PN-ABJ-773
ISN 74450

BOLIVIA--FINANCIAL SECTOR ASSESSMENT

Final Report

February 22, 1991

Office of Government Services
1801 K Street, N.W.
Washington, DC 20006
Telephone 202 296 0800

Price Waterhouse

February 22, 1991

Mr. Carl Leonard
Director, USAID/La Paz
Banco Popular del Peru Bldg.
Corner of Calles Mercado and Colón
La Paz, Bolivia

Dear Carl:

Re: Financial Sector Development Project
Contract No. PDC-2206-Z-00-8191-00
Bolivia--Financial Sector Assessment

We are pleased to present fifteen copies of the Final Report, Bolivia--Financial Sector Assessment, prepared by Price Waterhouse and Nathan Associates. Additional copies have been forwarded to Ms. Sandra Frydman, AID/APRE/EM.

It has been a pleasure to work with USAID/Bolivia on this activity. We look forward to working with you on other projects in the future.

Sincerely,

J. Richard Breen
Director
Financial Sector Development Project

Attachments

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GLOSSARY

ABA	Asociación Boliviana de Agentes de Bolsa
ASOBAN	Asociación de Bancos e Instituciones Financieras de Bolivia
anticretico	a term finance mechanism used in Bolivia by home owners, where the owner exchanges the home for a large cash payment to be re-exchanged after the agreed-upon period of time
ASOBOFLOR	Asociación Boliviana de Floristas (Association of Flower Producers)
BAB	Banco Agricola Boliviano (Bolivian Agricultural Bank)
BAFINSA	Banco de Financiamiento Industrial, S.A. (Industrial Financing Bank)
BAMIN	Banco Minero (Mining Bank)
banca especializada	specialized bank
BANEST	Banco de Estado (State Bank)
BBA	Banco Boliviano Americano (Bolivian-American Bank)
BBV	Bolsa Boliviana de Valores (Bolivian stock exchange)
BCB	Banco Central de Bolivia (Central Bank)
BHN	Banco Hipotecario Nacional (National Mortgage Bank)
BIB	Banco de Inversión Boliviano (Bolivian Investment Bank)
BISA	Banco Industrial, S.A. (Industrial Bank)
Bs	Bolivianos, the Bolivian currency
CACEN	Caja Central (central financial institution of mutual savings societies)

GLOSSARY
(continued)

Caja de Salud	a social security fund
casa de cambio	firm that handles foreign exchange
CD	certificate of deposit
CEPB	Confederación de Empresarios Privados de Bolivia (Confederation of Private Entrepreneurs of Bolivia)
CNV	Comisión Nacional de Valores (regulatory agency)
comercial	a type of informal credit market agent
compañía de responsabilidad limitada	limited company
CPI	consumer price index
DDC	Departmental Development Corporation (USAID)
dedollarization	compulsory exchange of dollar bank accounts
DFC	development finance company
dollarization	extent to which domestic financial transactions are performed in dollars
FENACRE	Federación Nacional de Cooperativos (national federation of cooperatives)
financiera	finance company
FINIRSA	Financiera Nacional de Inversiones Regionales (National Finance Corporation for Regional Investment)
FOCAS	Formación de Capital de Areas Secundarias (Market Town Capital Formation)
FONEM	Fondo Nacional de Exploración Minera (National Fund of Mining Exploration)
FSE	Fondo Social de Emergencia (Social Emergency Fund)

GLOSSARY
(continued)

GD	Gerencia para Desarrollo (Development Administration, Central Bank)
IDB	Inter-American Development Bank
IDEA	Instituto para el Desarrollo de Empresarios y Administradores
IMF	International Monetary Fund
inmobiliaria	an informal credit market agent
mutual	savings and loan institution
NGO	nongovernmental organization
pasanaku	rotating savings and credit association (ROSCA)
prestamista	lender
quasi-money	time or savings deposits valued as currency
S.A.	sociedad anónima (corporation)
SB	Superintendencia de Bancos (Bank Superintendency)
seguros delegados	a social security fund
SIIP	Survey of the Industrial Sector (carried out by the Bolivian Chamber of Industry in 1987)
SNSR	Superintendencia Nacional de Seguros y Reaseguros (Insurance Superintendency)
tramitador	individual who facilitates loan paperwork
UCF	Unidad Crediticia y Financiera (Credit Financial Unit)
UDAPE	Unidad de Análisis de Política Económica
UNDP	United Nations Development Programme

EXECUTIVE SUMMARY

The objectives of this study are to assess the financial sector of Bolivia in order to (1) identify the factors that constrain its development and (2) propose measures that USAID can adopt to develop the sector and ensure its contribution to overall economic development.

This report is a summary of the assessment team's findings and recommendations. More detailed information collected for the study is contained in several reports by team members that do not appear in this volume.

The key finding of the assessment is that Bolivia's financial sector has neither the quantity of domestic savings nor the diversity of financing instruments needed to support the country's economic development. The sector is overly dependent on highly volatile short-term credit provided by commercial banks, and markets for medium- and long-term finance are still very small. The commercial banks are very weak and non-competitive.

Chapter 1 presents the macroeconomic setting in Bolivia and describes the political turbulence and the period of hyperinflation of 1980-1985, when inflation reached more than 12,000 percent per annum. The hyperinflation period was succeeded by the New Economic Policy, under which inflation was reduced to 16 percent and the fiscal deficit was reduced to 4 percent of GDP, while international reserves rose. Now, despite more than 5 years of political and economic stability, the perceived country risk for investors and the cost of financial transactions both remain high. Investment and savings rates are low. The investment that does occur is largely financed by capital imports (mostly on concessional terms). The public sector undertakes 60 percent of all investment. The balance of investment has largely been financed by foreign aid.

Bolivia experienced a decline of 7 percent in GDP and 30 percent in per capita GDP between 1980 and 1989. Investment declined from 15 to 9 percent of GDP from 1980 to 1985, rose to 13.5 percent in 1986, and has been sustained at this level. Domestic savings declined from 15 percent of GDP in 1980 to negative values by 1986 and have only recovered to 4 percent;.

Chapter 2 outlines the salient features of the Bolivian financial system and describes its major financial institutions. The three regulatory institutions are the Central Bank, the Bank Superintendency and the Insurance Superintendency. The Central Bank is weak and emerging from a highly politicized period. It needs to develop its autonomy and become more professional. The Bank Superintendency has maintained its autonomy and performed well, but it needs continuing financial and technical assistance to carry out its mission. The Insurance Superintendency and the laws regulating insurance require a complete overhaul in order to build a new system that will take an active role in mobilizing long-term savings.

The Bolivian financial system includes private and public sector banks, domestically-owned commercial (more properly "universal") banks, foreign-owned banks, cooperatives, and various informal agents. The informal agents are estimated to account for more than half of all financial activity in the country.

The formal financial system is very small; its total assets are $1.6 billion, which amounts to 32 percent of GDP compared with more than 79 percent in many developing countries. Monetary aggregates are at a comparatively low level. The system is highly dollarized; as of July 1990, dollars accounted for 88 percent of all bank assets. The system operates on a short-term basis; 63 percent of deposits are held for less than 60 days, and 89 percent are held for less than 90 days.

The only form of medium- and long-term credit available in Bolivia until now has been through subsidized refinanced lines from the Central Bank. These credits are now auctioned to the banks on market terms and on-lending rates have been freed to respond to the market.

Chapter 3 addresses the needs for reform in the banking, insurance, and commercial laws. It examines the legal status of the Central Bank and Bank Superintendency, and the status of the monetary regulatory tools they use. Outmoded laws need to be revised. A generally acceptable banking law has been drafted and its quick approval would benefit the country. USAID should provide technical assistance for the revision of the insurance law and the commercial code to allow for new forms of financing. In addition, we recommend that USAID provide technical assistance to study whether the difficulties in debt collection are primarily due to faults in the judicial system or weakness of the legal departments of the banks.

Most formal sector assets and liabilities are held in private commercial banks and are covered in Chapter 4. The domestically owned, private sector commercial banks account for more than 80 percent of the assets in the formal financial system and are excessively dependent on performing intermediation services. The private banks' situation is very fragile; seven are probably already insolvent and four others are very weak. Only two banks are in very good condition. Directions for their further development include undertaking services in areas such as export-related services and leasing, inproving the quality of loan portfolios, and increasing net interest yields.

Credit provided by the private sector banks is highly concentrated among a small number of borrowers, who are often related to the bank's owners, while the remainder is spread out in a large number of small loans. The concentrated number of large loans leads to excessive credit risk, the large number of small loans leads to high transactions costs. Generally, loans made from the banks' own funds are very costly for borrowers, and both loans and deposits are made for very short terms. Substantially lower rates are charged on bank loans that are refinanced from the Central Bank.

Overall, the banks earn very low rates of return on their assets. The two major reasons for this are (1) the poor quality of the bank portfolios (32 percent of loan amounts in arrears) and (2) low net interest yields. One of the principal factors for the latter is the high liquidity situation of the banks. On average, banks keep 25 percent of total liabilities in cash and CD balances that earn little or nothing. This, in turn, is a consequence of perceived high country risk and exceptionally high volatility in deposits.

State-owned banks are less important to the financial sector as a whole but raise important issues that are covered in Chapter 5. The three state-owned banks are hopelessly moribund and serve no significant financial purpose while constituting a heavy drain on the government treasury. They are insolvent, costly, and should be closed.

Various alternatives to them need to be developed to provide finance to small farmers and businesses and for development. These alternatives include cooperatives, mutual savings societies, PVOs, and the use of instruments now in the informal sector as well as the capital market and commercial banks. Linkages between the formal and informal financial markets, or efforts by the formal market to mimic the informal one may also supply finance to these clients.

Capital market institutions, such as the stock exchange, are discussed in Chapter 6. The majority of capital market activity is still informal, but the Bolsa Boliviana de Valores (BBV), founded in 1988, has been experiencing a substantial volume of transactions in certificates of deposits (CD). Both the BBV and its regulator, the Comisiòn Nacional de Valores, are new and in need of considerable technical assistance, as are the brokers who participate in these markets. The challenge they face is to develop new instruments—in short-term commercial paper, bankers' acceptances, and other short-term money market instruments, and eventually, equity.

Privatization of state-owned companies should provide the basis for the BBV to begin trading in securities. Legal, tax, and other issues connected with pension funds, mutual funds, and insurance companies need to be addressed before the BBV can reach its full potential. More critically, companies have to be convinced that stock exchanges and the securities industry are ready and able to successfully raise funds for them.

Informal markets are discussed in Chapter 7. The informal credit markets account for more than one-half of financing in Bolivia. They provide working capital, particularly for small and medium firms, by brokering private loans instead of using their own funds. They all rely on collateral but are considerably more flexible than the banks in the types of collateral that they will accept. Those who lend their own funds charge from 3.5 to 10 percent a month versus 22 percent a year offered by the commercial banks.

Chapter 8 covers the current state of formal sector credit demand for working and term (i.e., project) capital. The effective demand for agricultural credit in Bolivia from the large formal sector producers is at least US$90 million to US$100 million a year. The demand for the largely unserved traditional agricultural sector is also substantial.

The stock of credit available for the mining sector was US$125 million, whereas the demand from the medium and large units, excluding COMIBOL, was US$80 million. However, much of the stock represents accounts in arrears and is not available for current lending. The industrial sector units reported difficulties in obtaining financing though it is not clear how much they are willing to pay. The amount of new credit provided has been falling steadily over the last few years, in line with investment trends. Commercial firms also report financing difficulties but the amount of financing they have used has not fallen precipitously. However, there is little indication that a great number of new projects are currently held up because of the lack of project financing, and the level of excess capacity is quite high.

The study contains four categories of recommendations, which are presented in Chapter 9. The first category refers to policies to be pursued through policy dialogue on policies that are being pursued in areas other than the financial sector. The most important recommendations in this category in order of their priority are as follows:

1. Continue support for a general economic and political policy that will limit inflation and turmoil and thus reduce country risk, which is the primary constraint to mobilizing financial resources.

2. Intensify promotion of policies that support foreign investment and privatization.

3. Support the quick passage of the draft banking law and the autonomy and professionalization of the Central Bank.

4. In the regulation of commercial banks, assist the supervisory authority with technical assistance in the management of banks in

crises and with financial means to be able to implement strategies to strengthen the banking system.

5. Support prudent regulation of the financial system without repressing the informal sector.

The second category of recommendations pertains to technical assistance and training to be provided to particular financial institutions. Technical assistance and training are a high priority, although responsibility for their provision is shared with other donors, specifically the World Bank and the International Monetary Fund (IMF).

1. Although assistance to the Central Bank and the Bank Superintendency is most critical, primary responsibility will remain with the World Bank and IMF. USAID will have some role, perhaps, in providing advice on the new Small Savers Protection Fund and the proposed Bank Restructuring Fund.

2. The supervisory authorities require the expert assistance of consultants who have experience in dealing with banks in crisis. Technical assistance to private sector commercial banks and the BBV have bee: the responsibility of USAID. Assistance to private sector banks is critical because of their overall importance in the financial system. Assistance to the BBV is critical because of its potential in helping to mobilize long-term capital to finance development. This assistance should be provided on three levels:

    a. Mandated assistance to banks in crisis in close cooperation with the Superintendency of Banks.

    b. General training in banking to all levels of bank staff.

    c. More sophisticated assistance to banks that are not in crisis, to the BBV, and to representative organizations in the private sector that will logically involve various kinds of cost sharing.

3. A new and productive role for USAID would be to assist the insurance, mutual, and pension funds sector to develop its potential for mobilizing resources.

The third category of recommendations refers to specific research programs that should be undertaken in connection with technical assistance.

The final category of recommendations involves possible capital funding, which is obviously dependent on the availability of funds. A primary concern, however, is how to introduce those funds in a way that will promote economic and financial development.

We do not recommend support for an underwriting fund, a fund for bank capitalization, nonperforming loans, an offshore guarantee fund, or a new development finance corporation. Some support for an export finance facility or bank would be a useful supplement to current export promotion policy, primarily because the banks lack expertise and interest in this area.

Some funds should be provided, whether by A.I.D. or others, to help with the new Small Savers Protection Fund and the Bank Restructuring Fund to be located with the Bank Superintendency. Additional capital funds might be supplied to support new alternative financial institutions that have informal sector characteristics and serve some of the constituencies the informal system serves. Other funds might help promote linkages between the commercial banks and these informal markets.

There are three appendixes. Appendix A contains a short evaluation of the experience under the USAID Strengthening Financial Markets project; related recommendations are in Chapter 9. Appendix B contains a review of the World Bank Aide-Memoire, with which we agree on almost all points made. Appendix C contains a report on the survey on which Chapter 7 is based.

This report has been prepared by a team led by Carlos A. Boloña, which included experts in the following field: Ernest Field, Private Sector Banks; Miguel Angel Garcia, State Banks (Banco Agrícola de Bolivia); Mohini Malhotra, Informal Credit Markets; Steven Sharpe, Capital Markets; David Sarfaty, Industrial Sector Finance; and Mueller and Asociados, Sectoral Finance Needs. The team benefited from the advice, guidance, and overall supervision of J. Richard Breen, Price Waterhouse; and Thomas Timberg and Gustavo Gómez, Nathan Associates, along with the help, comments, and suggestions of Camilo Arenas, Director of the Strengthening Financial Markets Project, and his associates.

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Chapter 1

MACROECONOMIC SETTING

Country Risk Perception: Political Turmoil and Hyperinflation

Historically Bolivia has been one of the most politically turbulent countries in Latin America. In 165 years of independence, the Bolivian military has overthrown the Bolivian government at an average rate of one coup per year.

In the 1980s, Bolivia was a textbook case of hyperinflation. In 1985 inflation reached 12,000 percent a year, wiping out the equity and savings of both individuals and companies. The effects of inflation were compounded by little growth in many of the traditional exports, a heavy foreign debt overhang, and the virtual confiscation of bank-held savings in 1983 by the "dedollarization" of the predominant dollar-denominated accounts.

Bolivia's turbulent political and economic past has resulted in a high level of "perceived country risk". The typical investor's perceptions of country risk arise from concerns about the stability and quality of the political, economic, and social environment in a given country. Other country risk factors are concern for the ability of the government to honor its debts and concern for the stability of the currency to be converted. A government's adherence to policies that improve and stabilize the environment improve an investor's perceptions of risk. The Bolivian government has been following policies that, in broad terms, are reducing the perceived risks. However, in the short run, an investor's perceptions of country risk change slowly.

New Economic Policy

In 1985, a freely elected government led by Paz Estensoro came to power. The new administration quickly reduced inflation to 12 percent a year by imposing a highly restrictive monetary and fiscal policy (New Economic

Policy). (See Tables 1-1 and 1-2.) In addition, the public sector deficit was reduced from 12 to 5 percent of GDP. Interest rates were freed and thus rose to unprecedented heights. Public employment was cut, and subsidies were terminated.

The New Economic Policy produced such a dramatic recession that the government loosened monetary restriction in 1987 to permit a 2 to 3 percent GDP growth rate. Private sector response to the loosened controls caused inflation to creep gradually up, and tight control was reimposed in 1988.

In order to soften the social effect of these monetary restrictions and to help strengthen the national commitment to constitutional democracy, the Paz Estensoro administration provided extensive welfare programs. The consensus behind the New Economic Policy was evident in 1989 when the new, democratically elected government of Paz Zamora peacefully succeeded the Paz Estensoro administration.

The new government of Paz Zamora initially caused some anxiety in the financial sector because of the populist past of some of its principal figures. Many Bolivians transferred their capital out of the country. Dollar deposits fell by US$148 million between May and August 1989, and the Central Bank lost US$229 million of reserves in the first 7 months of 1989.

However, the Paz Zamora government has largely adhered at least in principle to the general outlines of the previous government's orthodox, neoclassical economic policy, particularly as regards privatization and concessions to foreign capital. The new government has continued to provide subsidized lines of development credit to favored firms condone large-scale arrearage (especially to public sector banks), and support the continued operation of insolvent public and private sector banks.

The new government has renegotiated its bilateral external debt, agreeing to new conditionalities with the International Monetary Fund (IMF) and the Paris Consultative Group. (It has yet to fulfill those conditionalities, like many other governments in similar situations.) In addition, the government has increased its public service tariffs and secured payments of gas arrearage from Argentina.

As a result of these orthodox government economic policies, capital flight has reversed. Bank deposits have increased to their previous levels. International reserves are again built up (although they fell again in early 1990 reserves because of the specific effects of trade and aid flows and some fluctuations connected with the Central Bank's open market operations with certificates of deposit (CD).) Monetary expansion has been lower than inflation. Open market operations with CDs has reduced credit to private banks by 16 percent. The first semester of 1990 shows an inflation rate of only 6.1 percent.

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Table 1-1. Macroeconomic Performance, 1985-1990

Sector	Macroeconomic Variables	1985	1986	1987	1988	1989	1990
Real	GDP growth in percent	- 0.2	- 2.9	2.1	2.8	2.5	2
	GDP per capita growth in percent	- 3.0	- 5.7	- 0.7	0	-0.3	- 0.8
	Urban unemployment in percent of labor force	8	6	9	11	10	n.a.
Prices	Inflation	11,750	276	14.6	16	15.2	16
Fiscal	Public sector deficit (percent of GDP)	12	3.5	8.9	5.5	5.0	5
External	Change in international reserves.($millio	97	141	87	- 28	- 142	100 (May)
	Stocks of international reserves ($million	135	276	189	161	19	51 (June)
	Debt services ($million)	248.1	209.9	157.5	195.5	203.5	62.7 (March)
	External public debt service/exports	33.1	29.2	24.1	29	23.4	30.1 (March)
	Public external debt($million)	3,294.4	3,535.7	4,195.0	4,015.9	3,458.4	,353.5 (March)
Monetary	Liquidity (percentage change/M3)	- 11.9	63.3	34.9	17.9	14.4	21.9 (July)
	Currency (percentage change/C)	- 27.7	10.2	26.5	10.8	-11.5	n.a.
	Monetary emission (percentage change/	- 27.7	0.8	21.9	7.7	-16.0	n.a.

NOTE: C=Currency, E=Monetary emission

SOURCE: UDAPE - "Estadisticas Economicas de Bolivia" La Paz, Julio, 1990

Table 1-2. Macroeconomic Instruments, 1985-1990

Sector	Instruments	1985	1986	1987	1988	1989	1990
External	Exchange rate (b/$) (a)	1.72	1.95	2.23	2.47	2.98	3.21 (August)
	Devaluation exchange rate (%)	7,373.3	13.4	14.4	10.8	19.4	8.8 (August)
Monetary	Interest rates per annum of Bolivian banks;(%)						
	Lending domestic currency	231.0	64.8	38.8	34.6	33.6	31 (March)
	Lending foreign currency	16.8	22.0	26.0	22.3	22.1	21.7 (March)
	Deposit domestic currency	99.6	29.6	22.5	20.2	16.7	18.4 (March)
	Deposit foreign currency	11.2	15.0	15.6	15.0	15.1	14.1 (March)
Fiscal							
	Expenditures (percent GDP)	n.a.	25.1	21.6	21	23.4	n.a.
	Current revenues (percent GDP)	n.a.	n.a.	13.9	17.0	15.9	n.a.
Employment							
	Minimum wage (Bs)	10.2 (July)	40 (June)	50 (April)	60 (March)	n.a.	n.a.
	Nominal wages (b)	125.9	216.6	322.1	461.9	544.9	569.6 (March)
	Real wages (b)	71.8	74.4	100	118	119.4	123.3 (March)
Administered Prices							
	Refined hydrocarbons (c)	100	140.5	101.8	134.9	116.7	98.8
	Electricity (d)	142	130.7	130.9	137.4	143	n.a.

a) December.
b) Average, December.
c) 1985=100
d) Index, Fourth Quarter

SOURCE: UDAPE – "Estadisticas Economicas de Bolivia", La Paz, July 1990

Low Growth, Investment, and Savings

Unfortunately, economic growth has not recovered, even to pre-inflationary levels. Bolivia experienced a decline of 7 percent in overall GDP from 1980 to 1989 and a decline of 30 percent in per capita GDP during the same period. From 1987 to 1989, growth was positive, but at a level below 2.8 percent a year, which is below the population growth rate. Growth had to be sacrificed during the stabilization period (1985-1987), but even during the recovery period of the past three years, growth has been very slow.

