de credito
3. Restricciones para la solucion de problemas
4. Recomendaciones especificas para obviar restricciones/soluciones/nuevos proyectos
   a) Movilizacion de ahorros
   b) Necesidades de refinanciamieto para el sector privado - Banco de Segundo Piso
   c) Posibilidades futuras para el mercado de capitales, ej. bolsa de valores
5. Costo estimado para la implementacion de las recomendaciones

15% D. Instituciones del Sector Publico

1. Composicion del Sector - Breve descripcion cuando sea necesario, de como trabaja cada institucion, quienes son servidos y su importancia relativa
   a) Lineas de credito de redescuento del BCB
   b) Banco del estado
   c) Banco Minero de Bolivia

d) Banco de la Vivienda
e) Otras
2. Principales problemas del sector:
a) Potencial movilizacion de ahorros, que instituciones? sus requerimientos
b) Asistencia tecnica y necesidades de entrenamiento (especialmente "bancos"gubernamentales y el Depto. de Fiscalizacion del BCE.)
c) Otros problemas
3. Restricciones para la solucion de problemas
4. Recomendaciones especificas para obviar restricciones/soluciones/nuevos proyectos - movilizacion de ahorros
5. Costos estimados para la implementacion de las recomendaciones

18% E. Credito Agricola

1. Composicion - Breve descripcion cuando sea necesario, de como trabaja cada uno, quienes son servidos y su importancia relativa.
a) Banco Agricola de Bolivia
b) Otras fuentes gubernamentales para credito agricola
c) Fuentes del sector privado
i) ICIs
ii) Instituciones no financieras
2. Necesidades y demanda (tipos y montos requeridos y la demanda a traves tanto de las fuentes normales como de las informales)
3. Principales problemas:
a) Futuro del BAB
b) Falta de recursos para tipos especificos de credito agricola
c) Otros problemas
4. Restricciones para la solucion de problemas
5. Recomendaciones especificas para obviar restricciones/soluciones/nuevos proyectos
- posible rol adicional para el BAB como un banco comercial
6. Costos estimados para la implementacion de las recomendaciones

5% F. Actividades actuales de USAID

1. Viviendas de Bajo Costo a traves del Sector Privado - Expansion de la capacidad del sistema de ahorro y prestamo para proporcionar viviendas requeridas por familias de bajos ingresos. Un HG aprobado por $15 millones (no implementado)

juntamente con una donacion de $555,000 para asistencia tecnica.

2. Proyecto de Agua Potable de A&P - Credito y asistencia tecnica al sistema A&P para proyectos de agua potable y alcantarillado. El primer proyecto ($300,000) ha sido iniciado en Guayaramerin.
3. Unidades crediticias financieras (UCFs) - Brazos financieros/de inversion de las Corporaciones Departamentales de Desarrollo (DDCs) establecidas con asistencia tecnica.
4. Agroempresas y Artesania (A&A) - Facilidades de redescuento establecidas en el BCB para "comprar" creditos efectuados por las instituciones de credito intermediarias (ICIs) para agroempresas y artesania.
5. Otras lineas de redescuento en el BCB:
   - Fondo de redescuento agricola - FRA I y FRA II.
   - Fondo de redescuento industrial (FRI)
   - Fondo especial para desarrollo economico (FED).
6. Programa de garantias para credito productivo (PGCP)
   - Fondo en el BCB que provee garantias a pequenos prestatarios quienes no cuentan con productivos de las ICIs.
7. Unidad de Reactivacion Agroindustrial (AIRU) - provee divisas para insomos agroindustriales.
8. Fondo para Creditos Agricolas de Emergencia - Fondo de fideicomiso por US$10 millones para creditos de produccion y cosecha. Proyecto conjunto con la CAF.
9. Programa Crediticio Rural FINCA - Establece sistemas localmente controlados de ahorros y un fondo rotativo de creditos en especie que financia a individuos o comunidades productivas, autosuficientes, para actividades de desarrollo.
10. Fondos rotativos - establecidos en los banco privados con fondos de PL 480 (I y III) y del Programa de Recuperacion de Desastres para creditos relacionados con la agricultura.
11. Proyecto de Analisis de Politicas (UDAPE) - y fondos de Asistencia Directa para promover estudios para medidas de politica economica.
12. Proyecto de Desarrollo del Chapare - Con fondos de AIRU y PL 480 para promover la inversion en negocios agricolas y movilizacion de ahorros en la region del Chapare.

SOPE

5% G. Actividades de otras agencias en el sector financiero

1. Banco Interamericano de Desarrollo
2. Banco Mundial
3. Corporacion Andina de Fomento
4. Otros

H. Ideas para nuevos proyectos adicionales sugeridas

1. Instituciones-sistemas de prestamo para microempresas
2. Companias de capital de riesgo
3. Companias de arrendamiento (leasing)
4. Bancos comerciales
5. Almacenes generales de deposito
6. Seguros
7. Mercado secundario de prestamos hipotecarios
8. Promocion de exportaciones
9. Ley de organizaciones financieras

APPENDIX B

SCHEDULE OF MEETINGS

EVALUACION DEL SECTOR FINANCIERO

PLAN DE VISITAS

LLEGADA DEL EQUIPO - SRES. JAMES STEVEN MUNSON Y ROBERTO BARBERY A.:
ABRIL 14, 1986

Fecha	Hora	Persona Visitada e Institucion	Lugar de Reunion	Telefonos
Abril 15		Lectura de documentos		
Abril 16		Lectura de documentos		
Abril 17 Jueves	14:30	Ricardo Linale Citibank	Citibank	321742
	16:00	Jaime Gutierrez Banco de Inversiones Boliviano (BIB)	BIB Edif. Herrmann	353837
Abril 18 Viernes	09:00	Miguel Angel Garcia, USAID	USAID	
	10:30	Francisco Albergucci Banco Interamericano de Desarrollo (BID)	BID	350766-370293
	15:00	Jorge Jordan F. ASOBAN	BIGBENI	369341
	16:30	Ernesto Wende Caja Central de Ahorro y Prs-tamo para la Vivienda (CACEN)	CACEN	371282
Abril 21 Lunes	09:00	Alfredo Moscoso BISA Banco Industrial S.A. (BISA)	327719	

90

Fecha	Hora	Persona Visitada e Institucion	Lugar de Reunion	Telefonos
	10:30	David Alcoreza Asociancin Boliviana de Aseguradores El Condor, ltimo piso	Reaseguradora Boliviana, Ed.	365420-357829
	14:30	Guillermo Gmez V. FENACRE Juan de la Riva esquina Bueno	FENACRE	343393-328564
	16:00	Jos Arias Banco Boliviano Americano (BRA)	BBA, Presidencia Ler.Piso, Loayza	361101
Abril 22 Martes	09:30	George Wachtenheim Director, AID	USAID	306
	11:00	Rosendo Soruco, Ernesto Wende, Presidente Bolsa de Valores	Edificio La Primera piso 20	371280
	14:30	Carlos Barrero Camara de Comercio Americana	Camara de Comer- cio Americana	342523
	16:00	Jos Ramrez, Banco de la Vivienda (BANVI)	BANVI	358686-343510
Abril 23 Mircoles	09:00	Guido Quiroga Banco de Cochabamba	Banco de Cochabamba	358123/7
	10:30	Miguel Fabri		
	12:30	Jorge Palza Banco Central	Club Alemn	