Public sector investment constitutes 70 percent of total investment and is now concentrated in a smaller number of sectors, primarily "public goods", than was previously the case. Even during the recovery, public sector investment remained low. Investment reached roughly 13 percent of GDP in 1989 and supported growth rates of 2 to 3 percent. The government proposes to raise investments to the level of 10 to 11.5 percent of GDP between 1990-1992. However, it is unlikely to achieve this objective, as was the case in 1989, when the government achieved only 64 percent of its investment goal. (See Tables 1-3 through 1-6.)

The primary reason for the low level of investment in Bolivia is its high "perceived country risk", which requires very high premiums for any investment. Few investment projects can yield enough to justify paying these premiums. The country risk factor affects both foreign and domestic investors, who typically invest abroad when the "perceived country risk" factor is high.

National savings levels have been low, a constraining factor on investment. After a significant decline in 1986, gross national savings reached a level of approximately 12 percent of GDP in 1987. Domestic savings were negative in 1986-1987, and recovered to only 4 percent of GDP in 1989. (See Table 1-4.)

The government is attempting to encourage private foreign investment with a new investment code. The code guarantees equal treatment of domestic and foreign capital, prohibits restrictions on profit repatriation, and simplifies bureaucratic procedures for clearing foreign investment projects. Recent investment and growth have been dependent on foreign capital inflows (foreign, non-national savings), which have been used mostly to finance public sector investment. Despite the attempts, a major factor impeding private investment is the reservation of two of Bolivia's highest potential industries, oil/gas and mining, for state enterprise.

That Bolivia has maintained a democratic regime and pursued a prudent economic policy for more than 5 years is certainly a positive sign. The strength of the political consensus that underlies the regime and the economic policy is appreciable. Nevertheless, investors are slow to change

Table 1-3. Growth, Investment and Real Interest and Exchange Rates (1980-1990)

Year	GDP Growth Rate (%)	Investment/GDP (%)	Savings/GDP (%)	Inflation (%)	Real Interest Rate (%) (a)	Real Interest Rate (%) (b)	Real Exchange Rate (c)
1980	-1.40	14.25	15.50	47.24	-1.31	-2.19	91.90
1981	0.92	13.77	13.90	32.13	3.34	2.50	72.70
1982	-4.36	10.24	16.30	123.54	-3.72	-4.88	75.70
1983	-4.46	9.14	17.50	275.58	-16.02	-17.74	76.90
1984	-0.60	10.18	13.00	1,281.35	-29.71	-32.15	61.20
1985	-0.97	12.37	5.30	11,749.63	2.60	-7.28	56.80
1986	-2.49	13.37	-2.20	276.34	4.80	1.80	97.20
1987	2.60	13.66	-5.00	14.58	2.77	1.06	95.30
1988	2.96	13.60	3.30	16.00	1.94	0.35	105.30
1989	2.73	13.68	3.70	15.17	0.93	-0.54	100.40
1990	2.50	13.50	4.00	16.00	2.29	1.18	108.90

(a) Lending rate in U.S. dollars for one year

(b) Deposit rate in U.S. dollars for one year

(c) Base: October to December 1985=100

NOTE: These are average monthly rates versus the annual rates in Table 1-3

SOURCE UDAPE - "Estadisticas Economicas de Bolivia", La Paz, July, 1990.
World Bank - Bolivia:Country Economic Memorandum Report 7645-BO Sept.15, 1989.
National Savings/GDP Table 2.9 P.126

Table 1-4. Bolivian Interest Rates

Year	Lending Rates				Deposit Rates (a)				LIBOR/ Bolivian Lending Rate for Foreign Currency	Exchange Rate Devaluation
	International		Bolivian		International		Bolivian			
	LIBOR	Prime	FC	DC	LIBOR	Prime	FC	DC		
1980	13.44	15.27	-	20.88	10.44	12.27	-	17	-	0
1981	16.13	18.87	-	30	13.13	15.87	-	22	-	65
1982	13.69	14.86	-	38	10.69	11.86	-	30	-	603.03
1983	10.18	10.79	-	62	7.18	7.79	-	43	-	313.79
1984	11.82	12.04	-	150	8.82	9.04	-	-	-	1848.42
1985	9.11	9.93	16.80	231	6.11	6.93	11.2	99.6	69.18	7274.34
1986	6.95	8.35	22.01	64.78	3.95	5.35	14.97	29.67	163.59	13.26
1987	7.61	8.21	26.03	38.77	4.61	5.21	15.56	22.45	217.05	14.24
1988	8.41	9.32	22.27	34.58	5.41	6.32	14.95	20.15	138.95	10.76
1989	9.31	10.92	22.06	33.56	6.31	7.92	15.06	16.65	102.01	20.24
1990	8.69	10.04	21.72	31.03	5.69	7.04	14.98	18.4	116.33	12

(a) In a narrow sense there is no Prime or LIBOR deposit rate,
UDAPE has calculated such a rate for the purposes of comparison

NOTE: FC=Foreign currency, DC=Domestic currency
Prime: New York lending rate for prime borrowers
LIBOR – London lending rate

SOURCE: UDAPE – "Estadicas Economicas de Bolivia", La Paz, July, 1990.

Table 1-5. Savings and Investment, 1985-1990

	(% of GDP)				
	1985	1986	1987	1988	1989
Investment	12.7	7.9	11.1	11.9	12.3
Public	8.1	4.9	6.4	8.2	7.3
Private	2.7	4.6	3.9	5.3	5.2
Change in stocks	1.8	(1.6)	0.8	(1.6)	(0.2)
Gross National Savings	12.7	7.9	11.1	11.9	12.3
External	6.3	10.6	12.1	9.8	8.6
Domestic	6.4	(2.7)	(1.0)	1.9	3.7
- Public					
- Private					
Investment	(9.18)	(3.05)	4.84	21.78	4.6
Public	(1.28)	(32.78)	6.84	30.24	n.a.
Private	(28.75)	86.1	2.67	10.89	n.a.
Change in stocks	(777.2)	(136.17)	181.1	(183.75)	n.a.
Gross National Savings	(35.5)	(11.7)	11.3	76.0	n.a.
External	18.9	(12.7)	(4.2)	(13.9)	n.a.
Domestic	(19.4)	(14.3)	5.2	29.5	n.a.

SOURCE: World Bank - Bolivia: Country Economic Memorandum, 1989.
Report 7645 - BO. Sept. 15 Tables 2.8 & 2.9 pp. 124-125
World Bank (1990) - Bolivia: Updating Economic Memorandum
Table 1.1 1990 p.5

Table 1-6. Public Investment, 1987-1990

Sectors	1987 (a)	1988 (a)	1989 (a)	1990 (b)
Agriculture	23.2	51.7	34.7	44.0
Mining	4.0	12.9	13.1	19.0
Hydrocarbons	87.9	92.3	89.7	156.4
Power	21.4	22.5	23.9	27.4
Transportation	86.0	118.2	120.2	127.6
Health	5.4	3.2	5.7	13.0
Education	4.8	1.1	1.4	1.2
Water and urban	18.0	27.5	24.2	39.6
Others	21.2	22.7	28.3	38.7
Total	271.9	352.1	341.2	466.9
Actual experience vs. programmed (%)	47.2	90.6	64.4	
Percent GDP	6.4	8.2	7.5	9.7
Infrastructure and social services (percent total investment)	57.6	55.4	51.4	

(a) Actual
(b) Programmed

SOURCES: World Bank, Bolivia: Updating Economic Memorandum, Table 9.2, June 22, 1990, p.41.

their perceptions of the risks of investing in a country with Bolivia's social and economic problems and turbulent political and economic history.

Other Constraints

Another obstacle to renewed growth is the high cost of financial transactions. The inefficiency of the financial sector and its financial institutions increases the cost of doing business in Bolivia. The institutional weaknesses in the financial system—both individual institutions and the system as a whole—need to be addressed.

Reducing the costs of financial transactions by improving the institutional system and developing local human resources will increase the economic returns and thus compensate for the high country risk.

Interest Rates on Deposits

High country risk is the major cause of high interest rates in Bolivia. (See Table 1-7.) A primary element of country risk is the stability of the local currency. Any investor dealing in Bolivianos faces a considerable exchange risk, given the inflationary history of the Bolivian economy. In order to compensate for the exchange risk, the differential in interest rates between U.S. dollars and domestic currency must be large and must be higher than devaluation.

In Bolivia, the interest rate for dollar-denominated deposits is determined by three factors, only one of which can be influenced by Bolivian monetary authorities. The uncontrollable factors are (1) the relevant international interest rate (usually the New York prime rate), and (2) perception of country risk for Bolivian investment. The Bolivian government can affect the interest rate through its influence over the demand for and supply of money.

The international interest rate plus the country risk premium establishes a floor for the deposit interest rate in Bolivia. If the government establishes an interest rate lower than the international rate, Bolivians will invest their money outside the country. On the other hand, high interest rates restrict investment and growth.

Table 1-7. Investment Indicators, 1985-1989

	1985	1986	1987	1988	1989
Imports of capital goods	253.8	281.6	262.6	231.8	245.5
Agriculture	27.4	40.1	24.2	13.3	12.3
Industry	137.1	151.7	133.8	137.5	148.9
Transport and equipment	89.3	89.8	104.6	81.0	84.3
Imports of capital goods (growth rates %)	37	11	-7	-12	6
Agriculture	103	46	-40	-45	-8
Industry	33	11	-12	3	8
Transport and equipment	31	1	16	-23	4
Construction sector GDP (real growth rates %)	-4	-21	-1	14	6
Articles for construction	-2.3	-32	-27	98	3
3692 Production of cement	-0.3	10	39	17	11
3720 Basic metal industries	-19	-40	-64	161	37

SOURCE: UDAPE "Estadísticas Económicas de Bolivia." La Paz, July,1990.

Chapter 2

CHARACTERISTICS OF BOLIVIAN FINANCIAL SYSTEM

Institutions

> Financial systems provide payment services. They mobilize savings and allocate credit. And they limit, price, pool, and trade the risks resulting from these activities. These diverse services are used in varying combinations by households, businesses, and governments and are rendered through an array of instruments (currency, checks, credit cards, bonds, and stocks) and institutions (banks, credit unions, insurance companies, pawnbrokers and stockbrokers).[1]

Almost all Bolivian financial institutions were damaged by the hyperinflation of 1983-1985. The system that remains is much reduced in size, provides mostly short-term credit in dollars, is dominated by commercial banks, has crude monetary management, relies on a limited set of tools, and has a great deal of informal activity.

The structure of the financial system in Bolivia is presented in Figure 2-1. The formal financial sector includes the Central Bank of Bolivia (BCB), the Bank Superintendency (SB) and the Insurance Superintendency (SNSR), 20 banks, 13 savings and loans, 1 financier, 9 financial credit units, more than 230 cooperatives, 3 deposit warehouses, 2 cattle funds, 19 insurance companies, 38 pension funds, and several "casas de cambio" (foreign exchange dealers).

The flow of savings and investment in Bolivia is shown in Figure 2-2 and Table 2-1. The economic agents are households, businesses, the government and foreign organizations. These agents channel their savings into

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[1]World Bank (1989), World Development Report 1989, Oxford University Press, Washington, D.C., p. 25.

Figure 2-1. Structure of the Financial System in Bolivia (Sept. 1990)

MONETARY AUTHORITIES

BOLIVIA CENTRAL BANK (BCB)

BANK SUPERINTENDENCY (SB)

INSURANCE SUPERINTENDENCY (SNSR)

FORMAL FINANCIAL SECTOR

INSTITUTIONS	No.
1. BANKS:	(20)
PRIVATE DOMESTIC	(13)
PRIVATE FOREIGN	(4)
STATE	(3)
2. SAVINGS & LOANS	(12)
(MUTUALES)	
3. CENTRAL ORGANIZATION FOR SAVINGS & LOAN (CACEN)	(1)
4. FINANCIERAS	
FINANCIERA DE DESARROLLO (FINDESA)	(1)
5. CREDIT & FINANCIAL UNITS (UCF)	(8)
6. NATIONAL FEDERATION UNITS (UCF)-MUTUALES	
(FENACRE)	(1)
COOPERATIVES	(230)
7. DEPOSIT WAREHOUSES	(3)
8. CATTLE FUNDS	(2)
(FONDOS GANADEROS)	
9. INSURANCE COMPANIES	(19)
10. PENSION FUNDS	(38)
11. CASAS DE CAMBIO (REGISTERED)	(9)

INFORMAL FINANCIAL SECTOR

1. FINANCIERAS
2. INMOBILIARIAS
3. CASAS DE CAMBIO (NOT REGISTERED)
4. MONEY LENDERS
5. PAWN BROKERS
6. ROTATING SAVINGS & CREDIT ASSOCIATIONS (ROSCA)
   - Pasanakus
7. FAMILY FINANCING
8. TRADERS CREDIT
9. SUPPLIER CREDIT

Figure 2-2. Bolivia: Savings and Investment Flows

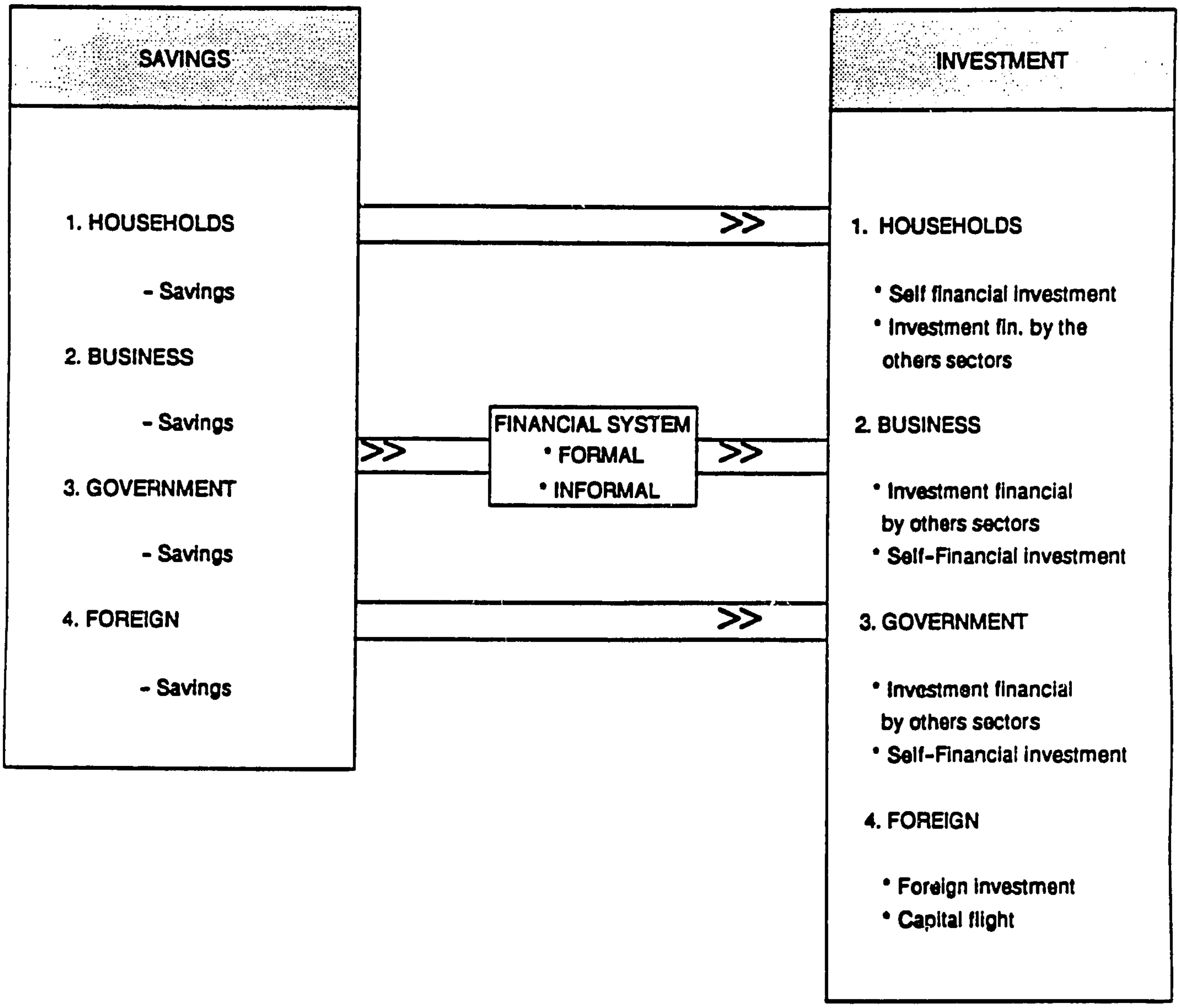

Table 2-1. Financial Institutions, 1984 and 1990

Institutions	Number			Assets	
	1984	1990 (August)	1983 (December) (%)	1990 (June) ($000)	Percent
Banks	27	20	91.1	1,402,331	86.0
Private Domestic	17	13	67.0	1,158,314	71.0
Foreign	7	4	6.5	31,413	2.0
State	3	3	17.6	212,604	13.0
Savings and Loan	12	12	3.4	121,214	7.3
Central Savings and Loan (CACEN)	1	1	-	41,639	2.6
Financieras	0	1	-	22,222	1.4
Credit and Financial Units (UCF)	-	9	-	14,991	0.9
Cooperatives					
FENACRE	1	1	5.5	24,164	1.5
Cooperatives	(300)	230	-	-	-
Deposit Warehouses	1	3	-	1,651	0.1
Cattle Funds	2	2	-	2,892	0.2
Insurance Companies	16	18	-	-	-
Pension Funds	16	38	-	-	-
Casa de Cambio (Formal)	32	9	-	-	-
TOTAL	408	344	100.0	1,631,104	100.0

SOURCE: Leyba, Carlos R.G. (1984) – "El Sistema Financiero Boliviano – Diagnostic y Recomendaciones BID consultant (ATN/SF 2400 – BO) – August pp. 18.1 to 18.4.
SUPERINTENDENCIA DE BANCOS – "Informativo" No. 23 – Julio, 1990.

three different kinds of investments: 1) self-financed investments, 2) sectors that use savings to finance their investments, or 3) capital flight.

The informal financial sector has a large variety of institutions: "financieras," "inmobiliarias," "comerciales," casas de cambio, money lenders, pawnbrokers, "pasanakus" [rotating savings and credit associations (ROSCA)], family financing, merchants, and purchasing agents.

Many banks and other financial institutions in Bolivia closed as a result of hyperinflation from 1983 to 1985. (See Table 2-2.) The number of formal financial institutions totaled 408 in 1984; this number was reduced to 334 in 1990. The major institutions that closed include four private domestic banks, three foreign banks, and several cooperatives and casas de cambio.

Commercial banks currently hold 86 percent of the financial institution assets, a reduction from 91 percent in 1983. Commercial banks are mostly engaged in short-term financing. Privately owned domestic banks (or commercial banks) hold 71 percent of the assets (i.e., US$1.16 billion). Foreign banks hold 2 percent (i.e., US$31 million), and state banks hold 13 percent (i.e., US$213 million).

Before February 1988, four of the private domestic banks were specialized (bancas especializadas), or development banks: Banco Hipotecario Nacional (BHN), Banco Industrial (BISA), Banco de Inversiòn Boliviano (PIB), and the Banco de Financiamiento Industrial (BAFINSA). These banks could not accept deposits directly from the public, and their activities depended on refinancing lines of credit from the Central Bank and foreign resources. Their main objective was to distribute medium- and long-term credit to the productive sectors. Hyperinflation caused the financial position of these banks to deteriorate so much that the monetary authorities allowed them to become commercial banks.

The three state banks—Banco Agrícola Boliviano (BAB), Banco Minero (BAMIN), and Banco de Estado (BANEST)—play the role of development banks by giving credit for longer periods and at concessional interest rates. The Government of Bolivia is considering closing the state banks because of their insolvency, and the World Bank has insisted on their being closed as a condition of its structural adjustment loans.

BAB was established to promote the agricultural sector, but the government has often used BAB for its own political purposes. BAMIN activities are oriented to small-scale mining and related industries, such as foundries. It grants short-, medium- and long-term credit. BANEST was originally created by the government as a combined development bank, commercial bank, agent of the Central Bank, and financial agent of the government. It was once the largest bank in Bolivia, but since July 1987, its activities have been restricted to serving as a financial agent of the government.

Table 2-2. Formal Financial Sector

(In constant Bs. Dec. 1980)

Financial Sector	Dec. 31 1980	Dec. 31 1985	Dec. 31 1986
Liquidity			
Banking System	23.092	7.250	12.371
Savings and Loan	689	15	44
"Cattle" Funds	0	0	0
Insurance Companies	253	176	261
Social Security	- 1.527	- 228	- 333
Total	22.507	7.213	12.343
Net International Reserves			
Banking System	- 3.418	1.922	8.110
Savings and Loan	0	0	0
"Cattle" Funds	0	0	0
Insurance Companies	52	156	133
Social Security	0	0	0
Total	-3.366	2.078	8.243
Credits to the Private Sector			
Banking System	18.540	10.232	14.258
Savings and Loan	1.375	260	276
"Cattle" Funds	0	5	17
Insurance Companies	529	514	418
Social Security	869	106	153
Total	21.313	11.117	15.122

SOURCE: "Consolidacion del Sector Financiero Formal", 1988.
La Paz, M88. Tables 1 to 8 in the appendix.

The 12 savings and loans (S&L), or "mutuales," primarily finance housing and currently hold 10 percent of all financial assets. The S&Ls must be distinguished from the central savings and loan institution (CACEN), which regulates and supervises the S&Ls and channels foreign resources to the individual institutions.

Bolivia has more than 230 credit cooperatives, which together have fewer assets than the S&Ls. Eighty percent of the cooperatives are associated with the National Federation of Cooperatives (FENACRE), which supervises and channels foreign resources to its members. FENACRE's assets amount to US$24 million and represent 1.5 percent of the total assets of the financial sector.

There are 18 insurance companies, and in 1987 their assets were equivalent to US$42 million or approximately 3 percent of the total assets of the financial sector. The insurance value added compared with GDP for the period 1983-1989 represent less than 0.6 percent. Insurance companies have not been significant in the mobilization of financial resources in the Bolivian financial system. They were significantly affected by hyperinflation and are undergoing a slow process of recovery. Their profitability is very low, and a complete restructuring of the sector is urgently needed.

Provident and pension funds in Bolivia are reserved for the state. There are 6 "Cajas de Salud," 7 social security funds ("seguros delegados"), and 25 pension funds. The government has used pension contributions to finance housing and the government deficit. The total assets of these funds declined from 5 percent of total assets of the financial system in 1980 to less than 1 percent in 1986.