91

Fecha	Hora	Persona Visitada e Institucion	Lugar de Reunion	Telefonos
	14:30	Fadrique Muoz Programa Ley Pblica 489, Ttulo III	Ley Pblica 480 Ed. Barrosquira Piso 9	372200
	16:00	Marcelo Prez CICYP	SOCOMAN, Edif. Ca Boliviana de Seguros, Coln 3er. piso	351174
Abril 24 Jueves	09:00	Teddy Mercado/Carlos Gumucio Unin de Bancos Bolivianos (UBB)	Banco de La Paz	364142
	10:30	Jorge Lonsdale IDEA	VASCAL, Nicols Acosta 574	372924
	14:30	David Blanco Banco Hipotecario	Banco Hipotecario	353479
	16:30	Fernando Gutirrez Corporacin Andina de Fomento (CAF)	CAF, Edificio Cosmos, Piso 4	363934
Abril 25 Viernes	09:00	Juan Cariaga - Ministro	Min. Finanzas	379240
	11:00	Carlos Iturralde Confederacin de Empresarios Privados de Bolivia (CEPB)	CEPB	372236
	14:30	Fernando Romero INTERMACO	INTERMACO	
	16:00	Miguel Fabri - Gerente	Bco. Nacional	342055

Fecha	Hora	Persona Visitada e Institucion	Lugar de Reunion	Telefonos
Abril 28 Lunes	09:00	Juan Cariaga y Ramiro Ortega Ministerio de Finanzas	Ministerio de Finanzas	379240
	10:30	Alfredo Pacheco, FEBOPI Enrigue Velasco, ADEPI Fernando Fernndez, ADEPI	FEBOPI Socabaya 340 Bloque B, piso 4	354760
	14:30	Javier Zuazo Bco. Mercantil	Bco. Mercantil	352891-325986
	16:00	Ral Espaa Asociacin Mineros Medianos	Av. 16 de Julio Edif. Petrolero 5o. Piso	352223
Abril 29 Martes	09:00	Javier Nogales, Presidente y Juan Medinacelli, Gerente BCB	Presidencia Banco Central	374151
	11:00	David Cohen - Director USAID/Bolivia y R. Asselin, C. Millikan, D. Jessee, D. Johnston, L. Barash y E. Garca		
	16:00	Gonzalo Snchez de Lozada Ministro de Planeamiento	Min. Planeamiento	372060
Abril 30 Mircoles	09:00	Rigoberto Prez/Ing. Ossio Banco Minero	Banco Minero	352161
	10:30	Alfredo Buchn Banco del Estado	Banco del Estado	352868
	14:00	David Heolscher Representante FMI	Banco Central Piso 11	350778

Fecha	Hora	Persona Visitada e Institucion	Lugar de Reunion	Telefonos
	16:00	Mauro Bertero (Entrevista postergada para mayo 2)	Bco. Agrccla	372137
Mayo 1o. Jueves	FERIADO			
Mayo 2 Viernes	10:30	Antonio Snchez de Lozada Contralor	Controlara	378860
	15:00	Mauro Bertero	Bco. Agrcola	372137
Mayo 5 Lunes		VIAJE A SANTA CRUZ		
	09:00	Mario Tejada - Gerente	Bco. Hipotecario	39529
	10:30	Jorge Crdoba - Gerente Gral.	Bco. de La Unin	
	14:30	Alfonso Alvarez - Gerente	Bco. Santa Cruz	
	16:00	Ciro Montao - UCF	CORDECRUZ	
	17:00	Adalberto Terceros	Cooperativa La Merced	
	19:30	CENA EN CASE DE MARIO TEJADA	Calle 2 Este No. 15 Barrio Equipetrol	50880
Mayo 6 Martes	09:00	Carlos Roca y Alfonso Kreidler	CAO	
	10:30	Jack Derksen y Randy Brooks	UNAG	

Fecha	Hora	Persona Visitada e Institucion	Lugar de Reunion	Telefonos
	13:00	ALMUERZO con Osvaldo Monasterios y Carlos Krutzfeldt	CEIBO	
	14:30	Justo Yepes - Gerente	Camara Comercio e Industrias	
	16:00	Andres Quiroga - Gerente	Bco. Central	
Mayo 7 Mircoles	07:30	RETORNO A LA PAZ, para llegar a hrs. 08:20am		
Mayo 8		EN LA PAZ		
	09:00	Alfredo Pacheco, FEBOPI Enrique Velasco, ADEPI Fernando Fernndez, ADEPI	FEBOPI, Socabaya 340 Bloque B, Piso 4	354760

APPENDIX C

TABLES AND FIGURES

The data presented in this Appendix is drawn from formal reports of the Departamento de Fiscalizacion of the Banco Central. There are several problems with the information, including the following:

-- It was often out of date, the latest aggregate statistics available in a number of categories were for 1984.

-- Data categories and the basis for data was generally unexplained in the reports and, frequently, different titles and categories were used in presenting the same data.

-- The data is often at odds with statistics available from other parts of BCB and other sources within the GOB and the private sector.

A number of tables are presented in both dollars and pesos. The dollar tables were calculated using the prevailing parallel market exchange rate at the end of each year for which data is shown. The tables presented in pesos also include estimates of the dollar value of the total calculated at i) the official rate of exchange; ii) the parallel market exchange rate; and iii) the parallel market rate with the U.S. and GDP deflation pegged to 1981.

TABLES AND FIGURES

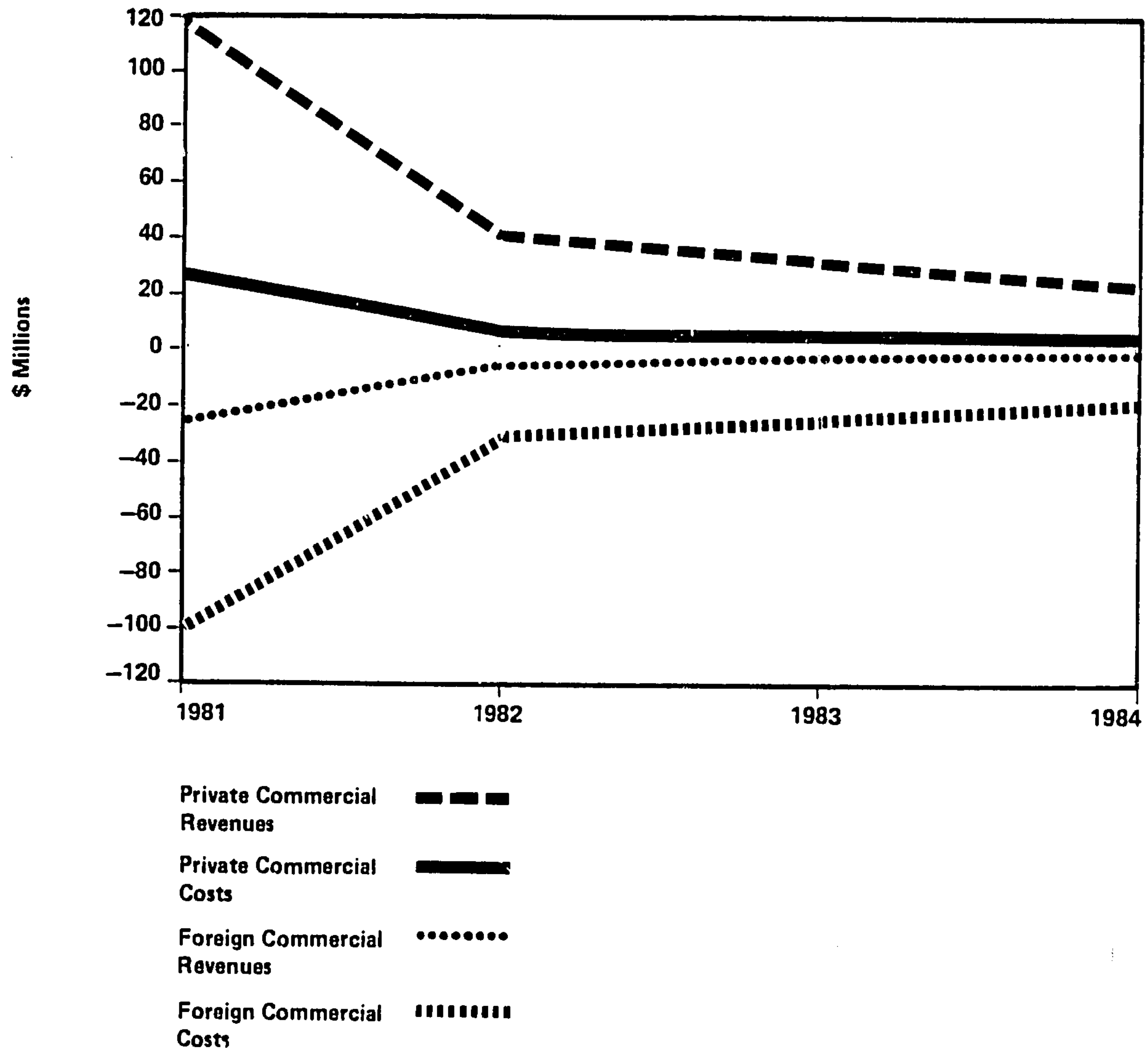
Figure 1

FINANCIAL SECTOR INSTITUTIONS

I.	Monetary System	BANCO CENTRAL De BOLIVIA Y BANCOS COMERCIALES		
II.	Credit System	State Banks	Commercial	Banco del Estado
			Specialized	Minero Agricola
			Mixed	Banco da la Vivenda
		Private Banks	Commercial	Domestic Boliviano Americano Cochabama Credito Cruro Santa Cruz de la Sierra Hipotecario Nacional Mercantil Nacional de Boliva Ind. Gan. del Beni Potosi La Paz Union Progreso Foreign Popular del Peru Nacion Argentina Do Brasil Real S.A. Citibank N.A.
			Specialized Specialized	Industrial S.A. Financiamento Ind. S.A. Inversion Bol. S.A.
III.	Other Institutions	Credit Associations Insurance Companies Mutuals Exchange Houses		
IV.	Stock Market	Being Formed		

Figure 2

OPERATING REVENUES AND COSTS
1981 TO 1984



98

TABLE 1

Total Deposits in Dollars and Pesos, by Bank
(US$ millions)

BANK	March, 1986			December, 1981		
	pesos deposits	US$ deposits	total deposits	pesos deposits	US$ deposits	total deposits
Del Estado	10.156	0.222	10.378	132.571	4.512	137.083
Nacional de Bolivia	5.490	3.031	8.520	42.735	11.995	54.730
Mercantil	4.990	2.008	6.998	49.347	8.183	57.530
Boliviano Americano	4.089	6.315	10.404	63.429	37.992	101.420
Credito Oruro	5.432	1.585	7.017	22.571	6.128	28.699
Cochabamba	2.313	1.440	3.752	21.306	12.877	34.183
Hipoticario	3.646	2.736	6.382	29.918	9.259	39.177
Santa Cruz	5.031	4.431	9.462	70.163	9.425	79.588
Big Beni	2.104	2.885	4.990	22.408	6.217	28.625
Potosi	1.589	0.318	1.906	15.265	3.595	18.861
La Paz	2.620	2.646	5.266	14.776	4.451	19.226
Industrial	0.000	0.000	0.000	2.000	0.000	2.000
Bafinsa	0.000	0.000	0.000	0.041	0.000	0.041
De la Vivienda	0.583	0.136	0.720	6.776	0.000	6.776
Inversion	0.057	0.387	0.444	4.449	0.125	4.574
Popular del Peru	3.760	0.182	3.943	39.673	4.973	44.646
Progreso	1.510	0.374	1.884	0.000	0.000	0.000
Union	2.276	3.659	5.935	0.000	0.000	0.000
Nacion Argentina	0.542	0.166	0.708	8.408	1.572	9.980
Do Brasil	0.286	0.201	0.487	15.347	4.450	19.797
Citibank	0.146	0.017	0.163	6.408	0.075	6.483
Real	0.229	0.004	0.233	7.837	0.544	8.381
Bank of America	0.000	0.000	0.000	12.857	0.179	13.036
Bank of Boston	0.000	0.000	0.000	9.959	0.383	10.342
TOTAL	56.849	32.743	89.592	598.245	126.934	725.179

TABLE 1a
Total Deposits in Dollars and Pesos, by Bank

BANK	March, 1986 (Trillion peso equivalents) pesos deposits	US$ deposits	total deposits	December, 1981 (Billion peso equivalents) pesos deposits	US$ deposits	total deposits
Del Estado	19.500	0.425	19.925	3.248	0.111	3.359
Nacional de Bolivia	10.540	5.819	16.359	1.047	0.294	1.341
Mercantil	9.580	3.856	13.436	1.209	0.200	1.409
Boliviano Americano	7.850	12.126	19.976	1.554	0.931	2.485
Credito Oruro	10.430	3.043	13.473	0.553	0.150	0.703
Cochabamba	4.440	2.764	7.204	0.522	0.315	0.837
Hipoticario	7.000	5.253	12.253	0.733	0.227	0.960
Santa Cruz	9.660	8.507	18.167	1.719	0.231	1.950
Big Beni	4.040	5.540	9.580	0.549	0.152	0.701
Potosi	3.050	0.610	3.660	0.374	0.088	0.462
La Paz	5.030	5.080	10.110	0.362	0.109	0.471
Industrial			0.000	0.049	0.000	0.049
Bafinsa			0.000	0.001	0.000	0.001
De la Vivienda	1.120	0.262	1.382	0.166	0.000	0.166
Inversion	0.110	0.743	0.853	0.109	0.003	0.112
Popular del Peru	7.220	0.350	7.570	0.972	0.122	1.094
Progreso	2.900	0.718	3.618		0.000	0.000
Union	4.370	7.024	11.394		0.000	0.000
Nacion Argentina	1.040	0.320	1.360	0.206	0.039	0.245
Do Brazil	0.550	0.385	0.935	0.376	0.109	0.485
Citibank	0.280	0.033	0.313	0.157	0.002	0.159
Real	0.440	0.008	0.448	0.192	0.013	0.205
Bank of America				0.315	0.004	0.319
Bank of Boston				0.244	0.009	0.253
TOTAL	109.150	62.867	172.017	14.657	3.110	17.767