Size of Financial Market

The size of the Bolivian financial market can be measured by its financial depth. Financial depth, or the ability of a country's formal financial system to mobilize resources, can be measured by the size of monetary aggregates relative to GDP, or by analyzing trends in the evolution of real monetary aggregates over time."[2]

Financial depth can be measured by the level of monetary aggregates such as M1 (currency and sight deposits), M2 (M1 + quasi-money in domestic

[2]Morris, Felipe, et al. "Latin America's Banking Systems in the 1980s: A Cross-Country Comparison." World Bank Discussion Paper 81, Washington, D.C., 1990, p. 8.

currency), or M3 (M2 + quasi-money in foreign currency) with respect to GDP.[3]

Table 2-3 shows the evolution of M1, M2, and M3 to GDP for the period 1980-1989. As can be seen from the table, M1/GDP experienced a reduction from 11.6 percent of GDP to 4.8 percent of GDP, that is, almost 60 percent during this period. This process is explained by the hyperinflation experienced in 1983-1985, when people did not want to hold money (cash or demand deposits) because of its rapid loss of value. M2/GDP declined from 17 to 6 percent during 1980-1986, and it has continued to decline. It remains at levels below 7 percent because of the lack of public confidence. M3/GDP declined from 19 to 9 percent, or 53 percent, between 1980 and 1986. However, the recovery of M3/GDP has been faster than that of the other aggregates because it includes quasi-money in foreign currency. In 1989 M3/GDP almost doubled from the 1986 level, reaching the level of 15 percent of GDP.

The sharp decline in the level of financial depth in Bolivia reflects a severe financial crisis in the banking sector. Four private banks and the three state banks are bankrupt, and three foreign banks have left the country. The rest of the private banks are experiencing low profitability and insolvency, and large portions of their portfolio are in arrears.

Another indicator of the financial crisis in Bolivia's banking sector is the low percentage of assets held by the formal financial system. In June 1990, the formal financial system's assets amounted to US$1.6 billion, or 32 percent of GDP. By comparison, in a group of developing countries with emerging financial markets the average is 79 percent.[4] Compared with 11 other Latin American countries, Bolivia has the least financial depth. The average M2/GDP during 1980-1987 for Latin America was 21 percent with a standard deviation of 7.7 percent. Bolivia's average for the same time was 11.1 percent with a standard deviation of 4.3 percent. The countries with the greatest financial depth during that same period were Venezuela, Honduras, Colombia, and Mexico.[5]

Dollarization

As a result of the hyperinflation of 1983-1985 and the process of stabilization from 1985-1989, the Bolivian economy has experienced a sharp

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[3]Quasi-money is primarily time or savings deposits.

[4] World Bank. World Development Report 1989, Oxford University Press, Table 2.4, p. 39.

[5]Morris et al., pp. 8-12.

Table 2-3. Bolivia: Financial Sector Indicators, 1985-90

Indicators	1980	1985	1986	1987	1988	1989	1990
1. Financial deepening							
M1/GDP (%)	11.58	6.93	4.07	4.99	5.57	4.79	
M2/GDP (%)	16.47	8.93	5.96	6.45	7.23	6.49	
M3/GDP (%)	18.78	10.13	8.82	11.54	13.63	15.22	
M1 ($millions)	580.9	115.6	182.6	230.1	277.2	237.8	
M2 ($millions)	830.8	149.2	254.8	297.1	361.4	322.2	
M3 ($millions)	947.3	169.2	377.1	531.5	681.3	755.6	
2. Credit (rate of growth)							
Net. Int. reserves	-29.81%	76.81%	506.33%	-14.00%	1.89%	-50.97%	
Public sector	175.09%	-107.58	-335.39	-80.36%	-38.91%	229.08%	
Private sector	118.63%	-84.39%	131.27%	45.20%	34.61%	41.97%	

SOURCE: UDAPE - "Estadisticas Economicas de Bolivia" - La Paz July 1990
Mueller y Asociados - Estadisticas Economicas de Bolivia

increase in dollarization. As of June 1990, the liabilities of the banking system in terms of currency denomination were distributed as follows:

Currency	%
Domestic (Bs)	12.3
Foreign (US$)	55.8
Domestic (with maintenance of value)	31.9

These figures show that 88 percent of bank liabilities (i.e., mainly deposits from the public, the Central Bank, and other financial institutions) are in dollar denomination or refer to the dollar.

The currency denomination of the banking system's assets (i.e., readily available assets, loans, and fixed assets) for the same period was distributed as follows:

Currency	%
Domestic(Bs)	16.8
Foreign (US$)	52.0
Domestic (with maintenance of value)	31.2

These figures indicate that 83 percent of bank assets are in dollar denomination or refer to the dollar. This figure is five percent lower than the one obtained for liabilities because the net worth of the banking system is accounted for in bolivianos.

Supply and Demand for Credit

The total amount of funds supplied to the Bolivian formal financial system for July 1990 is equivalent to US$1.3 billion. The funds come from the following sources: (1) the public, US$700 million (54 percent); (2) foreign credit, US$348 million (27 percent); and (3) financial institutions including the Central Bank, US$251 million (19 percent). These funds are distributed among the following financial intermediaries: (1) 78 percent to privately owned banks, (2) 13 percent to state banks, (3) 4 percent to S&L institutions, (4) 3 percent to FENACRE and financieras, and (5) 2 percent to other institutions.[6]

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[6]Machicado, Flavio. "Estudio del sistema financiero nacional." Table 1, 1990, p. 5. (Document was prepared for the "Financial Sector Assessment, Bolivia 1990" project.)

The demand for funds (uses) is distributed as follows: (1) agriculture, US$252 million; (2) industry, US$252 million; (3) commerce, US$222 million; and (4) mining, US$68 million, and US$313 million or (28 percent) miscellaneous. The total amount of funds used is equivalent to US$1.3 billion, including provisions for US$311 million for idle funds and contingent credits. The following table shows the sources and uses of funds:

	$US millions	%
Source		
Public	700	54
Foreign Credits	348	27
Financial Institutions	251	19
Total Sources	1,299	100
Use		
Agriculture	252	19
Industry	252	19
Commerce	222	17
Mining	68	5
Miscellaneous	313	24
Provisions for Contingency and Cash	192	15
Total Uses	1,299	100

These funds are distributed as follows: (1) 74 percent to private sector banks, (2) 16 percent to state banks, (3) 5 percent to savings and loans, (4) 4 percent to FENACRE, and (5) 1 percent to financieras and other institutions.

From December 1989 to July 1990, credit growth was significant for commerce (56 percent) and other sectors (46 percent). Other areas experienced a much lower expansion of credit: only 5 percent in the industrial sector and 8 percent in mining. During the same period, credit in agriculture declined by 14 percent.

The main source of funds for credits, as mentioned earlier, is the public, which contributes 54 percent of total credit resources. Of that 54 percent, 7 percent are sight deposits, 7 percent are savings deposits, and 40 percent are fixed-term deposits. About 90 percent of the deposits are in dollars or dollar-indexed and are mainly short-run, that is, less than 90 days.

A second source of funds for credit is foreign borrowings by Bolivia, which amounted to US$326 million for 1988 and 1989. In 1988, 42 percent of this amount corresponded to refinanced credits (or development credits) granted by the Gerencia para Desarrollo (GD) of the Central Bank. In 1989, that figure was 48 percent. The Central Bank derives 80 percent of its funds for refinancing from foreign sources and 20 percent from its own domestic resources.

The distribution of refinanced credits by origin is as follows:

Line of Credit	1989 (US$ millions)	Percent	1990 (US$ millions)	Percent
IDB	135.8	45.9	153.2	50.2
World Bank	38.2	12.9	31.7	10.4
CAF	19.6	6.6	12.0	3.9
USAID	5.5	1.9	6.9	2.3
Central Bank (own resources)	94.3	31.9	89.3	29.3
Gov't grants	1.2	0.4	2.5	0.8
Gov't credit	1.0	0.3	9.5	3.1
Total	295.6	100.0	305.1	

The first three institutions above represent between 75 and 80 percent of total refinanced credits. The Central Bank represents between 8 and 24 percent of the total refinanced credits.

The distribution by sector of demanded or used refinanced credits is shown in the following table:

Sector	Percent 1988	1989	June 1990
Agriculture	40.0	20.3	20.7
Industry	37.2	33.2	45.4
Mining	9.5	7.4	11.4
Construction	5.0	1.4	3.4
Commerce	0.0	2.2	n.a.
Services	8.3	35.5	19.1
Total	100.0	100.0	100.0

Refinanced credits were primarily provided to three major cities in Bolivia: Santa Cruz (49 percent), La Paz (20 percent), and Cochabamba (6 percent). They were also concentrated in 4 of the country's 14 banks: Banco de Santa Cruz (19 percent), Banco Boliviano Americano, Banco Nacional de Bolivia, and Banco Hipotecario Nacional, each with 11 percent. During the first semester of 1990, refinanced credits financed both capital for fixed investment (58 percent) and working capital (32 percent). By comparison, refinanced credits financed 15 percent of total investment in 1988 and 8.2 percent in 1989.

Refinanced credits are the only source of medium- and long-term capital in the Bolivian formal financial system. They are used to finance working capital, investment capital, infrastructure and restructuring. Credits are granted for periods between 6 months and 10 years and grace periods can go up to 5 years.

Interest rates for refinanced credits have been lower than market rates. In 1988 the general lending rate in dollars was 25.7 percent but the interest rate for refinanced credits was 13.3 percent, yielding a difference of 12.4 percent. For 1990 the figures were 24.3, 13.6, and 10.7 percent, respectively.

In January 1990, the government passed legislation modifying interest rates for refinanced credit. According to the new legislation, (1) the lending rate from the Central Bank must at least equal the 6 month LIBOR rate, (2) banks can charge final borrowers an interest rate equal to their average cost of funds on dollar deposits, and (3) banks cannot earn a spread greater than 5 percent.

In August 1990, the government passed legislation liberalizing interest rates for refinanced credits managed by the Central Bank and approved an auction to attain this objective. Under the legislation banks bid for development credits thereby determining the interest rate they pay. Also under the new law, the banks' on-lending interest rates were freed.

The first impact of this measure will be to raise the refinanced credit interest rate. One could also expect an increase in the supply of credit and a slight pressure toward a decline in the lending rate of the banks as supply increases. The effects of this measure will not be known for several months.

Chapter 3

LEGAL FRAMEWORK AND FINANCIAL SYSTEM MANAGEMENT

Legal Framework

The legal provisions for the financial system—the banking law, the judicial procedures for collecting debts and seizing collateral, the commercial code, and the insurance law—are all outmoded and urgently need revision.

Passed in 1928, the banking law was based on the recommendations of the Kammerer Commission, which reflected the concepts and practices of that era. The law is primarily concerned with formal control of banking operations and provides little or no guidance on monitoring bank performance, liquidity, and solvency. The law has been heavily amended, but it is generally conceded that it needs radical overhaul.

A new draft banking law that will strengthen the supervisory powers and enhance the autonomy of the Bank Superintendency and the Central Bank is under consideration. In its current state, the draft sets rules for bank operations and provides for the regular auditing of management. It moves from rigid, and currently inadequate, minimum capital requirements toward a risk-weighted capital-asset standard.

"Many countries have adopted the risk-based guidelines put forth by the Bank for International Settlements Committee on Banking Regulations and Supervisory Practices. In establishing adequate levels of capital, a government must weigh the need for safety and the need for profitability. The risk-based approach tries to relate capital to the level of risk [slice by slice]. A level of 8 percent of total risk-weighted assets is becoming the established minimum capital ratio."[7] The present Bolivian capital standard for banks is lower than the specified 8 percent.

In addition to the banking law, the legal process for debt collection and for repossession of collateral is claimed by some to need revision. The commercial banks claim that the legal process they have to go through to collect debts and repossess collateral is too lengthy. They claim that, as a result, they are forced to compensate by asking for higher collateral. Apparently this legal process takes between 2 and 3 years, which is comparable to the length of time it would take in the U.S. A Bolivian attorney specialized in banking law and who was consulted for the study disagrees with the bank's contentions. He believes that the problem lies in the competence of the banks' legal departments—for example, their drafting of loan agreements. (It should be noted here that our finding in this respect is at some variance with that of the World Bank, which appears to unambiguously endorse the commercial banks' views.) This topic clearly requires further investigation.

In any case, efficient banks should not rely solely on collateral in their lending transactions. It is a banker's truism that the first source for repayment of any loan is the cash flow from a financially successful project. In Bolivia, this sequence has frequently been reversed. The new draft banking law requires that audited financial statements and cash-flow projections be supplied in connection with any transactions of more than a certain size and that banks move toward a cash-flow rather than a collateral-centered banking approach, though these are not mutually exclusive.

There is no doubt, however, that Bolivia's banking laws and Commercial Code are inadequate to deal with modern commercial transactions such as installment purchase of machinery and equipment, leasing, and even discount of routine commercial paper. In addition, tax laws discriminate against many of these transactions as well as equity finance.

The current insurance law is also obsolete. It is generally agreed that the law needs revision and that the sector needs restructuring. In other countries, insurance companies are important financial intermediaries. To play that role, they need a strong independent superintendency, comparable with the one regulating banks, and greater leeway in arranging their portfolios. The financial sector could benefit by allowing insurance companies to invest in capital markets instruments and manage pension funds.

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[7] "Modernization of Regulation and Supervision of LDC Financial Institutions: Final Report," Price Waterhouse, Washington, D.C., February 8, 1990, p. 11.

Legal Basis for Capital Markets

The Commercial Code Article 138 contains matters related to the sociedad anónima (S.A.), or corporation. Relative to other parts of the code, this article is adequate in such areas as formation of a company, issuance of shares, rights and responsibilities, boards of directors and administration, and other aspects of company law. Article 138 provides the basis for a company structure that can issue shares through a securities exchange.

Other articles of the Commercial Code, however, create obstacles to capital markets development. In the near term, the way in which some of the code's articles deal with such issues as the transferability of commercial paper and bankers' acceptances could prevent development of these instruments. For example, the Commercial Code prohibits the transfer of guarantees. This alone could prevent the development of secondary markets in money instruments. It could also prevent the development of a leasing market that could potentially provide an effective stimulus to capital investment in the Bolivian economy.

Elsewhere, the code fails to provide the holders of financial instruments with rights to act as a group, especially during times of financial difficulty. The absence of trust laws leaves claimants on their own to assert rights that they may have under the law. The 1928 trust law is for commercial purposes and does not cover financial activities. A thorough review and overhaul of trust law as it relates to holders of financial instruments is necessary.

Tax Issues

The current tax system, as it relates to capital markets activities, represents significant progress from the past. However, it has several shortcomings that should be corrected. The current method of taxing corporations imposes a tax on the net worth of the company. The effect is to discourage the growth of equity in the capital structures of corporations, which not only inhibits the growth of the corporation, but also places limits on the growth of equity markets. Another constraint to the growth of financial instruments and both primary and secondary trading is the 2 percent transaction tax applicable to financial instruments.

In its current state of uncertainty, the tax environment is said to be a disincentive to investment. At the very least, incentives should be explored that could stimulate the growth of capital markets through tax credits for issuers, or at least equal tax treatment of the earnings from debt and equity instruments.

Legal Basis for Bank Regulation

Commercial banks are regulated because of the nature of their business and the services they are expected to provide, which include mobilization of resources, payment services, and ancillary services resulting from the above. Informed, understanding supervision is needed from the prudential regulators to instill confidence in the banking system and to enable banks to provide facilities for promoting savings, making payments and raising working capital.

Bolivia's current banking law is based on the orthodox principles of its time (1928). Obsessed with formal controls, the law defines not only what products and services can be offered but how as well. The law is restrictive, inflexible and old fashioned. Amended on numerous occasions by government decrees or simply by the issuance of circulars, the current regulatory framework is confused. It does not instil confidence in depositors, borrowers, or lenders. It is a major constraint on the efficient mobilization of financial resources.

Article 14 of Supreme Decree 22407 January 1990 requires the Ministry of Finance to present a draft Banking Law which would

1. Rationalize and strengthen the Central Bank as the monetary authority;

2. Rationalize and strengthen the superintendencies of Banking and Insurance as supervisory agencies;

3. Modernize the development finance process;

4. Decide the futures of the state banks;

5. Study the convenience of incorporating other financial institutions into the financial sector, with the purpose of democratizing credit; and

6. Create the necessary mechanism to strengthen the activities of the Fondos de Desarrollo Campesino, Fondos Nacional de Vivienda, Fondos de Desarrollo Regional, and others.

In its present draft, the law is oriented towards an appropriate balance of deregulation, re-regulation, safety and innovation. Its drafters were conscious of the damage which can be done by banking failures and have emphasized the setting up of prudential rules and the regular auditing of bank managements. The draft law provides for controls intended to create stability and maintain solvency and creates a framework designed to improve relationships between financial and productive sectors.

Small Saver Protection Fund

The draft new banking law contains specific provisions for a deposit insurance scheme. Properly designed, such a deposit insurance fund could become a means "to improve the private savings and investment climate" without undermining competition in the financial system as a whole. As such, the initiative merits the attention of USAID and the offer of technical assistance, as appropriate, through the Banking Superintendency.

The draft law proposes a cut-off level of US$10,000, above which deposits would not be protected. We believe the figure could be lower and urge that the fund be redesignated as a Small Saver Protection Fund. Establishing such a Fund to insure deposits of less than $5000 would cover 90% of all depositors. A safety net such as this would still be an incentive for larger depositors to evaluate the financial state of the institutions in which they put their money—and press those institutions to manage their affairs properly.

Creation of the Fund would also enable the Bank Superintendency to exercise a more active supervisory role. As the administrator of the insurance fund, the Superintendency could threaten insolvent banks with closure, the replacement of their managements and suppression of existing shareholder interests, without endangering small depositors.

The draft banking law contemplates the creation of a deposit insurance fund to be capitalized 50 percent from operating banks based on a levy of 1 percent of their capital, 50 percent from the Central Bank and from fines levied for violations of the new banking law. In addition, the deposit insurance fund would receive an annual premium of an amount equal to 1/4 percent of average deposits during the year.

The rapid passage of the draft banking law is by no means assured, and this applies as well to the deposit insurance fund. The private banking industry objects to the mode of capitalizing the fund.

The draft banking law envisages that the deposit insurance fund will be used for purposes other than deposit protection, for example, to promote mergers and the acquisition of shares in troubled banks. We think this dilution of purpose a mistake and recommend refocussing the proposal on small deposit protection. We recommend that USAID consider funding technical assistance in the design of a Small Savers Protection Fund.

Depending on future study, USAID might consider some initial capital assistance to the fund, to be repaid out of its future premium receipts.

Deposit insurance schemes are common in developed countries and being introduced widely in developing countries. At present approximately one dozen less developed countries have deposit insurance systems and others are considering their adoption. Their purpose is to strengthen the banking system by providing some explicit assurance to savers that their moneys are safe. In the absence of such insurance "runs" on banks might needlessly destroy a good deal of liquidity and injure depositors. In fact, since governments typically do stand behind bank deposits, the insurance serves to make depositors and the system itself bear the cost of this government backing. As a recent article tells us, the choice is between explicit and implicit deposit insurance.[8]

However, because blanket deposit insurance protects banks against their own mistakes, many people prefer to limit this insurance to the smaller depositors, and leave larger borrowers, who are able to put disciplinary pressure on banks, uncovered. In the case of Bolivia, the major purpose served by deposit insurance is either (1) to make a decision to not cover larger depositors in the future and (2) to recover some of the cost that will be incurred if several banks are liquidated in the future, after the present group is disposed of. Of course, any deposit insurance scheme will have to confront the issue of any immediate liquidations which may appear necessary. Otherwise the resulting claims could sink the fund before it is launched.

Fund for Bank Capitalization

Because of the undercapitalized situation in which the private sector commercial banks find themselves, several proposals have been made to help the banks increase their equity. For example, the Strengthening Financial Markets Project proposed that as the banks make progress "... on reducing intermediation costs, funds would be advanced through the Central Bank of Bolivia in the form of capital notes at a favored rate. These funds would be re-loaned at market rates, enabling the banks to repay their capital notes to the Central Bank from the interest rate spread, and immediately increase their capital base." (USAID/Bolivia Action Plan 1991-1992 Appendix A p. 24)

We recommend against this proposal because it will subsidize weak and inefficient banks and remove a key element of competition in the market. There are other mechanisms open to competent bank management than new equity injections, namely the restructuring of internal operations, cost cutting, development of new products and divestment of unprofitable business (including non-productive portfolio).

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[8]Ignacio Mas and Samuel Talley, "Deposit Insurance in Developing Countries", Finance and Development, December 1990 and p. 36 of the 1989 World Development Report.

Fund for Restructuring Banks

The Superintendency does not yet possess the necessary tools and leverage to exercise its powers of intervention. It lacks qualified intervention teams, assured funding to cover the cost of intervention and possible liquidation of problem banks, and is hampered by the legalities of enforcement. Thus, the Superintendency is reluctant to exercise too firm a hand for fear of sparking financial panic and putting the entire banking system at risk. The limitations of the Superintendency's authority is indicated by its failures in attempting to control illegal inmobiliarias in Cochabamba.

Instead of providing capitalization funds to weak banks, donors like A.I.D. could provide a restructuring fund to the Superintendency. The proposed new banking law contemplates something of this sort as part of the Depositors Protection Fund. We are opposed to including this function in that fund's responsibilities but think that a separate fund might be created to assist problem banks in a "work out" situation and assist in their return to health or their merger or liquidation.

We recommend that USAID give consideration to providing technical assistance to the Bank Superintendency in the design of a suitable fund to be used in support of that authority's supervision and intervention responsibilities. We recommend that the technical assistance be provided in close liaison with the Central Bank and that A.I.D. consider underwriting part of the capital required by the Central Bank.

The restructuring fund would be designed to give the Superintendency some funds with which to work in restructuring banks, to give it an alternative to liquidation. American bank insurers typically have such funds available to them. By using such funds, insurers can often save considerable public expenditure in the salvaging of financial institutions. Our team did not include an expert in such funds, so we have not included much in the way of detail here on this topic. However, as we made clear, we have such experts available to give a greater amount of specific information if required. Again, however, since the World Bank is taking the lead in this area, any such work would need to be coordinated with them.