TABLE 2

Deposits and Financing Lines
(US$ Billion)

	1981	1982	1983	1984	1984	1986
Private Banks						
Nacional						
external financing	0.065	0.029	0.018	0.015		
refinancing	0.069	0.019	0.008	0.011		
other	0.016	0.003	0.001	0.001		
deposits	0.547	0.174	0.094	0.049		
subtotal	0.698	0.225	0.120	0.075		
International						
external financing	0.033	0.018	0.011	0.008		
refinancing	0.008	0.001	0.001	0.000		
other	0.000	0.000	0.000	0.000		
deposits	0.073	0.012	0.006	0.005		
subtotal	0.114	0.032	0.017	0.013		
State Banks						
Commercial						
external financing	0.061	0.041	0.023	0.022		
refinancing	0.041	0.011	0.003	0.002		
other	0.000	0.000	0.000	0.000		
deposits	0.147	0.030	0.017	0.008		
subtotal	0.249	0.083	0.043	0.033		
Fomento						
external financing	0.037	0.023	0.013	0.013		
refinancing	0.004	0.001	0.001	0.001		
other	0.004	0.004	0.001	0.001		
deposits	0.008	0.002	0.001	0.000		
subtotal	0.053	0.029	0.015	0.015		
SUBTOTAL						
external financing	0.196	0.112	0.065	0.059		
refinancing	0.122	0.032	0.013	0.014	0.013	0.022
other	0.020	0.006	0.001	0.001		
deposits	0.775	0.219	0.117	0.062	0.063	0.089
TOTAL	1.114	0.369	0.196	0.137	0.076	0.111

TABLE 2a

Deposits and Financing Lines
(Billion pesos)

	1981	1982	1983	1984	1985	1986
Private Banks						
Nacional						
external financing	1.6	8.1	22.7	315.4		
refinancing	1.7	5.4	9.8	225.6		
other	0.4	0.8	0.8	15.4		
deposits	13.4	49.3	116.5	1037.7		
subtotal	17.1	63.6	149.8	1594.1		
International						
external financing	0.8	5.2	13.6	172.3		
refinancing	0.2	0.3	0.8	1.0		
other	0.0	0.0	0.0	0.0		
deposits	1.8	3.5	7.0	103.3		
subtotal	2.8	9.0	21.4	276.6		
State Banks						
Commercial						
external financing	1.5	11.7	28.3	477.0		
refinancing	1.0	3.2	3.7	48.7		
other	0.0	0.0	0.0	0.0		
deposits	3.6	8.6	21.1	178.0		
subtotal	6.1	23.5	53.1	703.7		
Fomento						
external financing	0.9	6.6	16.0	283.1		
refinancing	0.1	0.2	1.5	27.0		
other	0.1	1.0	0.7	11.6		
deposits	0.2	0.5	0.8	6.2		
subtotal	1.3	8.3	19.0	327.9		
SUBTOTAL						
external financing	4.8	31.6	80.6	1247.8		
refinancing	3.0	9.1	15.8	302.3	21600.0	41400.0
other	0.5	1.8	1.5	27.0		
deposits	19.0	61.9	145.4	1325.2	104300.0	171293.5
TOTAL	27.3	104.4	243.3	2902.3	125900.0	212693.5

TABLE 2b

Deposit and Financing Lines
as Fractions of Class to Total Lines

	1981	1982	1983	1984	1985	1986
Private Banks						
Nacional						
external financing	0.094	0.127	0.152	0.198		
refinancing	0.099	0.085	0.065	0.142		
other	0.023	0.013	0.005	0.010		
deposits	0.784	0.775	0.778	0.651		
International						
external financing	0.286	0.578	0.636	0.623		
refinancing	0.071	0.033	0.037	0.004		
other	0.000	0.000	0.000	0.000		
deposits	0.643	0.389	0.327	0.373		
State Banks						
Commercial						
external financing	0.246	0.498	0.533	0.678		
refinancing	0.164	0.136	0.070	0.069		
other	0.000	0.000	0.000	0.000		
deposits	0.590	0.366	0.397	0.253		
Fomento						
external financing	0.692	0.795	0.842	0.863		
refinancing	0.077	0.024	0.079	0.082		
other	0.077	0.120	0.037	0.035		
deposits	0.154	0.060	0.042	0.019		
SUBTOTAL						
external financing	0.176	0.303	0.331	0.430		
refinancing	0.110	0.087	0.065	0.104	0.172	0.195
other	0.018	0.017	0.006	0.009		
deposits	0.696	0.593	0.598	0.457	0.828	0.805

Table 3

Bank Portfolio Structure, 1986 and 1981
(US$ millions)

BANKS	(Portfolio) 1986 refinanced loans	(Portfolio) 1986 portfolio pesos	(Portfolio) 1986 portfolio US$	(Portfolio) 1986 total	(Portfolio) 1981 refinanced loans	(Portfolio) 1981 portfolio pesos	(Portfolio) 1981 portfolio US$	(Portfolio) 1981 total
Del Estado	0.011	2.036	11.900	13.947	40.677	80.212	0.170	121.059
Nacional de Bolivia	0.582	2.214	10.572	13.369	8.038	21.175	11.579	40.792
Mercantil	0.141	1.407	1.833	3.380	6.650	31.783	6.890	45.323
Boliviano Americano	0.929	2.402	5.694	9.025	1.958	46.389	20.711	69.059
Credito Oruro	4.377	1.488	1.398	7.262	2.693	15.177	10.745	28.615
Cochabamba	3.417	2.664	1.663	7.744	9.466	13.423	7.798	30.867
Hipoticari	3.009	2.504	2.592	8.105	4.447	18.645	5.680	28.773
Santa Cruz	2.945	0.941	4.298	8.184	6.120	38.270	10.072	54.462
Big Beni	1.223	0.658	3.439	5.321	9.833	10.812	6.537	27.182
Potosi	1.394	1.878	0.284	3.556	2.693	8.282	1.895	12.870
La Paz	0.490	0.709	2.489	3.688	2.122	7.874	2.804	12.800
Industrial	0.044	0.040	1.143	1.226	2.122	0.000	0.000	2.122
Bafinsa	0.000	0.483	7.385	7.869	0.490	1.754	8.359	10.603
De la vivienda	0.000	0.000	0.137	0.137	4.202	0.000	0.000	4.202
Inversion	0.435	5.499	0.258	6.192	0.775	5.059	1.457	7.291
Popular del Peru	1.011	1.032	2.260	4.303	5.222	21.705	3.034	29.962
Progreso	0.170	0.611	0.300	1.082	0.000	0.000	0.000	0.000
Union	1.365	0.000	2.955	4.319	0.000	0.000	0.000	0.000
Nacion Argentina	0.000	0.000	0.665	0.665	0.000	1.306	0.639	1.945
Do Brasil	0.000	0.000	3.257	3.257	0.000	5.630	2.089	7.719
Citibank	0.000	0.000	0.000	0.000	5.222	4.488	0.104	9.814
Real	0.000	0.294	0.678	0.972	0.000	5.549	2.723	8.272
Bank of America	0.000	0.000	0.000	0.000	2.897	8.201	0.879	11.977
Bank Of Boston	0.000	0.000	0.000	0.000	0.490	5.549	1.488	7.526
TOTAL	21.543	26.859	65.199	113.602	116.116	351.285	105.833	573.234