Institutions for Bank Regulation

The two most important bank regulators, the Central Bank and the Bank Superintendency, are in very different situations. The Central Bank is widely considered to be incompetent and mired in politics, whereas the Superintendency is admired for its competence and autonomy from politics.

Central Bank

The Central Bank came under the control of its staff union during the period of hyperinflation in the early 1980s. The union, which had members on the bank's board, determined monetary and exchange rate policies for the country, going on strike when its demands were not met. The union was closely connected with certain political and commercial parties in the country. Most of the professional people left, and corrupt practices spread.

Despite the bank's reorganization during stabilization, it is still very weak. Several hundreds of employees were fired, others retired, and the Central Bank was left understaffed, with few professionals. Five years later, it still has not recovered.

Although the autonomy of the Central Bank was theoretically established by Law 14791 (August 1977), the bank has remained under the control of the Minister of Finance. Some improvement might come from enshrining the principle of Central Bank autonomy in the constitution, as has been done in other Latin American countries, but this is not a foolproof remedy, as Alan Garcia demonstrated in Peru. Such autonomy must be based on a political consensus among the political parties which support the professional qualifications of the staff in Bolivia.

Reconstructing that staff will require (1) training, at home and abroad; (2) competitive salaries to recruit competent employees; and (3) political autonomy.

In the World Bank Aide-Memoire, continuing concern is expressed about the potential conflict between the economic and system management duties of the Central Bank and the large-scale refinancing activity conducted by its Gerencia para Desarrollo. The aide-memoire ultimately recommends autonomy rather than complete separation.

Bank Superintendency

The Bank Superintendency was created by Supreme Decree 21660 (July 1987). Its objective is to supervise the financial system in order to secure the solvency and stability of its institutions and protect its depositors. In its 3 years of existence, it has experienced considerable success. It has obtained current data from the banks about their operations, created a center of risks with credit information about borrowers (although this information is still not easily available to other lenders). It has also improved public knowledge of bank functioning, and improved bank supervision. It has not been able to supervise adequately certain semi-formal institutions that accept public deposits, such as the financieras, which grew up in Cochabamba partly as the result of the availability of drug money, or to close insolvent banks and penalize their managements when required. The center of risks has not been used adequately to support the operations of the banking system.

Instruments for Monetary Regulation

A primary task of the Central Bank is to control inflation, provide liquidity, and maintain some type of balance with international financial markets. These tasks are accomplished by monetary and regulatory instruments. The key monetary instruments used are control of monetary emission and the issue of credit to private and public sector financial institutions and the public sector in general. The available regulatory instruments in Bolivia include (1) fixing of interest rates for borrowing and lending, (2) open market operations selling government securities, (3) discounting bank credits, (4) setting reserve requirements, and (5) participating in the foreign exchange market.

Monetary emission has been severely constrained to control inflation. It declined from 13.4 percent of GDP in 1984 to 3.6 percent in 1989. Credit to the public sector has increased faster than inflation, whereas credit to the private sector has been reduced. This is undoubtedly a factor in the dominance of public sector investment in the economy.

Interest rates were nominally freed by a decree of July 1987 but rose rapidly (reflecting considerations we raised earlier in the discussion of country risk and high transaction costs); they have now started to decline slowly. These market rates have been undercut by concessional finance through the refinancing credit lines of the Central Bank and condonement of arrearages on these lines.

The open market operations of the Central Bank have been conducted with CDs. First issued in 1987, CDs are available in domestic currency, U.S. dollars, and domestic currency with a guarantee of maintenance of real value. Their maturity varies from 2 to 13 to 26 to 51 weeks. The longer the maturity, the higher the rate of discount in the auctions, but the differences in rates by term are not too high.

As of July 1990, the total value of outstanding CDs was US$138 million. Twelve percent were held in domestic currency, 36 percent domestic currency with maintenance of value, and 52 percent in foreign currency. Eighty-six percent were held by the banks (of which 34 percent, or more than one-third, were generated in connection with the IDA credit 1925/BO); 10 percent by other commercial entities; and 4 percent by others. The government and public sector enterprises do not hold a significant number of CDs.

CDs have helped finance the public sector deficit and covered 60 percent of that deficit for 1990. They have the advantage of being noninflationary, although the interest payments on them are high. The payments of interest on these CDs took .4 percent of GDP in 1990; their face value amount was 2.8 percent of GDP. They have the disadvantage of crowding out private credit seekers.

CDs also buoy foreign exchange reserves. The Central Bank holds 48 percent of these reserves, in the form of CD proceeds, whereas the required reserve deposits of the banks account for 53 percent. Together they account for 85 percent of reserves, or $134 million. As with open market operations elsewhere, CDs have been a powerful tool in contracting the money supply to enforce monetary stringency.

The Central Bank has also directly influenced interest rates. Between July and December 1989 the bank increased the interest rate to build foreign exchange reserves and to finance the public deficit. This aim was achieved, but the higher interest rates necessary exacted a high budgetary cost from the Central Bank.

Bankers are currently required to hold 20 percent of demand and savings deposits, 10 percent of time deposits, and 100 percent of other deposits with the Central Bank. The "other" deposits are several legal categories not covered by demand, savings and time deposits. Though some return was allowed on these reserves for a short period by permitting 50 percent of them to be held in CDs, the practice was suspended for budgetary reasons. The average mandatory reserves of private banks have declined from 19 percent of deposits in 1985 to 12.4 percent in 1990- accommodating their solvency needs at a considerable cost in monetary liberalizations, which has had to be compensated for in other Central Bank instruments. In comparative terms, the banks hold excess reserves overall. The figure for reserves for public sector banks is somewhat lower.

The Central Bank intervenes in the foreign exchange market by running a "dirty float" in its weekly public auction of U.S. dollars. The Central Bank offers a fixed amount of dollars and suggests a rate, but the market ultimately determines the rate. The Central Bank tries to maintain a devaluation of 1 percent a week.

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Chapter 4

PRIVATE BANKS

The early 1980s left a strong imprint on the Bolivian banking system. Hyperinflation caused many Bolivians to pull their funds out of local banks. Deposits were also affected by compulsory conversion of dollar accounts to Bolivianos.

In recent years, the banks' poor quality portfolios and inadequate income (from intermediation, especially low interest yields, as well as other sources) have resulted in unsatisfactory profitability and threats to bank solvency.

The Bolivian banking system is composed of 13 domestically owned private commercial banks, 4 foreign-owned banks, and 4 state banks. The total net assets of the system amounted to US$1,402.3 million as of June 30, 1990. The private commercial banks together manage 83 percent of all assets in the Bolivian banking system. The four foreign commercial banks in the country and the state commercial and development banks manage only 2 and 15 percent of the assets, respectively.

The financial structure of Bolivia's banking system overall is weakening. Between November 1989 and June 1990, the total assets of the system increased from US$1,226.4 million to US$1,402.3 million or 13 percent, whereas the net worth decreased from US$199.6 million to US$164.3 million or 21 percent. During the same period the consumer price index (CPI) increased by 18.6 percent. This high rate of inflation caused a significant erosion of resources in real terms.

In this chapter the role of private banks is analyzed; the analysis is divided into three sections: (1) characteristics of the market and (2) financial situation and performance, and (3) a discussion of the potential for export financing.

Characteristics of the Market

Mix of Banking Services

Pressures on bank profitability are heavy. Revenues are generated primarily through financial intermediation. During the fiscal year ending June 30, 1990, financial intermediation generated 88 percent of all private bank revenues, while other financial services generated only 7 percent of revenues. There is potential for banks to increase their profitability through other, fee earning services. One important example is leasing, discussed elsewhere in this report. In some cases, legal constraints and commercial practice impede the development of such activities.

The following table illustrates the range and relative importance of the services provided by the banks in addition to their accepting deposits from the public.[10]

Description	*Amount (Bs million)*	*Percent*
Interest and commission	404.7	88
Other financial services	29.2	7
Income from fixed assets	23.7	5

The expansion of services other than financial intermediation would help to improve the banks' economic position without tying up investment funds or increasing the banks' risks. International banking services is one area of potential expansion. The need for international banking services conceivably will increase as export development projects progress toward the achievement of their goals and as the private and public sectors succeed in reactivating the economy. In order to provide export services, the banks will have to enhance the technical capacity of their existing staff. As regards the need for banking services in support of imports (ostensibly a potential growth area), the possibilities for growth will remain limited as long as the level of contraband remains high.

At the end of this chapter we discuss several proposed interventions designed to increase activity in export financing. Development financing and banking are discussed in the last chapter, because understanding of this topic depends critically on the discussion of development financing needs in Chapter 8 and capital markets in Chapter 6.

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[10]Superintendencia de Bancos. *Boletin Informativo*, June 1990, p. 6. (Summary prepared by consultant.)

Dollarization

Investors' perceptions of country risk, combined with the free market policies adopted since 1985, have led to dollarization of the banks. Dollarization is outside the banks' control and can decrease only through an improvement in the investors' perceived country risk.

The currency structure of the banks' balance sheet by type of currency is as follows:[11]

	Bs million			
	Bolivian Currency	*US$*	*Bolivianos (with maintenance of value/US$)*	*Total*
Total assets	515.8	2,010.0	1,122.9	3,648.7
Liabilities	240.7	1,963.2	1,133.5	3,337.4
Net worth	311.3	0.0	0.0	311.3

Dollarization causes financial intermediation inefficiencies, but it has kept local financial resources within the Bolivian economy by offering an alternative to capital flight. Dollarization effectively demonetizes domestic currency. It decreases the efficiency of financial markets and internal trade, by making them more dependent on the availability of dollars than on the local currency as a means of payment.

As is the case with the old gold standard, dollarization is highly deflationary. Severe deflation, like inflation, inhibits financial intermediation, in part because of the uncertainty it creates. Dollarization also increases a bank's transaction costs because it requires more computations, records and documentation to keep track of the local currency value of all dollar transactions while keeping the accounting records in the currency of the country. Thus, the accounting burden is doubled.

Concentration of Credit

In most banks in Bolivia, a small number of borrowers receive a significant degree of credit compared with the banks' net worth. The old banking law of 1928, still in force, and Supreme Decree 21660, established a loan limit for individual borrowers equivalent to 20 percent of the bank's net worth. This requirement has been ignored in some cases. The following table shows the range of the banks' net worth tied up in individual loans that represent an amount higher than the 20 percent of a bank's net worth allowed by law:

[11] Superintendencia de Bancos. *Boletín Informativo*, July 1990, p. 3.

No. of Banks	*Percent of Net Worth*
8	21 to 50
2	51 to 100
1	100 to 199
2	200 or higher

The above figures are taken from an auditing report of July 1987; they are used as an illustration of the concentration issue rather than as an exact quantitative report on the current situation. The Financial Assessment Team was unable to obtain current data presented in a similar manner.

Further examples of a high concentration of large loans to a small number of borrowers as of June 30, 1990, are as follows:

- In the portfolio of one bank, thirty-four loans, or 0.1 percent of the total number of loans in the portfolio, had an outstanding balance of Bs 247.5 million, or 79 percent of the bank's net worth and 7 percent of assets, respectively. The concentration per borrower may be even higher because it is possible that some borrowers may have several loans.

- The four largest loans in another bank amount to Bs 45.1 million; this is equivalent to 150 percent of the amount of the bank's net worth of Bs 30 million.

A high concentration of loans among a small number of borrowers is a common private banking characteristic in many of the smaller Latin American countries. The main causes for this situation in Bolivia are as follows:

- There are no large banks in Bolivia that can service the large credit needs of the country's few big businesses. The range of net worth of the banks in Bolivia is Bs 1.7 to Bs 44.3 million.

- The sources of funding for big businesses are limited to equity capital, bank loans, and suppliers' credit.

- The country risk may discourage some business owners from investing in equity in their own enterprises even if they have the means to do so. This attitude increases the demand for credit from banking sources.

It should be noted that, in Bolivia, each bank's shareholders are a small and close group of investors who usually have significant interest in other local businesses as well. In many cases, some of the banks' shareholders or the investor groups that they belong to are important borrowers from their own banks. Close knit situations such as this one frequently occur in small countries where there is a small number of large investors. However, this characteristic makes it even more essential to empower the Bank Superintendency with the means and the authority to ensure effective supervision of the banks.

Establishing a debt limit on borrowers does not provide sufficient safeguards against risks arising from conflict of interest or excessive influence of major shareholders on the banks' board of directors and managers. In order to be effective in supervising the financial system, the Bank Superintendency should have the discretionary authority to limit loan size under certain circumstances.

Bolivia's economic reactivization process could benefit significantly if big loans for larger businesses could come from bigger banks, which do not exist in Bolivia at the present time. Development of a system of syndicated lending by banks could overcome the risks associated with the current banking practice in Bolivia of giving large loans to a limited number of borrowers.

Small Loans

Despite the high concentration of larger loans, Bolivian banks also provide a large number of smaller loans. The portfolio of Bolivian banks is composed of 55,672 loans amounting to Bs 3,295 million. About 74 percent of the banks' portfolio is distributed among 99 percent of the loans in the portfolio. The average outstanding balance per loan in this bracket is equivalent to around US$44,000.

In addition, as of June 30, 1990, private banks held 42,644 loans in amounts smaller than Bs 315,000 or US$10,000, or approximately 60 percent of the overall banking system's portfolio of loans of this size. The state banks had 29,645 loans in this loan bracket. The average balance per loan in this bracket is Bs 5,090 for state banks and Bs 8,070 for private banks. The state banks' portfolio of loans smaller than US$10,000 represents 21 percent of their total portfolio. For private banks, these small loans represent 10 percent of their total portfolio.

The private banks' role as providers of small loans should be encouraged and studied further, sector by sector. This study should also include an analysis of the feasibility of alternative lending mechanisms or delivery systems in order to determine their competitive advantage with the informal sector and potential profitability for the banks.

Overall Credit Portfolio

The private banks' portfolio represents 88 percent of the banking system's total portfolio. During the fiscal year ending June 30, 1990, the portfolio of Bolivia's private banks increased from Bs 1,672 million to Bs 2,525 million, or 51 percent. The portfolio expressed in dollars grew from approximately US$638 million to US$804 million.

In part the increase in portfolio resulted from devaluations of the Boliviano. Practically the whole portfolio is dollarized—about 95 percent of the portfolio represent loans in dollars or in local currency with maintenance of value clause relative to the dollar. The portfolio increase of US$166 million was equivalent to Bs 521 million at the rate of exchange of June 30, 1990, which was US$1.00 = Bs 3.14. (The rate increased from Bs 2.62 on June 30, 1989.) Therefore, the portfolio expressed in Bolivianos increased by 31 percent with respect to the portfolio at the beginning of the fiscal year. This represents an increase of 12.4 percent in real terms because the CPI increased by 18.6 percent during that same period.

The banking system's portfolio of loans to the private sector expressed in local currency and broken down by economic sector grew between 1988 and 1989 as follows:[12]

Economic Sector	*Percent*
Commerce	47
Industry	46
Service	59
Construction	138
Agriculture	74
Mining	478
Other	(30)

The industry and commerce sectors were the largest users of credit. As of June 30, 1990, the overall banking system's portfolio of loans to the private sector, broken down by economic sector, was as follows:[13]

[12]Calculations based on data from Central Bank.

[13]Central Bank, Departamento de Desarrollo.

Sector	Amount (Bs million)	Percent
Commerce	639.4	20
Industry	743.2	24
Service	537.4	17
Construction	100.4	3
Agriculture	775.0	25
Mining	213.0	7
Other	118.4	4
Total	3,126.0	100

Loan Collateral

Interviews with bankers revealed that the ratio of collateral to loans is between 1.3:1 and 2.1:1. In many cases, the banks request or take as much collateral as the borrower can provide. This ratio is fairly common in Latin American countries.

Interest Rates on Loans

Interest rates on loans vary according to the source of the funds that are used by the banks to finance the loans and the type of currency used by the bank to provide the loan.

Loans Financed with the Bank's Own Resources

According to data obtained from the Economic Studies Department of the Central Bank, the effective interest rate decreased from 28.45 percent in 1987 to 22.84 percent in June 1990 for loans in dollars, and from 30.06 percent to 24.28 percent for loans in local currency with maintenance of value clause, which ensures adjustments of the debt balance to compensate for devaluations of the currency. The rates for loans in local currency were 43.17 percent in 1987, around 39 percent during 1988 and 1989, and 43.75 percent in June 1990.

The borrower's cost for a loan in dollars is very similar to the cost of a loan in local currency when the devaluation of the Boliviano is taken into account. The difference between the effective interest rates for loans in dollars and in local currency was 20.91 percent as of June 30, 1990 (43.75 to 22.84). Accordingly, the borrower should be indifferent as whether a loan is made in dollars or in local currency if the rate of devaluation of the Boliviano is 20.91 percent per year. (The rate of devaluation was 19.80 percent during the fiscal year ending June 30, 1990.) In actuality, clients probably prefer the loan in local currency even at the calculated point of indifference because of uncertainties about the rate of devaluation of the currency.

Effective interest rates on loans are given in the following table:[14]

Year	Percent Loans in Local Currency	Loans with Maintenance of Value	Loans in US$
1987	43.17	30.06	28.45
1988	39.58	26.08	24.40
1989	39.43	26.61	24.44
June 1990	43.75	24.28	22.84

Central Bank's Refinancing Credit Program

The interest on loans provided by private and state banks with funds from the Central Bank's refinancing credit lines has decreased gradually from 14.5 percent during 1988 to approximately 13.43 percent as of June 1990.

As can be observed, the interest rate on the refinancing credit program is substantially lower than the rate charged by the banks on loans provided with the banks' own resources (13.43 percent compared with 24.28, the lending rate for loans in local currency with maintenance of value clause).

Deposits

Private banks are the main holders of deposits within the banking system. The amount of deposits in the private banks was Bs 2,090 million or 94 percent of the total deposits in the banking system as of June 30, 1990. Clients prefer short-term time deposits under the present market conditions. As of June 30, 1990, the structure of deposits by type of account and the interest rate for each type was as follows.[15]

Type of Account	Amount	Percent	Effective Interest Rate Deposits in Bs(%)	Deposits in US$ (%)	Deposits Bs with maintenance of value (%)
Checking	209	10	0	0	0
Savings	252	12	18.93	8.20	n.a.
Time deposit	1,629	78	9.0	14.47	14.55
Total	2,090	100.0			

[14]Central Bank, Economic Studies Department. Boletín 266, June 1990.

[15]Superintendencia de Bancos, *Boletín Informativo*, June 1990, and Central Bank for interest rate structure.

Because of the already high country risk perceived by investors, deposits are kept in highly liquid accounts and in dollar currency as a hedge against loss of value. More than 90 percent of deposits in the private banks are either checking accounts, savings accounts, or certificates of deposit with a term of less than 91 days. The deposits in dollar currency represent 90 percent of the balance of deposits.

The deposits held by the banks can become very volatile when depositors perceive an increase in country risk. The volatility of deposits is exacerbated further by the banks' dependence on a small number of large accounts. Approximately 30 percent of the total balance of all deposits belongs to 793 depositors or 0.4 percent of the total number of accounts. Also, approximately 58 percent of the total balance of deposits belongs to 3 percent of the deposit accounts.

The balance of deposit accounts in private banks increased significantly during the fiscal year ending June 30, 1990, from Bs 1,191 million to Bs 2,097 million, or 76 percent. Part of this increase in the balance of deposits expressed in Bolivian currency is the result of the increase in the local currency value of deposits in dollars. The deposits expressed in dollars grew from US$454 to US$667 or US$213 million during the fiscal year ending June 30, 1990. Expressed in Bolivian currency, this growth is equivalent to Bs 668 or 56 percent of the balance of deposits at the beginning of the fiscal year. Therefore, the growth in deposits was about 37.4 percent in real terms, taking into consideration that the increase in the CPI during the period was 18.6 percent.

We can only speculate about the causes for such a significant increase in deposits. One possible cause could be a repatriation of funds that had been transferred out of the country before the new government was installed in 1989. Another cause could be that the overall system may be experiencing a positive flow of funds from the informal to the formal financial market, including narcotics traffic funds deposited in the banking system.

Other Sources of Funding

The Central Bank acts as a second story bank in the intermediation of international credit for development. This type of credit, called refinanced credit, represents the only additional important source of funds for Bolivian banks and is practically the only source of medium-term credit available in the country.

In 1988 and 1989, refinanced credit in Bolivia amounted to US$150 million. During the first six months of 1990, banks used US$55 million of refinanced credit. Through June 30, 1990, about 50 percent of refinanced credit has been used for fixed investment.

Interest Rates on Liabilities

The interest rate on time deposits in dollars or in local currency with maintenance of value clause decreased during the period from December 31, 1987 through June 30, 1990. The rate on savings accounts (pass book type) remained fairly constant during the same period. The interest rate on local currency accounts increased for both time deposits and savings accounts between 1987 and 1990. Effective interest rates on deposits are given in the following table:[16]

	Time Deposits			*Savings*	
Year	*Bs*	*US$*	*Bs with Maintenance Value*	*Bs*	*Savings (US$)*
1987	32.7	17.8	15.4	25.0	—
1988	27.8	15.8	14.2	21.6	8.1
1989	20.8	16.1	15.5	17.5	8.1
June 1990	29.0	14.5	14.6	18.9	8.2

Funds from the Central Bank's refinancing credit program have been obtained at an interest rate equal to the LIBOR plus 1 percent.

Spreads

The banks operate with very high spreads. In Bolivia, the interest rate on local deposits is determined by the international rate of interest and macroeconomic considerations included in the concept of country risk and the supply and demand of money, as discussed elsewhere in this report. The lending rate is determined by the deposit rate plus intermediation costs. These two factors are determined by sectoral financial market considerations.

Sectoral considerations refer to the shallow financial depth, an unbalanced financial system dominated by few banks, and dollarization and short-term time horizon. Macroeconomic considerations refer to bank solvency, liquidity, profitability, and structure of assets.

The banks' interest rate spreads between lending and borrowing operations (1) in dollars and (2) in local currency with maintenance of value have steadily decreased. The interest rate spread for intermediation in local currency with maintenance of value has decreased more sharply than the spread for intermediation in dollars. The spread for intermediation in dollars decreased from 14.66 percent in December 1987 to 9.68 percent in June 1990

[16]Central Bank, Economic Studies Department, Boletin 266, June 1990.

(or 4.98 percentage points). During the same period, the spread for intermediation in local currency with maintenance of value decreased from 10.65 percent to 8.34 percent, or 2.31 percentage points.

The banks use different spreads depending on the currency in which they carry out the financial intermediation transaction. Spreads have the following characteristics:

- Since 1989, intermediation in local currency has had the highest spreads (14.75 percent), followed by local currency with maintenance of value (9.68 percent) and dollars (8.34 percent) (June 1990). From the viewpoint of bank risk, intermediation in dollars and local currency with maintenance of value should have similar spreads, and intermediation in local currency should have the lowest spread. Since 1988, intermediation in dollars has consistently had the lowest spreads.

- The banks' high spread on financial intermediation in local currency keeps pressure on the lending rates in local currency and is helping to discourage intermediation in local currency.

- The spreads for intermediation in local currency with maintenance of value have been kept higher than for intermediation in dollars (1) by charging higher interest rates on loans in local currency with maintenance of value than for loans in dollars, and (2) by paying lower interest rates for deposits in local currency with maintenance of value than for deposits in dollars.

- The spreads for intermediation in local currency with maintenance of value and in dollars have been decreasing steadily since 1987. The former decreased by 4.98 percentage points during the period 1987 to June 30, 1990, and the latter by 2.31. However, intermediation in local currency increased during the period by 4.28 percentage points, despite a decrease between 1989 and June 1990.

- The range of spreads among the various currencies has been much higher in the last 2 years than in 1987 and 1988. The ranges were 6.41 in 1990 through June and 10.29 in 1989, compared with 3.28 and 4.19 during 1988 and 1987, respectively. Spreads based on effective interest rates were as follows:[17]

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[17]Source: calculated on the basis of effective rates on loans and deposits as published by the Central Bank, Statistical Report No. 266, June 1990, pp. 45-46.

Year	Percent Accounts in Bs	Accounts in US$	Accounts in Bs with Maintenance Value	Range
1987	10.47	10.65	14.66	4.19
1988	11.78	8.60	11.88	3.28
1989	18.63	8.34	11.11	10.29
1990	14.75	8.34	9.68	6.41

Financial Situation and Performance

An analysis of the banks' financial situation and performance is presented below. The Financial Assessment Team based its analysis mainly on financial data published by the Bank Superintendency (see Tables 4-1 through 4-10 at end of this chapter), which bases its data on unaudited financial statements submitted by the banks. The team lacked the detailed information needed in order to analyze the quality of the banks' assets and the interest credited to income every period. However, the analysis of the data available combined with information obtained through interviews with bank officers provided the team with relevant knowledge about the financial strength and weakness of the banks.

The banks report a substantial amount of income from loans in arrears. The banks are crediting to income part of the interest accrued on these loans. The banks report as arrears (mora) only the loan installments that have fallen in arrears, rather than the total outstanding balance of the loan after the installment has been in arrears for some time. Therefore, the portfolio quality reported by the banks appears better than what it is in reality. This policy can lead to underestimating the provision required for bad loans.

Solvency

None of the 13 banks is in good financial standing. They reported net worth of Bs 311 million, which represents about 9 percent of their total assets of Bs 3,648 million. Seven have a net worth to total assets ratio of 7 percent, 5 have a ratio between 8 and 11 percent, and one has a ratio of 18 percent. These ratios appear adequate in principle, but are not so, in fact. At least 7 of the 13 banks are technically insolvent and 4 others are very weak. Only 2 of the banks are in relatively fair standing.

The banks' solvency is threatened by their poor economic performance and exacerbated by overexposure in poor quality loans and inadequate provisions for bad loans. The quality of the portfolio is worse than the figures in the banks' financial statements indicate.

The banks reported a loss of Bs 1.7 million during the fiscal year ending June 30, 1990 (Table 4-11). This figure represents 0.5 percent of the banks' net worth. Seven of the 13 banks reported losses. The three banks with the worst performance had ratios of loss to net worth of 12.1 percent, 14.6 percent and 57.3 percent.

The banks reported Bs 41.5 million of interest income generated by loans in arrears. This amount represents a rate of interest income of 21.5 percent over the average balance of the portfolio in arrears. This rate is similar to the interest rate that the banks charge for loans in dollar currency. Therefore, it appears that the banks are crediting to income or profit and loss practically the full amount of interest accrued on loans in arrears.

The banks reported a net portfolio of Bs 2,525 million, of which Bs 220 million or 9 percent is reported in arrears, an increase of 32 percent, from Bs 167 million to Bs 220 million during the fiscal year ending June 30, 1990, 1990. They reported bad loans of Bs 52 million or 23 percent of all their loans in arrears. (Quantitative information on the aging of arrears was not available.)

The loans reported in arrears do not include the full outstanding balance of loans with installments in arrears. Thus, the provision of Bs 52 million for bad loans is low. The two banks with the worse quality portfolios have ratios of provisions over arrears of 38 percent and 73 percent. The bank with the lowest ratio has a ratio of 12 percent, and the banks' median ratio is 20.5.

The banks' provision expense for the year was insufficient when compared with the growth of loans in arrears, but the percentage increase in the provision balance was similar to the percentage increase of arrears. The provision expense for the year was Bs 7 million and is equivalent to only 13 percent of the Bs 53 million increase in arrears. However, the banks' provision balance increased 30 percent, from Bs 40 million to Bs 52 million, an increase similar to the overall increase in the balance of arrears.

Classification of the banks according to exposure over net worth is as follows:[18]

[18]"Exposure" as used in this chapter is the difference between arrears and provision for bad loans.

Bank	*Probably Insolvent*	*Very Weak*	*Relatively Good*
A			23.44
B	78.83		
C	73.15		
D	70.90		
E		48.16	
F		51.48	
G	94.78		
H	78.25		
I			15.68
J		52.60	
K		35.35	
L	60.93		
M	150.23		

Liquidity

The banks have high liquidity ratios. It is reasonable to maintain high liquidity ratios considering the volatility of deposits (caused by country risk) and the high lending risk as evidenced by the poor quality of the loan portfolio.

As of June 30, 1990, the banks reported a cash balance of Bs 364 million, including legal reserve requirements deposited in the Central Bank. This cash balance represents a liquidity ratio of 17.4 percent with respect to the total balance of deposits of Bs 2,090 million held by the banks. Based on the information the banks have supplied, the liquidity ratios of the individual banks range from 4.8 percent to 29.3 percent, and the median is 17 percent.

The banks' liquidity ratio is actually 25 percent when their investment in short-term CDs issued by the Central Bank is considered. Investment in short-term CDs amounted to around Bs 158 million. (It is called "inversiones temporarias" on the banks' balance sheet.)

Profitability

The banks' profitability is unsatisfactory. Only 6 of the 13 banks reported profits during the fiscal year ending June 30, 1990. The most profitable bank had a profit of Bs 1.9 million, representing approximately 7 percent with respect to its net worth of Bs 26.6 million. The net worth of the banks suffered a substantial erosion in real terms because the increase in the CPI was 18.6 percent during the period. Two causes of the banks lack of profitability are the poor quality of their portfolio and low net interest yields.

Poor Quality of Loans

The banks' poor quality of loans is the main cause of their lack of profitability. Their profit and loss statements are inflated because they have not been debiting enough provision expense for bad loans to the profit and loss statement. To more accurately reflect their position, the banks' financial statements require significant adjustments, which will result in a decrease in the value of assets and profits reported in previous accounting periods. These adjustments should be based on an in-depth auditing analysis.

Low Net Interest Yields

The second main cause of the banks' lack of profitability is low net interest yields. Net interest yield is equal to net interest income over the average balance of performing assets. Net interest income is the difference between interest or financial income and interest expense. This estimate was made on the basis of data provided in the banks' financial statements; no adjustments were made.[19] The net interest yield is inflated, because the banks credit a substantial portion of the amount of interest accrued on loans in arrears to income.

As indicated earlier, the net interest yield of private banks is estimated at 2.5 percent on a consolidated basis.[20] The range of the yield varies between minus 0.9 percent and plus 4.1 percent for the individual banks, and the median is 2.4 percent (very close to the 2.5 on a consolidated basis). A net interest yield of 2.4 percent means that the bank generates a contribution to fixed cost equal to this percentage of its portfolio. This contribution to fixed cost is available to cover the banks' administrative expenses, plus provision for bad loans and profit. The portfolio of performing assets at the breakeven point is equal to the expenses just mentioned divided by 0.024.

A net interest yield of approximately 2.4 percent may be good for many medium-sized banks in the United States that operate with less than half of one percent of their portfolio in arrears, but we believe it is insufficient for banks operating with as a high a portfolio risk as the Bolivian banks.[21]

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[19]The major methodological problem in our estimates of the yields is due to limitations in the calculation of the average balance on performing assets during the year analyzed. We calculated this average on the basis of the initial and ending balances, rather than on the balances at the end of every day. It was calculated on the assumption that the balance of performing assets remains constant throughout the year. Therefore, a yield of 3.6 percent is much higher than the real one because the balance of performing assets did not remain constant; it grew through the year.

[20]Various alternative calculations are possible but in no case can the net yield be higher than 3.6 percent.

[21]It is important to note that the seven banks that are considered insolvent or with the highest ratio of portfolio overexposure also had the lowest net interest yield. Six of the seven banks had net interest yields below the median. The yield of the seventh bank was equal to the median.

The banks' are operating with low net interest yields in spite of high spreads between the interest rates they charge on loans and the rates they pay on deposits and on the Central Bank's refinancing program. As an illustration, the spreads on loans that the banks financed with their own funds in dollars or local currency with maintenance of value were between 8.5 percent and 11 percent.

Banks could increase their net interest yield through improved management policies and practices. Improvements could yield as much as Bs 189 million in additional profits. It would be necessary to conduct a more in-depth or detailed study in order to more accurately estimate the potential for increasing net interest yield. However, the illustrations provided below lead us to believe that it should not be difficult to achieve an increase of at least Bs 63 million, or about 2.6 percent in the net interest yield and an increase of 20 percent in profitability with respect to the banks' reported net worth.

Banks could increase their profitability by increasing the interest income generated by highly liquid financial investments and increasing the percentage of performing assets with respect to total assets. (The percentage of performing assets is 76 percent for the private banks as a whole.) Currently, the value of the banks' performing assets is lower than the value of the banks' interest-bearing liabilities (even considering that the banks include loans in arrears as performing assets). For example, the value of performing assets was Bs 2,785 million compared with interest-bearing liabilities of Bs 3,067, as of June 30, 1990. We estimate that the impact of this factor on the banks' profit and loss was around Bs 44.9 million. The average balance of performing assets was Bs 2,388 million compared with an average balance of Bs 2,713 million of interest-bearing liabilities. This difference of Bs 325 million could have generated Bs 44.9 million at an interest income rate at least equal to the ratio of interest expense with respect to the average balance of interest-bearing liabilities, which was 13.8 percent. (The estimate provided here does not include the income due to devaluation of the currency which would have been generated if the additional loans were provided with a maintenance of value clause.)

The banks' loan portfolio is generating less interest income than what is considered reasonable at the prevailing interest rates. Information obtained from the Central Bank indicated that out of the Bs 280 million of income reported by the banks as generated by the portfolio in good standing, only Bs 177 million was really interest income; the rest was income generated by adjustments based on devaluation of the currency. The interest income of Bs 177 million is equivalent to only 9.4 percent of the average balance of loans in good standing during the year, and to only

11.9 percent of the initial balance of loans in good standing. The banks' interest income would have been Bs 74 million higher at a rate of 13.8 percent instead of 9.4 percent.

The legal reserve established by the Central Bank probably represented an opportunity cost for the banks of approximately Bs 66 million in the fiscal year ending June 30, 1990. This figure assumes that the banks would have lent these funds under an arrangement allowing them to compensate for the currency devaluation cost and the average interest expense incurred on their interest bearing deposits. The compensation rate is 32.8 percent at a devaluation cost rate of 19.8 percent plus interest rate of 13.8 percent. The average legal reserve balance was Bs 200 million during the year. (The legal reserve requirement balance varied between 12 percent and 12.8 percent of the balance of deposits.) The legal reserve was Bs 255 million on June 30, 1990.

Management of assets and liabilities in dollars caused a currency devaluation loss of Bs 29.2 million as calculated on the basis of data obtained from the Central Bank (positive adjustment of Bs 61.2 million debited to the loan portfolio and an adverse adjustment of Bs 90.4 million credited to liabilities). However, management of assets and liabilities with maintenance of value clause generated a devaluation gain of Bs 33.3 million (Bs 41.8 million debited to the loan portfolio and Bs 8.5 million credited to liabilities).

Expenses

On the scale of problems that have caused or are causing insolvency, the banks' administrative expenses are less of a problem than the poor quality of their portfolios and their low net interest yield factor. Their administrative expenses are high, but not alarmingly high. The banks' administrative expenses of Bs 84.8 million represent 3.6 percent of their reported performing assets. An average cost of between 2.5 and 3.0 percent would be reasonable for banks the size of the Bolivian banks, considering the high proportion of small loans and deposit accounts that they manage.

As can be observed, this ratio is higher than the banks' net interest yield of 2.4 percent. Therefore, on a consolidated basis, the banks would be in the red even without taking into consideration any provisions for bad loans.

Individual banks are operating with ratios within a range of 2.5 to 7.5 percent, excluding the two banks that are in the worst financial situation. The median ratio is 3.3 percent. The most solvent bank operates with an administrative expense over portfolio ratio of 4.5 percent, the second most solvent bank operates with a ratio of 3.1 percent.

Personnel expenses are the highest cost, as in all banks, but the ratio of personnel cost to overall administrative cost is lower than in most banks in Latin America. The second highest expense is "other administrative expenses." This cost appears high, at 24 percent, with respect to the total cost, but its breakdown is unknown.

Taxes are also a very high cost item, representing 10.4 percent of the total administrative expense and 0.37 percent of the average balance of performing assets. The banks pay taxes on valued added, transactions, and net worth.

Income from Other Banking Services

Nonfinancial activities other than financial intermediation make a significant positive contribution to the bottom line and are an important source of profits for banks. The Bolivian private banks generated Bs 38.5 million of net income from nonfinancial activities compared with Bs 59.7 million of net interest income generated by financial activities. The income and expenses generated by nonfinancial activities are not included in the interest yield calculation. Fixed investment was the banks' main nonfinancial source of income, generating Bs 20.7 million during the fiscal year that ended June 30, 1990.

Potential of Export Financing

An important area of potential profitability for banks is that of export finance. USAID has already agreed to establish a revolving fund to attend to the pre- and post-embarkation credit needs of Bolivian exporters. The credit is to be provided through the banking system through a revolving credit fund of US$8 million.

With only 30 companies currently exporting more than a US$1 million a year and 15 others exporting between US$500,000 and US$1 million, it is understandable that banks may not have identified exports as a strong potential market. However, given the minimal exchange risks that exporting poses and the ease of securing credit, it is surprising that the banks have not been more active in this area.

Export credit should be of natural interest to the banks, given their preference for supplying short-term working capital loans, but they may be reluctant to invest in developing their expertise in the sector.

The limited USAID funding will be a pilot effort, and will require other donor and bank funds. The potential demand for revolving credit for pre- and post-shipment of nontraditional exports is estimated to be between US$55 million and US$70 million. If the pilot is successful, the fund can perhaps be continued on a participating basis with banks that have demonstrated their ability to administer the funds effectively. The pilot effort must be accompanied by training of and technical assistance to key personnel at the banks who will be managing the pilot program.

Offshore Guarantee Fund

The suggestion has been made that, under USAID sponsorship, an offshore guarantee fund should be established as guarantor for letters of credit and other trade instruments.

The creation of such a fund would do little for the development or the deepening of Bolivian financial markets. On the contrary, it would benefit, above others, a few major importing customers of banks. It would also serve to relieve some of the pressure on Bolivian banks caused by their lack of capital and permit them to avoid necessary adjustments.

Two Bolivian banks, Banco de Santa Cruz and Banco Boliviano Americano, are opening Miami operations, which will enable them to give further support to their trade finance operations. Other banks mentioned the availability of credit lines from correspondents, some of which will be conditioned to letter of credit confirmations. Overall, the position of Bolivian banks on matters of trade finance lines is much improved over that of 1986 when the overseas guarantee fund was first proposed.

It is not USAID's function to eliminate Bolivian country risk or underwrite the Bolivian banking system. As with all guarantee funds, the sponsor must be prepared to evaluate the underlying business transactions and their commercial risks. From past experience, it appears reasonable to assume that Bolivian banks will not evaluate fully, or be responsible for, any risks that are to be guaranteed by a third party. Although the issues can be covered in suitable counterguarantee documentation, we would not recommend that USAID consider sponsorship of an offshore guarantee fund as a priority for intervention.

Export Bank or Finance Company

The possibility of sponsoring a more institutionalized approach to USAID export promotion and financing program should be considered.

The current program is too young to assess accurately. The FOCAS project, in which US$4 million in USAID funding for credit led to a US$24 million increase in exports by the beneficiary firms, foreshadows establishment of a specialized financial institution dedicated exclusively to providing export-related services and finance.

We understand that other donor agencies (e.g., the Dutch) are considering recommending to the World Bank a loan of up to US$35 million for export credit.

A specialized institution such as this would help develop the skills and experience needed to provide export-related services and finance, skills that are currently lacking in the existing commercial banks. The benefits of establishing a small but highly specialized bank to cater to the emerging export sector include low start-up costs, skill-based activity, and competitive advantage.

Table 4-1. Sistema Bancario: Estado de Ganancias y Pérdidas, al 30 de junio de 1990 (en miles de Bolivianos)

	BANCOS PRIV. NACIONALES			BANCOS EXTRANJEROS			BANCOS ESTATALES			TOTAL SISTEMA BANCARIO		
	MN	ME	MNMV	MN	ME	MNMV	MN	ME	MNMV	MN	ME	MNMV
(+) INGRESOS FINANCIEROS	53,543	249,158	101,882	637	6,035	1,015	838	25,148	32,120	55,018	280,342	135,117
Productos por Disponibilidades	2,206	18,671	2,460	2	1,698	82	4	892	40	2,211	21,261	2,582
Productos por Inversiones	6,236	21,885	2,325	552	1,431	382	198	7,383	1,320	6,986	30,718	4,027
Productos por Cartera Vigente	34,652	154,714	80,905	65	2,167	530	45	6,904	16,355	34,762	163,784	107,790
Productos por Cartera Vencida	2,433	18,651	3,872	11	210	11	46	800	9,152	2,489	19,672	13,135
Productos por Cartera en Ejecución	2,423	12,218	1,833	3	314	0	479	7,860	4,521	2,905	20,392	6,354
Productos por Otras Cuentas por Cobrar	1,874	10,975	471	0	85	11	3	1,285	730	1,878	12,346	1,212
Comisiones de Cartera y Contingente	3,720	12,023	6	4	131	0	63	14	2	3,788	12,168	9
(-) GASTOS FINANCIEROS	(34,187)	(211,937)	(98,877)	(491)	(2,191)	(424)	(1,329)	(7,150)	(6,518)	(36,007)	(221,278)	(105,819)
Cargos por Capt. Público a la Vista	(1,168)	(6,003)	(52)	0	(95)	0	0	(54)	(2)	(1,168)	(6,152)	(53)
Cargos por Cap. Público Caja de Ahorros	(22,110)	(179,158)	(18,548)	(475)	(2,224)	(420)	(1,233)	(1,364)	(1,298)	(23,818)	(182,746)	(20,265)
Cargos p/Oblig.c/Bancos e Inst.Financ.	(57)	(477)	(36)	0	(5)	0	0	(10)	0	(57)	(492)	(36)
Cargos por Fondos Interbancarios	(72)	(704)	(27)	(5)	0	(4)	0	(26)	(4)	(77)	(729)	(35)
Cargos p/Otros Financiamientos Internos	(450)	(713)	(11,225)	(11)	0	0	0	0	(286)	(461)	(713)	(11,511)
Cargos por Financ.Ext.y Of.Matriz y Sucursales	(5,311)	(9,067)	(102)	0	195	0	0	(487)	0	(5,311)	(9,358)	(102)
Cargos por Oblig.con el BCB	(3,319)	(6,185)	(68,574)	0	(45)	0	(84)	(3,964)	(3,980)	(3,403)	(10,195)	(72,554)
Cargos por Otras Cuentas por Pagar	(1,431)	(8,984)	(304)	0	16	(1)	0	(1,246)	(949)	(1,431)	(10,214)	(1,254
Comisiones Financieras	(268)	(645)	(8)	0	(33)	0	(11)	0	0	(280)	(678)	(8)
(=) RESULTADO FINANC. ANTES DE INCOBRABLES	19,356	37,221	3,105	146	3,844	582	(491)	17,998	25,601	19,011	59,063	29,298
(+) RECUPERACIONES DE CREDITOS	600	973	170	1	52	0	980	12,037	2,343	1,581	13,062	2,513
Recuperaciones de Deudas Castigadas	102	195	91	0	3	0	2	0	35	104	197	126
Disminución Previsión Créditos Incob.	498	778	78	1	49	0	978	12,037	2,308	1,477	12,865	2,387
(-) CARGOS POR INCOBRABILIDAD	(4,172)	(9,351)	(3,309)	(2)	(310)	0	(5,262)	(22,078)	(11,220)	(9,436)	(31,739)	(14,529)
Reajuste Dif.Cambio Previsión Incob	(3,393)	(5,521)	(830)	(2)	(304)	0	(5,158)	(20,897)	(9,725)	(8,553)	(26,723)	(10,554)
Castigo de Productos Financieros	(779)	(3,830)	(2,479)	0	(6)	0	(104)	(1,181)	(1,495)	(882)	(5,017)	(3,975)
(=) RESULTADO FINANC. DESPUES DE INCOBRABLES	15,784	28,843	(34)	145	3,586	582	(4,772)	7,957	16,725	11,157	40,386	17,282
(+) OTROS INGRESOS OPERATIVOS	22,676	13,579	16,604	296	3,338	81	12,499	1,720	50,093	35,471	18,636	66,869
Comisiones por Servicios	7,751	2,460	28	217	623	0	8,742	40	5	16,711	3,122	33
Ganancias p/Oper. Cambio y Arbitraje	1,322	4,452	(38)	0	140	0	0	0	0	1,322	4,592	(38)
Ingresos por Bienes Realizables	7,218	1,271	0	29	2,191	0	984	0	48,947	8,232	3,462	48,947
Ingresos por Inversiones Permanentes	961	3,103	16,658	1	132	70	9	1,512	240	971	4,746	16,980
Ingresos Operativos Diversos	5,424	2,293	35	48	252	11	2,763	168	901	8,235	2,713	947
(-) OTROS GASTOS OPERATIVOS	(13,211)	(725)	(506)	(2,559)	0	0	(55,487)	(4,678)	(10)	(71,257)	(5,403)	(516)
Comisiones por Servicios	(717)	(181)	0	(78)	0	0	(127)	(6)	(10)	(922)	(187)	(10)
Costo de Bienes Realizables	(9,517)	0	0	(2,436)	0	0	(54,866)	0	0	(66,818)	0	0
Pérdidas por Inversiones Permanentes	(834)	(48)	(471)	0	0	0	(4)	(4,670)	0	(838)	(4,718)	(471)
Depreciación y Desv. Bienes Alquilados	(282)	0	0	(46)	0	0	0	0	0	(328)	0	0
Gastos Operativos Diversos	(1,861)	(486)	(35)	0	0	0	(490)	(2)	0	(2,351)	(488)	(35)
(=) RESULTADO DE OPERACION BRUTO	25,249	41,696	16,154	(2,110)	6,823	673	(47,760)	4,989	66,807	(24,629)	53,618	83,634
(-) GASTOS DE ADMINISTRACION	(80,742)	(4,050)	0	(4,286)	(380)	(1)	(27,821)	(113)	(90)	(112,[illegible])	(4,552)	(91)
Gastos de Personal	(35,664)	(478)	0	(2,185)	(184)	0	(18,741)	(25)	0	(56,589)	(687)	0
Servicios Contratados	(3,798)	(1,302)	0	(280)	(79)	0	(570)	0	(19)	(4,638)	(1,461)	(19)
Seguros	(717)	(396)	0	(26)	(17)	0	(140)	(24)	(18)	(883)	(437)	(18)
Comunicación y Traslados	(3,817)	(245)	0	(426)	(40)	0	(1,439)	(26)	0	(5,683)	(312)	0
Impuestos	(8,778)	0	0	(429)	0	(1)	(1,033)	0	(8)	(10,239)	0	(9)
Mantenimiento y Reparaciones	(2,467)	(65)	0	(100)	0	0	(619)	0	0	(3,186)	(65)	0
Depreciación Desvalorización Bienes Uso	(6,159)	0	0	(223)	0	0	(1,83[illegible])	0	0	(8,319)	0	0
Amortización de Cargos Diferidos	(377)	0	0	(19)	0	0	(6)	0	0	(402)	0	0
Otros Gastos de Administración	(18,976)	(1,483)	0	(597)	(70)	0	(3,436)	(38)	(45)	(23,010)	(1,591)	(45)
(=) RESULTADO DE OPERACION NETO	(55,493)	37,646	16,154	(6,415)	6,534	672	(75,681)	4,886	66,718	(137,588)	49,066	83,544
(+/-) INGRESOS (GASTOS) EXTRAORDINARIOS	(1,070)	2,121	0	31	1,549	0	94	72	0	(946)	3,742	0
(=) RESULTADO DE LA GESTION	(56,563)	39,768	16,154	(6,385)	8,083	672	(75,587)	4,958	66,718	(138,534)	52,808	83,544
(+/-) INGRESOS(GASTOS) GESTIONES ANTERIORES	528	148	144	7	23	4	(516)	27	(154)	18	199	(6)
(=) RESULTADO NETO DE LA GESTION	(56,035)	39,916	16,298	(6,378)	8,106	676	(76,103)	4,985	66,564	(138,516)	53,007	83,538