Table 3a

Bank Portfolio Structure, 1986 and 1981

BANKS	(Portfolio) 1986 (Trillion peso equivalents) refinanced loans	portfolio pesos	portfolio US$	total	(Portfolio) 1981 (Billion peso equivalents) refinanced loans	portfolio pesos	portfolio US$	total
Del Estado	0.021	3.910	22.848	26.779	0.997	1.966	0.004	2.967
Nacional de Bolivia	1.118	4.251	20.299	25.668	0.197	0.519	0.284	1.000
Mercantil	0.270	2.701	3.519	6.490	0.163	0.779	0.169	1.111
Boliviano Americano	1.784	4.612	10.932	17.328	0.048	1.137	0.508	1.693
Credito Oruro	8.403	2.856	2.683	13.942	0.066	0.372	0.263	0.701
Cochabamba	6.560	5.114	3.194	14.868	0.232	0.329	0.196	0.757
Hipoticario	5.778	4.808	4.976	15.562	0.109	0.457	0.139	0.705
Santa Cruz	5.655	1.806	8.252	15.713	0.150	0.938	0.247	1.335
Big Beni	2.349	1.264	6.603	10.216	0.241	0.265	0.160	0.666
Potosi	2.676	3.606	0.545	6.827	0.066	0.203	0.046	0.315
La Paz	0.940	1.361	4.780	7.081	0.052	0.193	0.069	0.314
Industrial	0.084	0.076	2.195	2.355	0.052		0.000	0.052
Bafinsa		0.928	14.180	15.108	0.012	0.043	0.205	0.260
De la vivienda			0.264	0.264	0.103		0.000	0.103
Inversion	0.836	10.558	0.495	11.889	0.019	0.124	0.036	0.179
Popular del Peru	1.942	1.981	4.339	8.262	0.128	0.532	0.074	0.734
Progreso	0.327	1.174	0.576	2.077			0.000	0.000
Union	2.620		5.673	8.293			0.000	0.000
Nacion Argentina			1.276	1.276		0.032	0.016	0.048
Do Brasil			6.254	6.254		0.138	0.051	0.189
Citibank			0.000	0.000	0.128	0.110	0.003	0.241
Real		0.564	1.301	1.865		0.136	0.067	0.203
Bank of America			0.000	0.000	0.071	0.201	0.022	0.294
Bank Of Boston			0.000	0.000	0.012	0.136	0.036	0.184
TOTAL	41.363	51.570	125.183	218.116	2.846	8.610	2.594	14.050

Table 4

Capital and Reserves
(US$ millions)

	1981	1982	1983	1984	1985
Private Banks					
Nacional					
capital	40.8	31.4	18.3	18.2	
reserves and reinvestments	8.2	1.1	0.4	0.0	
other	4.1	0.4	0.0	0.0	
subtotal	53.0	32.9	18.7	18.2	
International					
capital	24.5	4.9	3.3	0.5	
res. & rei.	0.0	0.0	0.1	0.0	
other	0.0	0.0	0.0	0.0	
subtotal	24.5	4.9	3.4	0.5	
State Banks					
Commercial					
capital	16.3	2.1	0.5	1.3	
reserves and reinvestments	4.1	0.4	0.1	0.0	
other	0.0	0.0	0.0	0.0	
subtotal	20.4	2.5	0.6	1.3	
Fomento					
capital	89.8	12.7	6.4	1.9	
reserves and reinvestments	8.2	1.1	0.3	0.0	
other	0.0	0.4	0.0	0.7	
subtotal	97.9	14.1	6.7	2.6	
All Banks					
capital	171.4	51.2	28.5	21.9	
reserves and reinvestments	20.4	2.5	0.9	0.1	
other	4.1	0.7	0.0	0.7	
TOTAL	195.8	54.4	29.3	22.6	71.1

Table 4a

Capital and Reserves
(Billion pesos)

	1981	1982	1983	1984	1985
Private Banks					
Nacional					
capital	1.0	8.9	22.8	402.7	
reserves and reinvestments	0.2	0.3	0.5	0.8	
other	0.1	0.1	0.0	0.0	
subtotal	1.3	9.3	23.3	403.5	
International					
capital	0.6	1.4	4.1	10.7	
res. & rei.	0.0	0.0	0.1	0.1	
other	0.0	0.0	0.0	0.0	
subtotal	0.6	1.4	4.2	10.8	
State Banks					
Commercial					
capital	0.4	0.6	0.6	27.8	
reserves and reinvestments	0.1	0.1	0.1	0.1	
other	0.0	0.0	0.0	0.0	
subtotal	0.5	0.7	0.7	27.9	
Fomento					
capital	2.2	3.6	7.9	43.0	
reserves and reinvestments	0.2	0.3	0.4	0.8	
other	0.0	0.1	0.0	14.7	
subtotal	2.4	4.0	8.3	58.5	
All Banks					
capital	4.2	14.5	35.4	484.2	
reserves and reinvestments	0.5	0.7	1.1	1.8	
other	0.1	0.2	0.0	14.7	
TOTAL	4.8	15.4	36.5	500.7	117338.0

Table 5

Bank Rankings
(As a % of Total Deposits and Total Loan Portfolio)

Based on Deposits

BANK	1981	1986	Change '81-'86	Rank 1986
Del Estado	0.189	0.116	-0.073	2
Boliviano Ameriano	0.140	0.116	-0.024	1
Santa Cruz	0.110	0.106	-0.004	3
Mercantil	0.079	0.078	-0.001	6
Nacional de Bolivia	0.075	0.095	0.020	4
Popular del Peru	0.062	0.044	-0.018	11
Hipoticario	0.054	0.071	0.017	7
Cochabamba	0.047	0.042	-0.005	12
Credito Oruro	0.040	0.078	0.039	5
Big Beni	0.039	0.056	0.016	10
Do Brasil	0.027	0.005	-0.022	17
La Paz	0.027	0.059	0.032	9
Potosi	0.026	0.021	-0.005	13
Bank of America	0.018	0.000	-0.018	23
Bank of Boston	0.014	0.000	-0.014	24
Nacion Argentina	0.014	0.008	-0.006	16
Real	0.012	0.003	-0.009	19
De la Vivienda	0.009	0.008	-0.001	15
Citibank	0.009	0.002	-0.007	20
Inversion	0.006	0.005	-0.001	18
Industrial	0.003	0.000	-0.003	21
Bafinsa	0.000	0.000	0.000	22
Union	0.000	0.066	0.066	8
Progreso	0.000	0.021	0.21	14