Table 4-2. Bancos Privados Nacionales: Estado de Situación Patrimonial, al 30 de junio de 1990 (en miles de Bolivianos)

	BSC	BBA	BNB	BUN	BME	BHN	CBB	BIG	BIS	BLP	BPP	BSO	BFI	TOTAL
ACTIVO														
DISPONIBILIDADES	53,847	46,565	29,531	32,198	43,626	30,301	25,877	27,098	16,045	24,076	14,806	9,845	80	383,668
Caja	4,923	3,985	4,914	1,601	4,437	1,768	1,942	6,656	1,136	4,480	2,851	1,531	61	40,364
Banco Central de Bolivia	47,486	35,641	18,963	25,388	25,385	21,232	17,124	16,103	8,978	15,429	13,655	5,273	1	280,678
Otras Disponibilidades	1,438	6,862	4,653	5,210	13,745	7,300	6,811	4,311	5,922	4,157	0	2,196	17	62,502
Prod.Financ.Devengados por Cobrar	0	68	0	0	0	0	0	0	0	0	0	46	0	122
INVERSIONES TEMPORARIAS	19,822	26,762	28,198	10,279	36,924	353	6	1	18,850	8,167	8,729	6,421	2	157,917
CARTERA NETA	461,506	277,283	235,418	222,864	188,636	258,776	189,184	107,166	125,000	150,833	98,367	86,104	13,523	2,525,560
CARTERA BRUTA	449,030	275,165	227,815	219,025	188,161	251,186	183,619	108,837	138,673	157,444	98,767	80,547	15,108	2,474,387
Cartera Vigente	434,960	245,367	204,189	198,904	169,824	233,907	160,380	108,851	118,298	146,119	88,856	72,540	10,856	2,254,178
Cartera en Mora	14,070	29,798	23,626	20,121	18,337	17,180	23,219	19,887	20,375	11,324	9,911	7,936	4,253	220,206
Cartera Vencida	3,384	6,571	3,397	6,730	5,145	8,757	5,688	8,454	5,313	4,924	3,543	3,869	34	65,808
Cartera en Ejecución	10,686	23,227	20,230	13,391	13,191	8,432	17,531	11,533	15,063	6,400	6,368	4,130	4,212	154,400
Prod.Financ.Devengados por Cobrar	16,160	8,224	11,830	7,224	3,868	11,109	19,017	8,740	2,560	4,389	2,153	7,358	15	103,649
(Previsión para Incobrables)	(3,682)	(6,110)	(3,776)	(3,381)	(3,334)	(3,519)	(3,451)	(2,423)	(14,833)	(2,000)	(2,553)	(1,802)	(1,600)	(52,479)
OTRAS CUENTAS POR COBRAR	3,018	5,522	4,108	2,885	2,318	16,378	5,286	3,247	1,112	1,516	3,068	1,365	97	49,732
BIENES REALIZABLES	1,804	5,198	3,230	7,383	2,215	1,145	4,885	4,736	2,236	686	206	1,300	6,807	41,680
INVERSIONES PERMANENTES	36,135	24,188	30,639	21,040	18,148	24,800	14,437	7,540	7,479	17,085	8,385	4,337	1,153	214,985
BIENES DE USO	37,518	22,704	25,529	7,832	21,148	11,585	10,156	10,932	10,149	12,084	14,150	6,867	957	192,150
OTROS ACTIVOS	2,531	2,394	7,702	3,478	1,531	7,782	3,124	15,603	8,460	1,271	44,196	3,789	141	103,018
TOTAL ACTIVO	614,981	410,613	366,107	307,585	314,606	350,940	282,760	256,368	191,834	227,249	193,716	119,168	22,760	3,644,684
PASIVO														
CAPTACIONES DEL PUBLICO A LA VISTA	50,044	10,358	33,296	13,824	19,040	11,972	5,711	13,297	18,330	18,100	10,907	4,343	31	209,253
Depósitos en Cuenta Corriente	19,794	9,367	31,020	11,258	16,829	11,254	4,213	12,300	18,010	17,428	5,906	1,800	0	159,182
Otras Captaciones a la Vista	30,250	990	2,275	2,565	2,211	718	1,498	994	320	668	5,001	2,543	31	50,064
Cargos Financ.Devengados por Pagar	0	0	1	0	0	0	0	1	0	5	0	0	0	7
CAPTACIONES DEL PUBLICO EN CAJA DE AHORROS	30,174	43,554	32,911	23,202	34,259	20,850	12,200	19,222	13	18,867	13,446	2,085	0	251,686
Depósitos en Caja de Ahorros	30,174	43,554	32,911	23,128	34,259	20,847	12,460	19,211	13	18,867	13,446	2,085	0	251,168
Cargos Financ.Devengados por Pagar	0	6	0	74	0	2	440	11	0	0	0	0	0	527
CAPTACIONES DEL PUBLICO A PLAZO	290,218	231,488	181,885	135,834	161,287	144,609	114,354	94,048	52,434	105,509	94,387	54,858	1,624	1,629,343
Depósitos a Plazo Fijo	285,518	226,763	179,200	130,730	156,182	141,048	112,134	90,297	35,348	103,654	82,789	53,586	1,385	1,588,618
Depósitos a Plazo Fijo hasta 30 días	107,126	120,235	64,827	27,358	53,873	48,930	24,385	47,186	10,257	37,124	27,050	8,035	325	577,832
Depósitos a Plazo Fijo de 31 a 60 días	35,350	26,301	27,407	15,383	24,087	55,287	28,635	8,312	3,147	12,986	11,874	8,064	12	248,975
Depósitos a Plazo Fijo de 61 a 90 días	86,571	65,654	78,551	59,404	65,558	27,982	41,103	28,107	21,383	45,914	42,331	31,786	748	573,112
Depósitos a Plazo Fijo de 91 a 180 días	40,560	11,480	9,059	21,334	9,025	6,840	22,537	5,332	514	7,185	8,282	3,854	268	145,530
Depósitos a Plazo Fijo de 180 a 360 días	15,821	3,032	1,246	6,607	3,596	1,978	3,133	1,031	47	435	3,118	343	31	40,658
Depósitos a Plazo Fijo más de 360 días	0	0	0	554	14	11	315	280	0	0	34	314	0	1,511
Otras Captaciones a Plazo	82	1,618	2,532	4,264	2,370	1,806	121	1,066	280	145	10	227	184	14,734
Cargos Financ.Devengados por Pagar	3,618	3,117	2,083	1,071	2,734	1,786	2,095	2,686	806	1,708	1,568	845	55	25,091
OBLIG. CON BANCOS E INST. DE FINANCIAMIENTO	33,987	15,158	15,979	20,137	15,471	43,015	22,428	15,655	78,996	6,248	20,313	7,888	971	296,266
Vista	9,568	1,824	3,437	0	0	0	0	11	0	0	2,584	0	0	17,431
Plazo	23,652	13,236	12,096	19,554	15,458	41,820	20,316	15,001	77,275	6,128	17,258	7,585	686	270,085
Cargos Financ.Devengados por Pagar	777	97	445	583	7	1,195	2,113	643	1,721	110	472	303	286	8,750
OBLIGACIONES CON EL B.C.B.	177,919	75,444	66,040	86,648	49,769	97,062	83,832	92,576	18,108	56,236	29,497	39,231	17,408	891,174
Vista	0	560	0	0	0	0	0	0	0	0	0	0	4,667	5,216
Plazo	172,227	72,975	64,200	83,838	48,632	93,889	77,136	88,916	17,797	54,892	28,724	37,521	8,911	851,656
Cargos Financ.Devengados por Pagar	5,692	1,904	1,841	2,210	1,137	3,173	6,695	3,661	310	1,344	774	1,710	3,831	34,301
OTRAS CUENTAS POR PAGAR	9,275	4,546	4,853	3,874	4,280	6,739	2,600	9,122	[illegible]	4,384	3,618	786	956	56,883
PREVISIONES	73	0	0	0	0	0	0	0	6	0	732	0	0	805
TOTAL PASIVO	570,698	380,564	338,969	283,979	284,086	324,388	241,904	243,922	155,504	209,523	172,901	108,998	20,993	3,337,429
PATRIMONIO NETO														
CAPITAL SOCIAL	21,830	25,282	18,600	16,885	14,680	6,643	12,042	9,898	26,801	10,550	13,415	3,833	2,650	180,950
APORTES NO CAPITALIZADOS	3,112	0	5	0	3,330	6,006	6,817	0	0	0	0	6,736	3,109	29,115
AJUSTES AL PATRIMONIO	14,229	5,655	8,830	1,078	10,514	8,157	3,983	16,490	4,283	5,280	6,845	2,434	1,271	89,174
RESERVAS	4,087	283	1,674	956	838	519	0	241	1,110	660	301	29	0	10,685
RESULTADOS ACUMULADOS	1,826	(488)	(1,288)	4,046	1,158	5,197	(1,987)	(4,153)	3,250	807	1,055	(2,863)	(5,265)	1,334
Utilidades (Pérdidas) Acumuladas	0	792	0	2,678	0	3,365	(3,030)	(908)	2,599	51	1,446	(1,636)	(4,252)	1,156
Utilidades (Pérdidas) del Periodo o Gestión	1,826	(1,281)	(1,288)	1,368	1,158	1,802	1,043	(3,256)	651	756	(391)	(1,227)	(1,013)	179
TOTAL PATRIMONIO NETO	44,283	30,049	27,137	23,606	30,520	26,552	20,855	22,446	36,334	17,726	20,815	10,169	1,766	311,259
TOTAL PASIVO Y PATRIMONIO NETO	614,981	410,613	366,107	307,585	314,606	350,940	262,760	266,368	191,838	227,249	193,716	119,168	22,760	3,644,684
CONTINGENTES														
Cartas de Crédito	14,207	29,472	10,422	14,662	9,924	10,842	13,123	4,935	4,377	2,084	2,274	3,363	0	120,144
Garantías Otorgadas	129,486	104,427	62,931	38,123	37,863	111,016	14,193	25,538	41,908	14,932	40,011	16,885	463	642,456
Líneas de Crédito Comprometidas	13,586	13,368	9,978	0	5,425	0	761	1,706	0	8,460	0	0	0	54,291
Otras Contingencias	0	0	0	74	0	3,620	0	0	0	0	0	0	0	3,696
TOTAL CUENTAS CONTINGENTES	157,290	147,267	83,329	52,858	53,211	125,328	28,077	32,280	45,086	31,064	42,285	20,248	463	820,585
TOTAL CUENTAS DE ORDEN	745,548	508,157	575,681	531,317	168,052	397,986	203,505	298,373	407,211	344,148	345,401	19,416	26,849	4,570,663

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Table 4-3. Bancos Privados Nacionales: Estado de Ganancias y Perdidas, al 30 de junio de 1990 (en miles de Bolivianos)

	BSC	BBA	BNB	BUN	BISE	BHN	CBB	BIC	BIS	BLP	BPP	BIB	BFI	TOTAL
(+) INGRESOS FINANCIEROS	76,401	43,305	34,834	37,901	35,536	34,888	29,482	23,518	21,298	26,882	18,174	10,485	807	404,683
Productos por Disponibilidades	2,676	3,613	1,835	1,513	5,327	1,782	1,238	1,194	768	1,487	1,370	524	7	23,346
Productos por Inversiones	6,296	3,557	2,372	3,379	8,539	1,162	421	305	3,467	1,652	825	481	0	30,456
Productos por Cartera Vigente	52,841	28,000	26,037	26,861	20,046	27,188	22,338	21,370	14,480	18,821	12,045	8,363	801	280,271
Productos por Cartera Vencida	6,388	3,616	939	1,444	1,372	2,088	1,654	2,420	1,187	1,749	1,737	428	8	25,003
Productos por Cartera en Ejecución	2,314	2,135	1,624	1,939	1,222	718	2,842	1,367	827	523	576	251	147	15,475
Productos por Otras Cuentas por Cobrar	3,842	244	257	1,425	24	4,460	282	1,075	263	1,002	274	66	5	13,320
Comisiones de Cartera y Contingente	1,884	2,135	1,840	1,369	2,007	1,678	653	784	296	548	2,348	373	19	15,749
(-) GASTOS FINANCIEROS	(62,173)	(38,306)	(31,418)	(33,175)	(28,456)	(33,042)	(25,756)	(24,203)	(16,326)	(22,933)	(15,962)	(9,963)	(1,288)	(345,001)
Cargos por Capt. Público a la Vista	(2,230)	(22)	(523)	(299)	(399)	(287)	(15)	(269)	(1,200)	(908)	(241)	(748)	(2)	(7,223)
Cargos por Cap. Público Caja de Ahorros	(34,759)	(31,634)	(23,672)	(21,025)	(23,744)	(18,475)	(18,004)	(13,046)	(5,049)	(15,067)	(11,780)	(5,361)	(220)	(218,818)
Cargos p/Oblig. c/Bancos e Inst. Financ.	(408)	(12)	0	(1)	(30)	(1)	(57)	(4)	(23)	0	(22)	(2)	0	(570)
Cargos por Fondos Interbancarios	0	(1)	(80)	(1)	0	(366)	0	(75)	(2)	(4)	(26)	(218)	0	(803)
Cargos p/Otros Financiamientos Internos	(1,915)	(897)	(136)	(1,927)	(310)	(2,328)	(1,428)	(1,221)	(139)	(549)	0	(610)	0	(12,388)
Cargos por Financ. Ext. y Of. Matriz y Sucursales	(2,460)	(61)	(59)	(224)	(2,283)	(347)	(117)	(61)	(7,386)	0	(1,336)	(59)	(68)	(14,481)
Cargos por Oblig. con el BCB	(16,695)	(5,501)	(5,875)	(8,451)	(2,535)	(4,783)	(8,009)	(8,142)	(1,551)	(5,404)	(3,198)	(2,933)	(943)	(78,078)
Cargos por Otras Cuentas por Pagar	(3,691)	(94)	(187)	(1,243)	(117)	(2,278)	(23)	(1,327)	(297)	(998)	(372)	(36)	(56)	(10,720)
Comisiones Financieras	(5)	(83)	(27)	(4)	(38)	(77)	(3)	(59)	(582)	(3)	(6)	(25)	0	(922)
(=) RESULTADO FINANC. ANTES DE INCOBRABLES	14,318	4,999	3,515	4,726	7,081	5,846	3,707	4,315	4,972	3,949	2,213	522	(481)	59,683
(+) RECUPERACIONES DE CREDITOS	336	109	11	309	260	245	54	20	0	7	362	26	5	1,743
Recuperaciones de Deudas Castigadas	4	9	11	59	74	216	2	13	0	0	0	0	0	388
Disminución Previsión Créditos Incob.	332	100	0	249	186	29	52	7	0	7	362	26	5	1,354
(-) CARGOS POR INCOBRABILIDAD	(5,638)	(839)	(224)	(1,190)	(1,208)	(1,334)	(1,636)	(1,624)	(2,339)	(782)	(438)	(82)	(118)	(16,832)
Reajuste Dif. Cambio Previsión Incobrable	(906)	(808)	(201)	(1,033)	(1,134)	(733)	(163)	(1,164)	(2,289)	(669)	(434)	(82)	(118)	(8,744)
Castigo de Productos Financieros	(4,732)	(31)	(23)	(156)	(75)	(601)	(842)	(460)	(51)	(113)	(3)	0	0	(7,088)
(=) RESULTADO FINANC. DESPUES DE INCOBRABLES	8,016	4,269	3,302	3,845	6,132	4,757	2,756	2,712	2,633	3,173	2,138	456	(584)	44,593
(+) OTROS INGRESOS OPERATIVOS	7,643	5,141	5,400	6,282	3,175	3,041	3,848	4,758	2,308	3,756	2,544	5,329	15	52,949
Comisiones por Servicios	1,879	1,510	1,180	853	658	286	631	610	116	1,173	930	111	0	10,239
Ganancias p/Oper. Cambio y Arbitraje	861	331	445	1,322	403	158	425	440	707	0	119	336	0	5,736
Ingresos por Bienes Realizables	737	0	101	1,240	23	87	872	1,381	0	5	0	4,033	0	8,489
Ingresos por Inversiones Permanentes	2,939	2,631	2,778	2,456	831	2,180	1,617	1,811	780	2,038	631	746	6	20,733
Ingresos Operativos Diversos	1,118	669	916	411	772	330	403	807	705	540	867	104	9	7,752
(-) OTROS GASTOS OPERATIVOS	(1,617)	(322)	(1,687)	(1,700)	(356)	(44)	(1,063)	(2,580)	(107)	(263)	(240)	(4,380)	(73)	(14,442)
Comisiones por Servicios	(142)	(81)	(109)	(80)	(78)	(35)	(74)	(102)	(24)	(91)	(31)	(61)	0	(908)
Costo de Bienes Realizables	(761)	(39)	(85)	(1,076)	(239)	0	(830)	(2,334)	(11)	(27)	0	(3,943)	(72)	(9,517)
Pérdidas por Inversiones Permanentes	(714)	(107)	0	(409)	0	(4)	(39)	0	0	0	0	0	0	(1,353)
Depreciación y Desv. Bienes Alquilados	0	0	0	0	0	0	0	(2)	(71)	0	(210)	0	0	(282)
Gastos Operativos Diversos	(1)	(85)	(1,480)	(74)	(38)	(6)	(1)	(142)	0	(149)	0	(387)	0	(2,382)
(=) RESULTADO DE OPERACION BRUTO	15,043	9,088	7,015	8,427	8,852	7,754	5,640	4,891	4,656	6,667	4,445	1,384	(651)	83,100
(-) GASTOS DE ADMINISTRACION	(13,253)	(10,337)	(8,257)	(7,025)	(7,824)	(5,847)	(4,541)	(7,224)	(5,410)	(5,780)	(6,673)	(1,881)	(511)	(84,792)
Gastos de Personal	(5,908)	(3,605)	(3,871)	(3,783)	(3,141)	(2,145)	(2,137)	(3,456)	(2,000)	(2,535)	(2,670)	(629)	(230)	(36,142)
Servicios Contratados	(327)	(1,380)	(450)	(131)	(251)	(1,443)	(102)	(147)	(223)	(322)	(218)	(163)	(4)	(5,170)
Seguros	(128)	(123)	(180)	(182)	(11)	(38)	(57)	(12)	(143)	(7)	(105)	(31)	0	(1,112)
Comunicación y Traslados	(738)	(481)	(447)	(321)	(455)	(235)	(95)	(302)	(282)	(221)	(358)	(85)	(31)	(4,063)
Impuestos	(1,409)	(825)	(562)	(622)	(385)	(670)	(653)	(558)	(761)	(766)	(507)	(143)	(5)	(8,778)
Mantenimiento y Reparaciones	(386)	(234)	(385)	(189)	(277)	(131)	(150)	(168)	(201)	(101)	(230)	(37)	(30)	(2,532)
Depreciación Desvalorización Bienes Uso	(1,132)	(912)	(534)	(282)	(682)	(338)	(453)	(309)	(342)	(290)	(671)	(146)	(32)	(6,159)
Amortización de Cargos Diferidos	(45)	(6)	(30)	(17)	(3)	(17)	(3)	(15)	(137)	(82)	(10)	(11)	0	(377)
Otros Gastos de Administración	(3,168)	(2,758)	(1,832)	(1,257)	(1,899)	(830)	(825)	(2,255)	(1,280)	(1,474)	(1,834)	(737)	(180)	(20,459)
(=) RESULTADO DE OPERACION NETO	1,789	(1,249)	(1,282)	1,332	1,128	1,807	1,098	(2,733)	(575)	869	(2,228)	(547)	(1,162)	(1,692)
(+/-) INGRESOS (GASTOS) EXTRAORDINARIOS	7	(12)	(33)	(4)	(54)	(85)	(65)	(116)	0	16	1,842	(585)	150	1,051
(=) RESULTADO DE LA GESTION	1,797	(1,261)	(1,315)	1,328	1,074	1,823	1,034	(2,849)	(575)	884	(387)	(1,182)	(1,013)	(641)
(+/-) INGRESOS(GASTOS) GESTIONES ANTERIORES	29	0	46	40	85	(20)	9	(417)	1,226	(128)	(4)	(45)	0	820
(=) RESULTADO NETO DE LA GESTION	1,826	(1,261)	(1,269)	1,368	1,159	1,802	1,043	(3,266)	651	756	(391)	(1,227)	(1,013)	179