Based on Portfolio

BANK	1981	1986	Change '81-'86	Rank 1986
Del Estado	0.211	0.123	-0.088	1
Boliviano Americano	0.120	0.079	-0.041	3
Santa Cruz	0.095	0.072	-0.023	4
Mercantil	0.079	0.030	-0.049	15
Nacional de Bolivia	0.071	0.118	0.047	2
Cochabamba	0.054	0.068	0.014	7
Popular del Peru	0.052	0.038	-0.014	11
Credito Oruro	0.050	0.064	0.014	8
Hipoticario	0.050	0.071	0.021	5
Big Beni	0.047	0.047	0.000	10
La Paz	0.022	0.032	0.010	13
Potosi	0.022	0.031	0.009	14
Bank of America	0.021	0.000	-0.021	24
Bafinsa	0.018	0.069	0.051	6
Citibank	0.017	0.000	-0.017	22
Real	0.014	0.009	-0.005	19
Inversion	0.013	0.055	0.042	9
Bank of Boston	0.013	0.000	-0.013	23
Do Brasil	0.013	0.029	0.016	16
De la Vivienda	0.007	0.001	-0.006	21
Industrial	0.004	0.011	0.007	17
Nacion Argentina	0.003	0.006	0.003	20
Progreso	0.000	0.010	0.010	18
Union	0.000	0.038	0.038	12

Table 6

LOAN AND DEPOSIT INTEREST RATES
JANUARY AND APRIL 1986

Bank	LOAN RATES						DEPOSIT RATES					
	January 21, 1986			April 21, 1986			January 21, 1986			April 21, 1986		
	psmv (%)	pcmv (%)	me (%)	psmv (%)	pcmv (%)	me (%)	psmv (%)	pcmv (%)	me (%)	psmv (%)	pcmv (%)	me (%)
Del Estado	240.0	12.5	12.5	156.0	24.0	24.0	120.0	8.0	8.0	84.0	15.0	15.0
Nacional de Bolivia	260.0	24.0	21.0	96.0	26.0	26.0	138.0	12.0	10.0	42.0	17.0	16.0
Mercantil	240.0	22.0	22.0	96.0		22.0	156.0	13.0	13.0	42.0	18.0	17.0
Bolivian Amerian	216.0	18.0	18.0	96.0	18.0	18.0	138.0	12.0	12.0	54.0	18.0	18.0
Credito Oruro	240.0	18.0	18.0	150.0	18.0	19.0	144.0	12.0	12.0	96.0	12.0	12.0
Cochabamba	264.0	20.0	18.0	84.0	17.0	20.0	180.0	14.0	12.0	60.0	11.0	11.0
Hipoticario	228.0	20.0	20.0	108.0	21.0	21.0	96.0	14.5	12.0	60.0	16.5	15.0
Santa Cruz	264.0	20.0	19.0	72.0	24.0	24.0	150.0	12.5	12.5	36.0	16.0	16.0
Big Beni	252.0	25.0	19.0	79.0	25.0	24.0	156.0	16.0	14.0	51.6	16.0	18.0
Potosi	288.0	22.0	22.0	108.0	25.0	25.0	123.0	13.0	13.0	48.0	12.0	18.0
La Paz	228.0	22.0	19.0	91.0	24.0	24.0	168.0	18.0	12.5	50.2	18.0	18.0
Industrial	180.0	16.0	16.0	120.0	12.0	14.0						
Bafinsa	276.0		25.0	144.0	25.0							
De la Vivienda	294.0		36.0	142.0		38.0	172.0		17.0	112.0		20.0
Inversion	240.0	18.0	18.0	84.0	18.0	18.0	120.0	10.0	12.0	60.0	10.0	12.0
Popular del Peru	216.0			156.0	18.0		102.0			60.0	12.0	12.0
Progreso	254.0	26.0	25.0	96.0	30.0	30.0	158.0	13.5	13.5	54.0	13.0	14.0
Union	240.0	18.0	18.0	72.0	20.0	20.0	131.0	10.5	11.0	40.0	15.0	15.0
Nacion Argentina	216.0		23.0	204.0		18.0	120.0			114.0		
Do Brasil	300.0	10.0	10.0	120.0	10.0	10.0	156.0	8.0	8.0	54.0	6.8	6.8
Citibank							72.0					
Real	180.0	20.0	20.0	96.0	21.0	22.0	102.0	9.0	9.0	36.3	6.8	6.8
Average	244.0	20.0	20.0	113.0	21.0	22.0	135.1	13.0	12.0	60.7	13.7	14.5

Table 7

Interest Rate Trends, Sep. '85 to April '86

	Loans psmv (%)	Loans pcmv (%)	Loans me (%)	Deposits ecds (%)	Deposits psmv (%)	Deposits pcmv (%)	Deposits me (%)
Sep. '85	397.5			135.1	133.2		
Oct. '85	262.8	17.5	17.2	105.2	111.8	12.2	10.1
Nov. '85	242.2	18.2	18.9	98.0	113.0	11.3	11.9
Dec. '85	226.7	17.2	19.1	100.4	114.5	11.2	11.2
Jan. '86	243.6	19.9	20.4	121.2	135.1	12.9	12.4
Feb. '86	232.8	19.5	20.7	124.9	137.6	11.8	11.6
Mar. '86	217.8	18.7	20.3	106.0	125.2	13.0	12.6
Apr. '86	113.0	21.0	22.0	53.1	60.7	13.7	14.5

	spreads ecds	spreads psmv	spreads pcmv	spreads me	spreads as a percent of Sep. '85 ecda	psmv	pcmv	me
Sep. '85	262.4	264.3						
Oct. '85	157.6	151.0	5.3	7.1	0.600	0.571		
Nov. '85	144.2	129.2	6.9	7.0	0.549	0.488	1.301	0.985
Dec. '85	126.3	112.2	6.0	7.9	0.481	0.424	1.132	1.112
Jan. '86	122.4	108.5	7.0	8.0	0.466	0.410	1.320	1.126
Feb. '86	107.9	95.2	7.7	9.1	0.411	0.360	1.452	1.281
Mar. '86	111.8	92.6	5.7	7.7	0.426	0.350	1.075	1.084
Apr. '86	59.9	52.3	7.3	7.5				

ecda = en caja de ahoros (savings accounts)

psmv = peso sin matenamiento de valor (without value maintenance)

me = moneda extranjera (foreign currencies)

pcmv = peso con matenamiento de valor (with value maintenance)

Source: Banco Cental de Bolivia
Division de Fiscalizacion
Estudios Especiales

102

Table 8
Costs and Revenues, 1981 - 1984
(US$ millions)