Table 4-4. Sistema Bancario: Estratificación de Depósitos a la Vista por Montos, al 30 de junio de 1990 (en miles de Bolivianos)

RANGO	BSC	BNB	BGA	BUN	BHN	BME	CBB	BIG	BIS	BLP	BPP	BIB	BFI	TOTAL PRIV. NALES.	BRE	BNA	CIT	BOB	TOTAL EXT.	BOE	TOTAL SISTEMA BANCARIO
Mayores a US$ 200.001	4,632	5,654	0	0	990	0	0	3,838	5,451	2,868	0	0	0	23,430	0	0	0	0	0	9,021	32,451
Entre US$ 100,001 y US$ 200,000	2,986	3,116	0	2,184	1,262	2,036	0	510	605	2,070	315	961	0	16,053	0	0	0	0	0	23,875	39,928
Entre US$ 50,001 y US$ 100,000	3,229	3,180	1,063	3,860	2,018	912	494	583	2,634	1,047	615	852	0	20,496	491	258	625	0	1,374	2,598	24,468
Entre US$ 40,001 y US$ 50,000	2,725	1,421	129	801	977	429	0	434	1,017	557	835	0	0	9,125	0	0	0	0	0	1,333	10,458
Entre US$ 30,001 y US$ 40,000	2,002	1,728	421	240	830	1,447	96	351	975	553	449	308	0	9,430	0	0	96	95	191	1,114	10,735
Entre US$ 20,001 y US$ 30,000	4,050	2,092	780	672	929	971	285	608	1,620	1,438	1,280	381	0	15,133	239	159	142	0	539	2,323	17,996
Entre US$ 10,001 y US$ 20,000	7,654	2,808	1,176	1,058	1,273	1,989	656	1,319	1,967	2,515	777	561	0	24,672	262	134	248	0	644	2,907	28,223
Entre US$ 5,001 y US$ 10,000	5,521	3,400	1,281	965	931	2,365	470	1,325	1,747	2,062	1,511	291	30	21,882	157	139	213	0	508	3,458	25,848
Entre US$ 1,001 y US$ 5,000	10,200	5,008	2,353	1,724	1,208	4,551	1,133	2,140	1,389	2,835	2,182	544	0	35,265	321	171	190	0	681	3,074	39,030
Entre US$ 501 y US$ 1,000	1,865	1,470	930	535	313	1,114	376	530	191	543	756	165	0	8,788	58	54	19	6	137	806	9,732
Menores o iguales a US$ 500	3,390	2,253	1,244	812	491	1,932	749	940	400	974	1,279	195	1	14,678	40	62	11	10	139	1,986	16,803
TOTAL	48,554	32,139	9,397	13,281	11,254	17,748	4,270	12,583	18,910	17,469	10,008	4,258	31	198,952	1,575	978	1,551	119	4,224	52,494	255,670

(1) Incluye Cuenta Corriente y Depósitos a la Vista
Excluye Cargos Financieros Devengados por Pagar

NUMERO DE DEPOSITANTES

RANGO	BSC	BNB	BGA	BUN	BHN	BME	CBB	BIG	BIS	BLP	BPP	BIB	BFI	TOTAL PRIV. NALES.	BRE	BNA	CIT	BOB	TOTAL EXT.	BOE	TOTAL SISTEMA BANCARIO
Mayores a US$ 200.001	7	5	0	0	1	0	0	2	5	3	0	0	0	23	0	0	0	0	0	5	28
Entre US$ 100,001 y US$ 200,000	0	8	0	5	3	5	0	1	3	5	1	2	0	43	0	0	0	0	0	21	64
Entre US$ 50,001 y US$ 100,000	20	14	5	17	10	5	2	3	14	5	3	3	0	101	2	1	3	0	0	13	120
Entre US$ 40,001 y US$ 50,000	22	10	1	4	7	3	0	3	10	4	0	0	0	70	0	0	0	0	0	10	80
Entre US$ 30,001 y US$ 40,000	25	16	4	2	0	13	1	3	11	5	4	3	0	85	0	0	1	1	2	10	107
Entre US$ 20,001 y US$ 30,000	50	27	10	9	12	13	4	0	24	10	17	5	0	207	3	2	2	0	7	32	246
Entre US$ 10,001 y US$ 20,000	182	85	27	30	20	45	13	30	50	50	10	13	0	577	0	3	5	0	14	68	659
Entre US$ 5,001 y US$ 10,000	270	150	62	44	40	110	21	60	90	94	60	15	1	1,034	0	0	10	0	24	100	1,238
Entre US$ 1,001 y US$ 5,000	1,523	730	385	254	173	873	207	334	250	409	333	77	0	5,342	49	20	24	0	101	480	5,923
Entre US$ 501 y US$ 1,000	858	856	408	247	154	484	520	240	107	240	352	73	0	4,350	20	24	0	3	63	432	4,845
Menores o iguales a US$ 500	21,041	11,048	8,142	2,700	4,136	13,347	6,520	8,086	895	6,240	15,788	1,003	2	100,328	147	204	43	85	559	13,260	114,147
TOTAL	24,026	12,739	9,022	3,318	4,572	14,706	7,283	9,550	1,475	7,083	16,592	1,194	3	112,170	243	348	90	89	770	14,511	127,457

Table 4-5. Sistema Bancario: Estratificación de Depósitos del Público por Montos, al 30 de junio de 1990 (en miles de Bolivianos)

DEPOSITOS A LA VISTA, CAJA DE AHORROS Y PLAZO FIJO(1)

RANGO	BSC	BNB	BBA	BUN	BHN	BME	CBB	BIG	BIS	BLP	BPP	BIB	BFI	TOTAL PRIV. NALES.	BRE	BNA	CIT	BDB	TOTAL EXT.	BDE	TOTAL SISTEMA BANCARIO
Mayores a US$ 200.001	48,551	38,135	64,382	34,718	66,540	21,576	49,881	28,863	17,050	9,768	5,972	6,852	0	390,278	1,980	3,306	5,408	0	10,694	31,268	432,240
Entre US$ 100,001 y US$ 200,000	34,865	28,234	31,560	27,390	21,081	24,840	9,558	15,691	10,528	12,576	15,406	5,140	0	234,865	1,843	2,351	341	0	4,535	28,742	268,142
Entre US$ 50,001 y US$ 100,000	52,887	38,359	44,933	32,752	30,028	28,177	12,975	20,853	7,904	15,643	15,549	16,020	0	312,080	3,008	1,102	1,757	0	5,868	4,828	322,774
Entre US$ 40,001 y US$ 50,000	21,183	18,480	18,900	12,822	11,330	11,697	8,129	8,178	4,829	7,713	11,719	8,995	0	140,562	157	283	131	0	571	1,608	142,741
Entre US$ 30,001 y US$ 40,000	23,882	18,580	18,078	8,864	9,407	18,158	5,355	7,479	1,468	11,047	6,888	5,748	220	131,163	578	328	333	95	1,330	2,058	134,551
Entre US$ 20,001 y US$ 30,000	34,378	29,333	23,388	14,149	10,384	22,359	7,503	8,483	2,594	13,187	11,852	5,672	151	174,527	1,298	742	142	0	2,179	3,287	179,993
Entre US$ 10,001 y US$ 20,000	45,942	30,417	30,717	15,729	12,579	29,540	12,418	12,464	3,657	22,863	14,938	7,134	248	238,678	1,484	1,094	419	0	2,998	5,454	247,130
Entre US$ 5,001 y US$ 10,000	33,580	22,587	21,437	10,208	6,254	24,132	9,150	8,600	2,924	19,227	13,223	3,410	362	175,284	535	694	363	0	1,592	4,886	181,760
Entre US$ 1,001 y US$ 5,000	35,640	24,153	21,621	8,393	4,318	25,194	10,649	10,074	1,892	22,160	14,570	2,300	391	181,365	610	408	208	4	1,230	5,665	188,259
Entre US$ 501 y US$ 1,000	7,791	3,748	3,433	1,058	617	3,013	2,415	1,364	312	3,175	3,210	387	29	29,531	67	77	19	8	170	1,543	31,245
Menores o iguales a US$ 500	5,554	4,229	3,219	1,232	753	3,483	3,855	1,829	415	2,693	2,808	313	15	30,402	58	78	15	19	170	3,981	34,553
TOTAL	344,242	244,258	279,689	187,119	173,249	209,187	129,808	122,081	53,371	140,090	118,243	59,948	1,417	2,038,735	11,611	10,460	9,136	126	31,333	93,319	2,163,387

(1) Excluye Cargos Financieros Devengados por Pagar

NUMERO DE DEPOSITANTES

DEPOSITOS A LA VISTA, CAJA DE AHORROS Y PLAZO FIJO

RANGO	BSC	BNB	BBA	BUN	BHN	BME	CBB	BIG	BIS	BLP	BPP	BIB	BFI	TOTAL PRIV. NALES.	BRE	BNA	CIT	BDB	TOTAL EXT.	BDE	TOTAL SISTEMA BANCARIO
Mayores a US$ 200.001	35	29	49	22	42	18	15	15	10	11	5	8	0	257	2	3	4	0	9	13	279
Entre US$ 100,001 y US$ 200,000	86	64	78	80	48	58	21	24	20	31	38	12	0	536	4	5	1	0	10	29	575
Entre US$ 50,001 y US$ 100,000	233	168	208	143	133	123	58	77	38	73	73	78	0	1,402	15	4	8	0	27	23	1,452
Entre US$ 40,001 y US$ 50,000	123	134	131	88	79	78	41	49	32	53	79	47	0	933	1	2	1	0	4	12	949
Entre US$ 30,001 y US$ 40,000	215	168	150	79	84	148	48	81	15	99	74	53	2	1,194	5	3	3	1	12	19	1,225
Entre US$ 20,001 y US$ 30,000	440	258	302	180	131	208	98	97	35	172	160	72	2	2,231	18	9	2	0	29	45	2,305
Entre US$ 10,001 y US$ 20,000	1,034	668	683	347	282	683	278	247	82	515	334	150	8	5,269	32	24	9	0	64	124	5,457
Entre US$ 5,001 y US$ 10,000	1,584	990	938	434	268	1,008	398	358	133	843	561	142	18	7,669	25	31	18	9	72	248	7,989
Entre US$ 1,001 y US$ 5,000	4,775	2,938	2,831	1,079	549	3,169	1,392	1,227	305	2,849	1,942	288	40	23,384	79	56	25	1	161	924	24,469
Entre US$ 501 y US$ 1,000	1,999	1,662	1,484	468	285	1,278	938	573	124	1,332	1,214	159	12	11,528	31	33	8	4	76	820	12,422
Menores o iguales a US$ 500	32,568	18,[illegible]35	21,506	4,832	5,253	23,087	15,151	14,441	909	13,211	29,807	1,338	18	181,034	159	333	1,046	97	1,635	25,472	208,141
TOTAL	43,042	26,010	28,359																		

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Table 4-6. Sistema Bancario: Estratificación de Depósitos en Caja de Ahorros por Montos, al 30 de junio de 1990 (en miles de Bolivianos)

RANGO	BSC	BNB	BBA	BUN	BHN	BME	CBB	BIG	BIS	BLP	BPP	BIB	BFI	TOTAL PRIV. NALES.	BRE	BNA	CIT	BOB	TOTAL EXT.	BOE	TOTAL SISTEMA BANCARIO
Mayores a US$ 200.001	962	1,358	12,402	5,968	8,927	7,651	2,442	8,301	0	0	0	0	0	48,209	0	642	1,017	0	1,659	6,570	54,438
Entre US$ 100,001 y US$ 200,000	3,057	3,032	3,715	2,849	2,791	3,280	887	2,377	0	1,800	735	0	0	25,323	0	0	341	0	341	4,321	29,985
Entre US$ 50,001 y US$ 100,000	2,934	5,358	3,783	3,845	2,357	3,328	1,825	1,147	0	1,219	457	445	0	26,297	175	0	0	0	175	1,337	27,808
Entre US$ 40,001 y US$ 50,000	588	1,938	1,418	400	658	1,048	405	798	0	711	438	401	0	8,990	0	0	0	0	0	275	9,265
Entre US$ 30,001 y US$ 40,000	2,041	2,235	1,348	853	878	1,768	793	952	0	1,338	622	0	0	12,818	0	105	237	0	342	98	13,258
Entre US$ 20,001 y US$ 30,000	2,460	3,155	2,712	1,348	1,028	2,381	384	1,507	0	1,279	1,281	156	0	17,681	0	162	0	0	162	458	18,299
Entre US$ 10,001 y US$ 20,000	4,239	4,305	4,545	2,838	1,061	3,604	1,140	1,368	0	3,072	2,305	528	0	29,201	127	100	108	0	335	973	30,509
Entre US$ 5,001 y US$ 10,000	4,257	3,334	4,587	2,082	1,378	3,589	1,404	1,322	0	3,188	2,107	107	0	27,413	110	118	0	0	228	545	28,186
Entre US$ 1,001 y US$ 5,000	8,198	4,272	8,088	2,391	1,189	4,858	2,050	2,307	5	4,254	3,422	294	0	37,333	81	110	10	4	210	1,698	39,240
Entre US$ 501 y US$ 1,000	1,378	1,321	1,292	358	221	971	485	408	5	940	830	88	0	8,252	0	22	0	2	30	729	9,011
Menores o iguales a US$ 500	1,071	1,805	1,734	408	251	1,403	825	722	3	1,180	1,251	99	0	11,647	0	15	4	1	20	1,885	13,562
TOTAL	30,170	32,811	43,558	23,128	20,947	34,258	17,480	19,211	13	18,987	13,448	2,055	0	251,165	517	1,276	1,717	7	3,518	18,886	273,567

(1) Excluye Cargos Financieros Devengados por Pagar

NUMERO DE DEPOSITANTES

RANGO	BSC	BNB	BBA	BUN	BHN	BME	CBB	BIG	BIS	BLP	BPP	BIB	BFI	TOTAL PRIV. NALES.	BRE	BNA	CIT	BOB	TOTAL EXT.	BOE	TOTAL SISTEMA BANCARIO
Mayores a US$ 200.001	1	1	0	5	5	5	3	5	0	0	0	0	0	31	0	1	1	0	2	2	35
Entre US$ 100,001 y US$ 200,000	7	8	8	8	7	7	2	6	0	5	2	0	0	60	0	0	1	0	1	7	68
Entre US$ 50,001 y US$ 100,000	17	20	18	17	12	14	8	5	0	8	2	2	0	127	1	0	0	0	1	6	134
Entre US$ 40,001 y US$ 50,000	7	14	10	3	6	7	3	5	0	5	3	3	0	66	0	0	0	0	0	2	68
Entre US$ 30,001 y US$ 40,000	24	20	12	8	8	14	7	6	0	11	8	0	0	116	0	1	2	0	3	1	120
Entre US$ 20,001 y US$ 30,000	43	41	35	17	13	28	5	19	0	17	16	2	0	236	0	2	0	0	2	6	244
Entre US$ 10,001 y US$ 20,000	128	98	107	64	24	72	27	23	0	71	82	12	0	688	3	3	2	0	8	20	716
Entre US$ 5,001 y US$ 10,000	249	158	208	91	64	140	62	53	0	148	99	5	0	1,275	5	6	0	0	11	28	1,314
Entre US$ 1,001 y US$ 5,000	1,107	664	884	338	182	653	283	290	1	609	521	41	0	5,551	11	17	1	1	30	327	5,908
Entre US$ 501 y US$ 1,000	728	635	575	161	100	428	212	170	5	428	378	31	0	3,845	2	9	0	1	12	382	4,239
Menores o iguales a US$ 500	10,769	7,698	12,256	2,105	1,085	9,558	8,443	5,428	9	6,398	13,807	325	0	77,881	11	49	1,003	12	1,075	12,157	91,113
TOTAL	13,080	9,362	14,120	2,813	1,486	10,924	9,055	6,010	15	7,698	14,894	421	0	89,876	33	88	1,010	14	1,145	12,938	103,959

Table 4-7. Sistema Bancario: Estratificación de Depósitos a Plazo Fijo por Montos, al 30 de junio de 1990 (en miles de Bolivianos)

RANGO	BSC	BNB	BBA	BUN	BHN	BME	CBB	BIG	BIS	BLP	BPP	BIB	BFI	TOTAL PRIV. NALES.	BRE	BNA	CIT	BOB	TOTAL EXT.	BDE	TOTAL SISTEMA BANCARIO
Mayores a US$ 200.001	42,957	31,122	51,990	28,752	56,622	13,725	47,429	18,727	11,599	6,902	5,972	6,852	0	320,638	1,980	2,654	4,391	0	9,035	15,677	345,350
Entre US$ 100,001 y US$ 200,000	20,842	19,286	27,844	22,358	17,008	19,524	8,670	12,804	9,921	8,697	14,356	4,179	0	183,488	1,843	2,351	0	0	4,194	548	198,229
Entre US$ 50,001 y US$ 100,000	46,724	27,815	40,088	25,247	25,653	21,937	10,855	19,123	5,271	13,378	14,477	14,722	0	265,288	2,340	844	1,132	0	4,316	883	270,498
Entre US$ 40,001 y US$ 50,000	17,852	16,130	17,362	11,621	9,494	10,222	5,724	6,943	3,612	6,445	10,448	6,594	0	122,447	157	283	131	0	571	0	123,018
Entre US$ 30,001 y US$ 40,000	19,819	14,625	14,318	7,771	7,668	12,937	4,468	6,178	493	9,157	5,828	5,438	229	108,915	576	221	0	0	797	848	110,560
Entre US$ 20,001 y US$ 30,000	27,868	15,085	19,886	12,129	8,408	19,027	6,824	6,373	963	10,470	9,383	5,133	151	141,713	1,057	420	0	0	1,478	507	143,698
Entre US$ 10,001 y US$ 20,000	33,758	23,306	24,995	11,225	10,245	23,747	10,603	9,777	1,690	17,308	11,855	6,047	248	184,804	1,006	860	63	0	2,019	1,575	188,398
Entre US$ 5,001 y US$ 10,000	23,711	15,830	15,600	7,181	3,945	18,177	7,275	6,153	1,177	14,000	9,605	3,013	332	125,388	268	437	150	0	855	882	127,726
Entre US$ 1,001 y US$ 5,000	19,244	14,874	13,180	4,294	1,811	15,788	7,488	5,627	500	15,078	8,968	1,462	301	108,768	198	126	0	0	323	892	109,981
Entre US$ 501 y US$ 1,000	4,550	958	1,241	183	83	929	554	425	116	1,685	1,624	136	29	12,491	3	0	0	0	3	0	12,502
Menores o iguales a US$ 500	193	171	241	20	11	150	2,260	159	3	530	278	19	14	4,078	1	0	6	0	1	110	4,188
TOTAL	265,518	179,200	228,763	130,730	141,048	158,163	112,138	90,287	35,348	103,654	92,788	53,595	1,385	1,568,618	9,519	8,208	5,868	0	23,503	21,938	1,634,130

(1) Excluye Cargos Financieros Devengados por Pagar

NUMERO DE DEPOSITANTES

RANGO	BSC	BNB	BBA	BUN	BHN	BME	CBB	BIG	BIS	BLP	BPP	BIB	BFI	TOTAL PRIV. NALES.	BRE	BNA	CIT	BOB	TOTAL EXT.	BDE	TOTAL SISTEMA BANCARIO
Mayores a US$ 200.001	27	23	43	17	38	11	12	8	5	8	5	8	0	203	2	2	3	0	7	8	216
Entre US$ 100,001 y US$ 200,000	70	48	87	49	38	48	19	17	17	21	33	10	0	433	4	5	0	0	0	1	443
Entre US$ 50,001 y US$ 100,000	198	126	188	109	111	104	48	69	22	62	68	73	0	1,174	12	3	5	0	20	4	1,198
Entre US$ 40,001 y US$ 50,000	94	110	120	79	68	60	38	41	22	44	70	44	0	797	1	2	1	0	4	0	801
Entre US$ 30,001 y US$ 40,000	168	130	134	69	68	121	40	52	4	83	64	50	2	983	5	2	0	0	7	8	998
Entre US$ 20,001 y US$ 30,000	338	190	257	154	108	245	87	70	11	136	127	65	2	1,788	15	5	0	0	20	7	1,815
Entre US$ 10,001 y US$ 20,000	714	505	549	247	210	546	238	194	32	385	253	125	6	4,004	23	18	1	0	42	38	4,082
Entre US$ 5,001 y US$ 10,000	1,065	684	868	298	184	758	315	243	35	601	393	122	15	5,360	12	19	6	0	37	40	5,437
Entre US$ 1,001 y US$ 5,000	2,145	1,538	1,582	489	214	1,843	902	603	46	1,831	1,088	170	40	12,491	19	11	0	0	30	117	12,638
Entre US$ 501 y US$ 1,000	413	368	503	60	31	358	204	163	12	668	486	55	12	3,331	1	0	0	0	1	6	3,338
Menores o iguales a US$ 500	158	189	1,108	27	32	162	188	147	5	573	212	8	18	2,825	1	0	0	0	1	55	2,881
TOTAL	5,308	3,908	5,217	1,588	1,078	4,261	2,091	1,607	211	4,410	2,798	730	93	33,389	95	67	18	0	178	280	33,847