	Private Commercial Banks				Foreign Commercial Banks				Private Development Banks			
	1981	1982	1983	1984	1981	1982	1983	1984	1981	1982	1983	1984
Revenues												
Interest Earned	90.8	30.9	23.9	16.2	18.0	4.0	2.3	0.7	76.6	2.3	1.7	1.1
Commissions Earned	19.1	4.9	4.1	4.4	4.5	1.0	0.3	0.1	1.3	0.4	0.1	0.1
Other Operating Income	5.6	4.4	0.8	0.6	1.4	0.8	0.2	0.6	0.5	1.0	0.3	0.7
Credit Recuperation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment Income	0.7	1.4	0.3	0.4	0.0	0.0	0.0	0.0	0.4	0.2	0.1	0.1
Other Income	2.6	0.7	0.4	1.0	0.6	0.1	0.1	0.2	0.2	0.1	0.1	0.1
Rent Received	0.4	0.2	0.1	0.1	0.4	0.0	0.0	0.0	0.1	0.1	0.0	0.0
subtotal	119.1	42.3	29.5	22.6	24.9	6.0	2.8	1.6	79.1	4.0	2.3	2.1
Costs												
Interest Paid	-61.0	-23.7	-19.5	-12.9	-10.7	-3.4	-1.5	-0.5	-5.1	-1.9	-1.0	-0.3
Commissions Paid	-0.5	-0.4	-0.1	-0.1	0.0	0.0	0.0	0.0	-0.5	-0.1	-0.1	-0.1
Operating Costs	-39.4	-8.7	-6.4	-6.8	-15.2	-3.4	-1.2	-0.8	-2.1	-0.6	-0.3	-0.2
subtotal	-100.9	-32.8	-26.0	-19.8	-25.9	-6.9	-2.7	-1.3	-7.8	-2.6	-1.4	-0.6
subtotal, income from operations	18.2	9.5	3.5	2.8	-1.1	-0.9	0.1	0.3	71.4	1.3	0.9	1.5
Other Revenues and Costs												
Provisions for Depreciation Amortization & Bad Debt	-7.8	-7.5	-2.9	-3.6	-3.1	-1.2	-1.2	-2.5	-0.5	-0.9	-0.6	-0.7
Contributions & Investments	-2.0	-0.4	-0.4	-0.2	-0.4	-0.1	-0.1	0.0	-0.3	0.0	0.0	0.0
Extraordinary Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subtotal	-9.7	-7.9	-3.3	-3.8	-3.4	-1.3	-1.3	-2.5	-0.8	-0.9	-0.6	-0.7
TOTAL	8.5	1.6	0.2	-0.9	-4.5	-2.2	-1.2	-2.2	70.5	0.4	0.3	0.8

Table 8, cont'd
Costs and Revenues, 1981-1984
(US$ millions)

	Public Commercial Banks				Total Banking System			
	1981	1982	1983	1984	1981	1982	1983	1984
Revenues								
Interest Earned	26.8	1.9	2.5	1.5	212.1	39.1	30.4	19.4
Commissions Earned	2.2	0.3	0.6	0.3	27.1	6.5	5.1	4.9
Other Operating Income	1.9	18.0	0.1	0.1	9.4	24.2	1.4	1.9
Credit Recuperation	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1
Investment Income	0.9	0.5	0.4	0.3	2.0	2.1	0.8	0.8
Other Income	2.6	0.5	1.2	2.2	6.0	1.4	1.9	3.5
Rent Received	0.0	0.0	0.0	0.0	0.9	0.3	0.1	0.1
subtotal	34.3	21.3	4.9	4.5	257.4	73.6	39.6	30.7
Costs								
Interest Paid	-30.2	-10.8	-2.3	-0.6	-107.1	-39.8	-24.3	-14.3
Commissions Paid	0.0	0.0	-0.2	-0.3	-1.1	-0.6	-0.5	-0.5
Operating Costs	-16.9	-2.4	-1.8	-2.6	-73.6	-15.1	-9.8	-10.5
subtotal	-47.2	-13.2	-4.4	-3.6	-181.8	-55.5	-34.5	-25.3
subtotal, income from operations	-12.9	8.1	0.6	0.9	75.7	18.1	5.0	5.5
Other Revenues and Costs								
Provisions for Depreciation, Amortization & Bad Debt	-1.9	-8.9	-1.0	-1.4	-13.3	-18.5	-5.8	-8.1
Contributions & Investments	-0.2	0.0	0.0	0.0	-2.8	-0.5	-0.5	-0.2
Extraordinary Income	4.3	0.6	0.5	0.5	4.3	0.6	0.5	0.5
subtotal	2.2	-8.3	-0.6	-0.9	-11.8	-18.3	-5.8	-7.8
TOTAL	-10.7	-0.2	0.0	0.0	63.9	-0.3	-0.7	-2.4

Table 9

COMPARISON OF INTEREST RATES
JANUARY AND APRIL 1986

Bank	January psmv %	January pcmv %	January me %	April psmv %	April pcmv %	April me %	Change (April minus January) psmv %	Change pcmv %	Change me %
Del Estado	120.0	4.5	4.5	72.0	9.0	9.0	-48	5	5
Nacional de Bolivia	122.0	12.0	11.0	54.0	9.0	10.0	-68	-3	-1
Mercantil	84.0	9.0	9.0	54.0		5.0	-30		-4
Boliviano Americano	78.0	6.0	6.0	42.0	0.0	0.0	-36	-6	-6
Credito Oruro	96.0	6.0	6.0	54.0	6.0	9.0	-42	0	1
Cochabamba	84.0	6.0	6.0	24.0	6.0	9.0	-60	0	3
Hipoticario	132.0	5.5	8.0	48.0	4.5	6.0	-84	-1	-2
Santa Cruz	114.0	7.5	6.5	36.0	8.0	8.0	-78	1	2
Big Beni	96.0	9.0	5.0	27.4	9.0	6.0	-69	0	1
Potosi	165.0	9.0	9.0	60.0	13.0	7.0	-105	4	-2
La Paz	60.0	4.0	6.5	40.8	6.0	6.0	-19	2	-1
Industrial	180.0	16.0	16.0	120.0	12.0	14.0	-60	-4	-2
Bafinsa	276.0			144.0			-132		
De la Vivienda	122.0		19.0	30.0		18.0	-92		-1
Inversion	120.0	8.0	6.0	24.0	8.0	6.0	-96	0	0
Popular del Peru	114.0			96.0	6.0		-18		
Progreso	96.0	12.5	11.5	42.0	17.0	16.0	-54	5	5
Union	109.0	7.5	7.0	32.0	5.0	5.0	-77	-3	-2
Nacion Argentina	96.0	0.0	23.0	90.0	0.0	18.0	-6		-5
Do Brasil	144.0	2.0	2.0	66.0	3.2	3.2	-78	1	1
Citibank									
Real	78.0	11.0	11.0	59.7	13.2	13.2	-18	2	2
Average	108.9	7.0	8.0	52.3	7.3	7.5	-57	0	-1

TABLE 10

Importance of External Financing
(US$ or Peso cmv Loans) (1)

Terms	ICI To Borrower		BCB or SSB To ICI	ICI Status Quo
Loan Size	10,000,000		9,000,000	
Input	1,000,000	9,000,000		1,000,000
Terms, Years	10	10	10	0
Interest Rate/Yr %	25	12	8	25
Fee, Flat %	3	3	2	36
Fee (1)	25,000	225,000	135,000	360,000
Payment, Annual	304,386	1,549,486	1,329,993	1,187,500
Gross Annual ICI Revenues		1,853,872		1,547,500
ICI Cost ofMoney From BCB/SSB			1,329,993	
Net Annual ICI Revenues After BCB/SSB Costs			523,879	
Net Annual Revenues Compared to Status Quo Revenues				(1,023,621)

(1) Con manteniento de valor - with value maintenance

(2) ICI front flat fee equal to BCB/SSB front fee, remainder rolled into loan

(3) The ICI makes 9 sets of 30 day loans equivalent to $1 million per set.

MISC. TABLE 1

PROPORTIONAL CHANGE IN INTEREST RATES FROM JANUARY TO APRIL
(April Interest Rate/January Interest Rate)

BANKS	April Loan Rates as Fractions of January Rates			April Deposit Rates as Fractions of January Rates			April Spreads as Fractions of January Spreads		
	psmv (1)	pcmv (2)	me (3)	psmv (1)	pcmv (2)	me (3)	psmv (1)	pcmv (2)	me (3)
Del Estado	0.65	1.92	1.92	0.70	1.88	1.88	(0.05)	0.04	0.04
Nacional de Bolivia	0.37	1.08	1.24	0.30	1.42	1.60	0.06	(0.33)	(0.36)
Mercantil	0.40	0.00	1.00	0.27	1.38	1.31	0.13	(1.38)	(0.31)
Boliviano Americano	0.44	1.00	1.00	0.39	1.50	1.50	0.05	(0.50)	(0.05)
Credito Oruro	0.63	1.00	1.06	0.67	1.00	1.00	(0.04)	0.00	0.06
Cochabamba	0.32	0.85	1.11	0.33	0.79	0.92	(0.02)	0.06	0.19
Hipoticario	0.47	1.05	1.05	0.63	1.14	1.25	(0.15)	(0.09)	(0.20)
Santa Cruz	0.27	1.20	1.26	0.24	1.28	1.28	0.03	(0.08)	(0.02)
Big Beni	0.31	1.00	1.26	0.33	1.00	1.29	(0.02)	0.00	(0.02)
Potosi	0.38	1.14	1.14	0.39	0.92	1.38	(0.02)	0.21	(0.25)
La Paz	0.40	1.09	1.26	0.30	1.00	1.44	0.10	.09	(0.18)
Industrial	0.67	0.75	0.88						
Bafinsa	0.52		0.00						
De la Vivienda	0.48		1.06	0.65		1.18	(0.17)		(0.12)
Inversion	0.35	1.00	1.00	0.50	1.00	1.00	(0.15)	0.00	0.00
Popular del Peru	0.72			0.59			0.13		
Progreso	0.38	1.15	1.20	0.34	0.96	1.04	0.04	0.19	0.16
Union	0.30	1.11	1.11	0.31	1.43	1.36	(0.01)	(0.32)	(0.25)
Nacion Argentina	0.94		0.78	0.95			(0.01)		
Do Brasil	0.40	1.00	1.00	0.35	0.85	0.85	0.05	0.15	0.15
Citibank				0.00					
Real	0.53	1.00	1.00	0.36	0.76	0.76	0.18	0.24	0.24
Average	0.46	1.05	1.10	0.45	1.05	1.21	0.01	0.00	(0.11)

Source: Banco Central de Bolivia
Division de Fiscalizacion
Dpto. de Analysis y Est. Esp.

(1) Pesos sin manteniento de valor (without value maintenance)
(2) Pesos con manteniento de valor (with value maintenance)
(3) Mone da extranjera (foreign currency)

MISC. TABLE 2

Ratio of Loan Market Share
to Deposit Market Share

Bank	Portfolio Rank 1986	1981	1986
Del Estado	1	1.12	1.06
Nacional de Bolivia	2	0.94	1.24
Boliviano Americano	3	0.86	0.68
Santa Cruz	4	0.87	0.68
Hipoticario	5	0.93	1.00
Bafinsa	6		
Cochabamba	7	1.15	1.62
Credito Oruro	8	1.26	0.82
Inversion	9	2.06	11.09
Big Beni	10	1.19	0.84
Popular del Peru	11	0.84	0.86
Union	12		0.57
La Paz	13	0.83	0.54
Potosi	14	0.85	1.46
Mercantil	15	1.00	0.38
Do Brasil	16	0.48	5.34
Industrial	17	1.45	
Progreso	18		0.48
Real	19	1.21	3.46
Nacion Argentina	20	0.22	0.76
De la Vivienda	21	0.75	0.12
Citibank	22	1.90	0.00
Bank of Boston	23	0.91	
Bank of America	24	1.17	
Average		1.27	1.26

MISC. TABLE 3

Colocaciones/Cartera
(US$ Millions)

	1981	1982	1983	1984	1985	1986
Private Banks						
Nacional						
ordinaria (1)	301.9	60.4	40.6	24.1		
atrasada (2)	69.4	61.1	13.7	7.9		
refinanciada (3)	134.6	37.8	10.8	12.5		
subtotal	505.9	159.4	65.0	44.5		
International						
ordinaria (1)	28.6	2.8	2.0	0.7		
atrasada (2)	24.5	14.1	4.7	3.5		
refinanciada (3)	28.6	4.2	2.1	1.3		
subtotal	81.6	21.2	8.8	5.5		
State Banks						
Commercial						
ordinaria (1)	40.8	11.3	8.8	2.6		
atrasada (2)	61.2	37.1	14.1	11.2		
refinanciada (3)	49.0	13.8	11.7	11.4		
subtotal	151.0	62.2	34.6	25.3		
Formento						
ordinaria (1)	12.2	13.8	1.0	3.0		
atrasada (2)	12.2	10.6	5.6	2.0		
refinanciada (3)	24.5	2.1	7.1	8.1		
subtotal	49.0	26.5	13.7	13.0		
All Banks						
ordinaria (1)	383.5	88.3	52.4	30.5	30.8	32.1
atrasada (2)	167.3	123.0	38.1	24.6	0.0	0.0
refinanciada (3)	236.6	58.0	31.6	33.3	13.1	21.6
Total	787.4	269.3	122.1	88.3	43.9	53.6

(1) regular loans
(2) past due loans
(3) refinanced loans

MISC. TABLE 4

Loan Portfolio
(Billion pesos)

	1981	1982	1983	1984	1985	1986
Private Banks						
Nacional						
ordinaria (1)	7.4	17.1	50.5	512.6		
atrasada (2)	1.7	17.3	17.0	167.2		
refinanciada (3)	3.3	10.7	13.4	265.4		
subtotal	12.4	45.1	80.9	945.2		
International						
ordinaria (1)	0.7	0.8	2.5	14.7		
atrasada (2)	0.6	4.0	5.8	74.2		
refinanciada (3)	0.7	1.2	2.6	27.5		
subtotal	2.0	6.0	10.9	116.4		
State Banks						
Commercial						
ordinaria (1)	1.0	3.2	10.9	56.2		
atrasada (2)	1.5	10.5	17.6	238.7		
refinanciada (3)	1.2	3.9	14.5	242.0		
subtotal	3.7	17.6	43.0	536.9		
Formento						
ordinaria (1)	0.3	3.9	1.3	63.8		
atrasada (2)	0.3	3.0	7.0	41.5		
refinanciada (3)	0.6	0.6	8.8	171.8		
subtotal	1.2	7.5	17.1	277.1		
All Banks						
ordinaria (1)	9.4	25.0	65.2	647.3	50800.0	61600.0
atrasada (2)	4.1	34.8	47.4	521.6		
refinanciada (3)	5.8	16.4	39.3	706.7	21600.0	41400.0
Total	19.3	76.2	151.9	1875.6	72400.0	103000.0

(1) regular loans
(2) past due loans
(3) refinanced loans