Table 4-8. Encaje Legal del Sistema Bancario (en miles de Bolivianos y Dólares Americanos),[1] Sistema Bancario Privado (en miles de Bolivianos),[1] y Banco del Estado (en miles de Bolivianos)

Sistema Bancario

SALDOS ACUMULADOS AL	ENCAJE REQUERIDO			ENCAJE CONSTITUIDO: ≤20% BOVEDA (2)			ENCAJE CONSTITUIDO: ≥ 80% EN BCB			ENCAJE CONSTITUIDO: TOTAL			EXCEDENTE(DEFICIENCIA)		
	MN	MNMV	ME $US	MN	MNMV	ME $US	MN	MNMV	ME $US	MN	MNMV	ME $US	MN	MNMV	ME $US
31 DE DIC/89	51,699	13,368	50,702	7,580	0	7,844	18,183	52,263	45,400	25,763	52,263	53,244	(25,936)	38,895	2,542
31 DE ENE/90	50,747	16,016	54,625	9,917	0	9,811	19,551	39,563	48,597	29,468	39,563	58,408	(21,279)	23,547	3,783
28 DE FEB/90	51,169	17,222	57,769	10,234	0	10,791	19,269	36,431	54,002	29,503	36,431	64,793	(21,666)	19,210	7,024
31 DE MAR/90	46,386	14,941	60,795	9,277	0	10,323	20,280	25,675	57,205	29,557	25,675	67,528	(16,829)	10,734	6,733
30 DE ABR/90	50,726	16,768	62,128	8,880	0	11,323	14,122	40,102	55,583	23,002	40,102	66,906	(27,724)	23,334	4,778
31 DE MAY/90	55,530	16,977	62,714	10,886	0	10,361	23,292	32,871	57,811	34,178	32,871	68,172	(21,352)	15,894	5,458
30 DE JUN/90	55,104	17,923	63,117	10,447	0	8,627	26,013	41,988	58,447	36,460	41,988	67,074	(18,644)	24,065	3,957

Sistema Bancario Privado

	1988	1989							1990					
	DIC	JUN	JUL	AGO	SEP	OCT	NOV	DIC	ENE	FEB	MAR	ABR	MAY	JUN
OBLIGACIONES SUJETAS A ENCAJE	1,099,422	1,165,786	1,038,815	1,149,559	1,341,569	1,477,992	1,578,814	1,684,821	1,802,208	1,918,925	1,978,715	2,037,040	2,079,773	2,092,714
Depósitos a la Vista	138,202	141,625	145,906	130,944	141,987	154,336	168,184	168,909	187,434	183,140	174,133	183,345	213,138	214,387
Depósitos en Caja de Ahorros	96,090	125,192	129,190	127,678	129,433	144,248	164,154	184,454	187,580	199,277	210,210	221,743	232,850	254,459
Depósitos a Plazo Fijo	861,853	898,266	782,218	889,146	1,068,838	1,177,849	1,242,953	1,310,003	1,438,437	1,533,816	1,583,414	1,620,443	1,632,988	1,613,197
Otros Depósitos (3)	3,276	703	1,501	1,781	1,311	1,758	1,323	850	757	892	982	1,509	787	671
ENCAJE CONSTITUIDO	152,042	147,608	117,389	117,556	163,937	190,788	200,989	225,475	229,238	247,384	248,103	257,638	261,852	270,596
Encaje Requerido	133,858	144,060	133,134	142,602	162,582	179,471	192,086	202,584	217,403	230,557	237,172	248,572	253,290	255,700
Excedente(Deficiencia)	15,883	3,548	(15,745)	(25,046)	1,345	11,315	8,903	22,891	11,835	16,827	10,931	11,067	8,659	14,836
ENCAJE MEDIO (%)														
Requerido	12.18%	12.36%	12.82%	12.40%	12.12%	12.14%	12.18%	12.17%	12.06%	12.03%	11.99%	12.10%	12.18%	12.28%
Constituido	13.83%	12.66%	11.30%	10.23%	12.22%	12.91%	12.75%	13.54%	12.72%	12.91%	12.54%	12.65%	12.60%	12.99%

Banco del Estado

	1988	1989							1990					
	DIC	JUN	JUL	AGO	SEP	OCT	NOV	DIC	ENE	FEB	MAR	ABR	MAY	JUN
OBLIGACIONES SUJETAS A ENCAJE	83,223	98,045	88,568	90,081	90,879	88,055	84,129	84,612	92,089	93,809	89,168	92,612	103,085	108,932
Depositos a la Vista	41,567	46,286	43,547	46,014	45,329	47,882	44,042	40,524	45,170	43,910	47,164	48,180	53,181	53,951
Depositos en Caja de Ahorros	35,821	30,555	27,370	24,308	21,883	17,080	14,784	14,863	14,457	13,694	13,570	13,612	13,531	18,886
Depositos a Plazo Fijo	5,826	7,804	7,576	9,025	11,772	13,182	13,528	15,921	18,685	23,130	19,750	17,041	20,777	21,948
Otros Depositos (3)	9	11,400	10,076	10,834	10,985	11,131	11,775	13,504	13,767	13,075	8,684	12,779	15,586	14,147
ENCAJE CONSTITUIDO	9,202	15,563	14,482	14,980	14,786	15,022	12,395	10,687	15,601	15,519	15,114	12,873	18,478	18,465
Encaje Requerido	8,038	13,720	12,609	12,683	12,933	12,840	12,446	13,067	13,781	13,454	11,403	13,521	15,508	15,455
Excedente(Deficiencia)	1,164	1,843	1,873	2,297	1,853	2,182	(51)	(2,380)	1,820	2,065	3,711	(648)	2,968	3,010
ENCAJE MEDIO (%)														
Requerido	9.66%	14.29%	14.24%	14.08%	14.22%	14.42%	14.79%	15.44%	14.96%	14.34%	12.79%	14.60%	15.04%	14.19%
Constituido	11.06%	16.20%	16.35%	16.64%	16.29%	16.87%	14.73%	12.63%	16.94%	16.54%	16.95%	13.90%	17.92%	16.95%

(1) Incluye sucursales de bancos extranjeros
(2) Caja en Bancos y Cuenta Corriente-BCB
(3) Incluye Tributos Fiscales, Pre-Pagos por Cartas de Crédito y otros. Diciembre/88, no incluye Tributos Fiscales

Table 4-9: Sistema Bancario: Evolución de Cartera (en miles de Bolivianos)

	1988	1989							1990					
	DIC	JUN	JUL	AGO	SEP	OCT	NOV	DIC	ENE	FEB	MAR	ABR	MAY	JUN
TOTAL SISTEMA BANCARIO														
VIGENTE	1,377,425	1,682,852	1,605,889	1,672,097	1,738,074	1,818,178	2,090,835	2,090,835	2,081,589	2,119,604	2,210,829	2,297,333	2,417,856	2,515,500
Propia	817,885	929,240	828,571	860,248	926,252	992,788	1,179,363	1,179,363	1,143,186	1,165,407	1,247,181	1,269,108	1,390,378	1,483,364
Con Financiamiento	176,237	91,929	94,091	102,564	109,756	110,496	112,703	213,093	114,505	111,442	115,670	117,770	120,227	118,841
Con Recursos BCB	393,323	662,775	683,226	709,235	702,066	712,895	798,769	698,379	823,898	842,835	848,067	893,455	907,253	903,585
MORA	403,180	463,361	541,219	550,371	562,880	575,402	518,051	518,051	595,196	611,656	608,771	628,366	615,328	579,060
Vencidos	28,265	123,640	197,881	199,480	196,805	203,541	157,994	157,994	231,817	235,327	233,054	240,604	206,328	175,331
Ejecución	374,915	339,712	343,338	350,891	366,075	371,861	358,057	358,057	363,379	376,329	375,717	387,762	409,000	403,729
TOTAL CARTERA DIRECTA BRUTA	1,780,605	2,146,313	2,147,107	2,222,436	2,300,954	2,391,581	2,608,886	2,606,886	2,676,785	2,731,340	2,819,699	2,925,699	3,033,182	3,094,560
CONTINGENTES	606,823	847,881	868,037	884,342	897,234	935,645	941,612	941,612	943,794	944,836	966,458	976,850	1,035,318	1,000,097
TOTAL CARTERA BRUTA	2,386,428	2,994,194	3,015,144	3,106,780	3,198,188	3,327,226	3,548,498	3,548,498	3,620,579	3,676,176	3,786,158	3,901,549	4,068,500	4,094,656
PREV.P/CARTERA INCOBRABLE	(285,428)	(299,304)	(297,684)	(291,360)	(288,518)	(284,412)	(320,237)	(306,000)	(332,840)	(323,883)	(319,712)	(336,152)	(337,350)	(343,914)
BANCOS PRIV. NACIONALES														
VIGENTE	1,197,565	1,482,329	1,400,427	1,430,068	1,822,417	1,690,561	1,856,862	1,856,862	1,852,965	1,881,840	1,960,630	2,041,144	2,154,107	2,254,178
Propia	729,435	909,584	717,833	741,542	805,732	963,644	1,048,678	1,048,678	1,019,374	1,038,534	1,109,264	1,146,906	1,243,988	1,355,821
Con Financiamiento	84,627	91,929	84,001	102,584	109,756	110,496	111,537	111,537	112,955	109,626	113,736	115,743	118,149	118,443
Con Recursos BCB	383,323	580,813	597,593	618,540	606,929	616,121	698,379	698,379	720,666	733,880	737,610	778,593	792,290	783,914
MORA	124,044	166,934	233,034	243,936	244,602	259,203	184,404	184,404	247,030	263,938	264,749	264,079	268,432	220,209
Vencidos	17,915	42,068	104,434	108,731	100,996	106,936	45,717	45,717	106,052	115,676	112,521	124,020	108,456	85,809
Ejecución	106,129	124,848	128,600	135,207	143,606	152,267	138,777	138,777	140,987	146,262	152,220	160,060	160,674	154,400
TOTAL CARTERA DIRECTA BRUTA	1,321,629	1,649,258	1,642,461	1,703,604	1,767,019	1,849,764	2,041,066	2,041,066	2,100,034	2,143,779	2,225,380	2,325,224	2,423,539	2,474,387
CONTINGENTES	481,804	697,451	710,100	721,534	736,067	770,515	764,036	784,036	777,564	777,511	797,873	803,944	853,717	820,565
TOTAL CARTERA BRUTA	1,803,433	2,346,710	2,352,561	2,425,138	2,503,586	2,620,279	2,805,122	2,805,122	2,877,629	2,923,269	3,023,261	3,126,168	3,277,256	3,294,672
PREV.P/CARTERA INCOBRABLE	(36,166)	(40,305)	(41,029)	(42,420)	(45,600)	(46,623)	(47,246)	(47,246)	(47,815)	(49,263)	(49,445)	(50,450)	(50,787)	(52,476)
BANCOS EXTRANJEROS														
VIGENTE	12,393	16,279	15,474	16,589	17,658	18,219	19,496	19,496	20,480	20,686	20,657	19,346	19,183	20,886
Propia	5,353	15,767	14,959	16,050	17,142	17,724	19,137	19,137	20,090	20,333	20,371	19,065	18,989	20,784
Con Financiamiento	7,040	0	0	0	0	0	0	339	0	0	0	0	0	0
Con Recursos BCB		511	515	539	516	495	359		380	363	286	281	194	102
MORA	13,242	11,010	11,272	11,701	11,833	11,940	9,073	9,073	8,150	6,029	6,128	5,981	4,985	5,183
Vencidos	175	329	429	373	341	229	874	874	681	401	448	502	385	697
Ejecución	13,067	10,681	10,843	11,328	11,592	11,714	8,199	8,199	7,469	5,628	5,680	5,479	4,600	4,486
TOTAL CARTERA DIRECTA BRUTA	25,635	27,289	26,746	28,289	29,581	30,159	28,569	28,569	28,600	26,725	26,785	24,327	24,179	26,078
CONTINGENTES	6,126	32,442	36,857	37,879	40,689	45,863	55,707	55,707	41,771	39,575	38,440	41,205	49,929	47,023
TOTAL CARTERA BRUTA	31,761	59,730	63,603	66,168	70,280	76,022	84,276	84,276	70,371	66,300	65,225	65,532	74,108	73,102
PREV.P/CARTERA INCOBRABLE	(11,678)	(9,075)	(9,112)	(9,521)	(9,760)	(9,862)	(6,291)	(6,291)	(5,538)	(3,678)	(3,872)	(3,689)	(2,889)	(2,726)
BANCOS ESTATALES														
VIGENTE	197,447	184,349	180,997	185,813	197,999	207,399	214,747	214,747	208,144	217,149	229,832	237,843	244,868	240,436
Propia	83,077	102,898	95,779	102,659	103,378	111,120	113,550	113,550	103,722	106,540	117,536	124,215	127,878	118,759
Con Financiamiento	94,370	0	80	0	0	0	1,168	101,197	1,550	1,818	1,934	2,027	2,079	2,098
Con Recursos BCB		81451	85118	83157	94621	96279	100031		102872	108782	110182	111601	114799	119,579
MORA	285,894	285,417	296,913	294,732	306,345	304,259	322,484	322,484	340,007	341,698	337,894	338,306	340,909	353,840
Vencidos	10,175	81,232	93,018	90,376	95,468	96,379	111,403	111,403	125,084	119,250	120,085	116,082	97,483	109,826
Ejecución	255,719	204,185	203,895	204,350	210,877	207,880	211,081	211,081	214,923	222,438	217,809	222,224	243,429	244,834
TOTAL CARTERA DIRECTA BRUTA	433,341	469,766	477,900	490,545	504,344	511,658	537,231	537,231	548,151	558,837	567,526	576,149	585,465	594,098
CONTINGENTES	123,893	117,969	121,080	124,929	119,978	119,267	121,088	121,088	124,429	127,750	130,146	130,701	131,673	132,489
TOTAL CARTERA BRUTA	554,234	587,734	598,980	615,474	624,322	630,925	658,100	658,100	672,580	686,587	697,672	706,850	717,139	726,584
PREV.P/CARTERA INCOBRABLE	(237,684)	(239,024)	(247,543)	(239,427)	(232,860)	(227,927)	(268,700)	(252,463)	(279,398)	(271,812)	(268,385)	(292,013)	(283,870)	(288,712)

Table 4-10. Sistema Bancario: Clasificación y Estratificación de Cartera, al 30 de junio de 1990 (en miles de Bolivianos)

POR TIPO DE GARANTIA	BSC	BBA	BNB	BUN (2)	BME	BHN	CBB	BIG	BIS	BLP	BPP (2)	BIB	BFI	TOTAL PRIV. NALES.	BRE	BNA	CIT	BOB	TOTAL EXT.	BDE	BMB	BAB	TOTAL EST.	TOTAL SISTEMA	%
Hipotecaria	300,492	144,058	135,700	100,615	130,087	81,060	67,987	124,908	100,842	64,238	40,030	35,360	10,770	1,350,036	3,121	5,546	0	838	8,668	278,807	103,888	44,607	427,103	1,782,642	43.77%
Prendaria	30,481	20,538	12,120	30,024	3,000	55,126	41,815	20,665	44,725	11,667	40,275	7,245	4,615	341,395	300	308	0	0	510	1,907	12,299	178,427	192,563	534,498	13.05%
Warrant	12,275	31,315	10,612	3,220	3,300	11,510	33,033	326	5,155	8,324	12,907	1,914	0	143,000	381	873	0	0	1,234	11,143	0	0	11,143	155,378	3.79%
Gtías.de Otras Inst. Fin.	0	79,842	2,549	3,766	12,300	9,190	9,132	0	5,360	211	0	14,621	0	137,300	15,927	1,544	34,640	831	52,951	6,127	0	0	6,127	196,437	4.80%
Bienes Embargados	0	0	0	0	193	6	0	0	0	98	0	0	0	298	5	0	0	0	5	5,475	0	0	5,475	5,768	0.14%
Otras Garantías	20,365	2,330	44(	4,055	1,790	6,246	2,993	1,030	10	4,415	0	0	80	51,680	0	338	101	415	852	73,306	0	0	73,306	125,928	3.08%
Dep. en Gtía. Prep.Ctas.de Créd.	0	2,908	9,07(	3,451	663	436	7,623	0	0	631	0	223	0	21,787	0	81	0	0	81	0	0	0	0	21,868	0.53%
Otros Depósitos en Garantía	0	388	3,170	1,004	387	9,724	3,074	0	0	37	0	1,033	0	21,308	0	0	0	0	0	0	0	0	0	21,308	0.52%
Gtías.Indust./Comerc.(P.Jurid.)	0	98,457	21,536	0	6,005	41,617	2,632	12,070	24,121	16,148	2,818	8,255	0	192,949	868	970	0	0	1,838	0	0	0	0	194,788	4.76%
Gtías.Personales (P. Naturales)	200,630	74,003	107,116	119,837	79,231	80,220	42,705	60,221	4,310	62,724	38,218	31,786	92	823,291	3,254	1,943	0	3	5,199	6,800	3,947	0	10,747	839,237	22.94%
TOTAL CARTERA CON GARANTIAS:	579,252	419,915	311,143	271,080	240,347	308,548	211,093	220,078	184,382	103,491	141,254	100,450	15,571	3,189,185	23,734	11,603	34,750	2,084	72,171	383,414	120,135	223,034	726,584	3,987,630	97.38%
SIN GARANTIA (SOLA FIRMA):	29,078	2,517	0	2,087	1,026	69,966	3	2,039	170	17	0	345	0	106,262	0	118	570	234	931	0	0	0	0	107,193	2.62%
TOTAL CARTERA	608,329	422,432	311,143	273,157	241,372	378,514	211,093	222,117	184,550	188,507	141,254	100,795	15,571	3,295,447	23,734	11,721	35,320	2,317	73,102	383,414	120,135	223,034	726,584	4,095,133	100.00%
Porcentaje	14.81%	10.32%	7.60%	6.67%	5.89%	9.19%	5.17%	5.42%	4.51%	4.90%	3.45%	2.46%	0.38%	80.47%	0.58%	0.29%	0.86%	0.06%	1.79%	9.36%	2.93%	5.45%	17.74%	100.00%	

POR MONTO	BSC	BBA	BNB	BUN (2)	BME	BHN	CBB	BIG	BIS	BLP	BPP (2)	BIB	BFI	TOTAL PRIV. NALES.	BRE	BNA	CIT	BOB	TOTAL EXT.	BDE	BMB	BAB	TOTAL EST.	TOTAL SISTEMA	%
Mayores a US$. 1.000.000	91,151	45,987	22,570	0	0	44,670	19,310	0	24,685	0	0	0	0	247,453	8,640	0	16,518	0	25,465	278,144	31,854	0	302,086	573,815	14.04%
US$ 1.000.000 - US$ 1.000.000	30,480	11,175	11,470	18,012	11,311	58,470	15,238	7,274	27,300	6,641	0	7,525	7,120	213,402	4,662	0	4,396	0	9,050	13,752	8,509	3,532	25,793	240,252	6.06%
US$ 700.000 - US$ 1.000.000	34,054	25,805	5,800	10,116	11,306	20,890	10,679	7,655	10,808	11,734	2,490	8,162	0	190,907	2,641	0	0	0	2,641	17,055	18,837	2,385	38,276	205,524	5.02%
US$ 500.000 - US$ 700.000	44,929	31,640	24,437	20,087	8,903	16,515	20,468	7,395	11,653	11,341	9,768	7,801	3,715	227,692	0	0	3,658	0	3,658	14,844	15,344	1,524	31,713	263,233	6.43%
US$ 250.000 - US$ 500.000	66,990	82,515	38,626	53,602	28,632	73,193	19,898	33,658	31,468	24,440	14,008	10,763	2,354	457,482	0	1,256	1,429	0	2,685	14,808	23,482	13,206	51,604	511,751	12.50%
US$ 100.000 - US$ 250.000	134,906	77,157	90,564	64,228	40,638	71,676	34,127	54,343	31,800	37,117	25,227	14,696	1,246	637,208	1,080	2,320	5,554	0	8,840	17,013	6,902	21,770	48,484	695,730	16.99%
US$ 75.000 - US$ 100.000	31,223	20,958	14,431	18,438	6,879	14,387	7,132	15,800	10,218	10,624	7,071	3,800	0	162,450	1,190	2,205	1,648	1,086	6,109	4,617	4,328	3,221	12,164	180,723	4.41%
US$ 50.000 - US$ 75.000	34,055	27,375	21,306	20,834	14,821	29,110	13,869	14,134	8,882	10,008	10,316	9,01?	150	200,950	1,210	1,002	0	0	2,212	2,842	2,364	5,953	11,158	214,320	5.23%
US$ 25.000 - US$ 50.000	41,567	42,404	29,134	21,464	30,647	24,933	21,190	29,848	10,245	19,184	15,874	18,196	306	314,297	1,479	2,170	972	771	5,306	5,527	1,965	13,177	20,668	340,272	8.31%
US$ 10.000 - US$ 25.000	42,030	40,450	33,837	98,321	40,418	19,667	26,150	25,674	7,700	21,421	21,489	11,120	297	323,985	1,173	1,552	730	389	3,852	8,585	2,866	24,186	35,637	363,384	8.87%
Menores a US$ 10.000	44,025	42,736	40,742	19,621	40,848	12,085	24,440	23,120	3,575	35,910	34,013	4,032	294	344,065	500	1,200	218	58	1,986	14,130	2,538	134,101	150,768	498,820	12.13%
TOTAL CARTERA	608,329	422,432	311,143	273,157	241,372	378,514	211,600	222,117	184,550	188,507	141,254	100,795	15,571	3,295,447	23,734	11,721	35,320	2,317	73,102	383,414	120,135	223,034	726,584	4,095,133	100.00%
Porcentaje	14.81%	10.32%	7.60%	6.67%	5.89%	9.19%	5.17%	5.42%	4.51%	4.60%	3.45%	2.46%	0.38%	80.47%	0.58%	0.29%	0.86%	0.06%	1.79%	9.36%	2.93%	5.45%	17.74%	100.00%	

POR NUMERO DE PRESTATARIOS	BSC	BBA	BNB	BUN	BME	BHN	CBB	BIG	BIS	BLP	BPP	BIB	BFI	TOTAL PRIV. NALES.	BRE	BNA	CIT	BOB	TOTAL EXT.	BDE	BMB	BAB	TOTAL EST.	TOTAL SISTEMA	%
Mayores a US$. 1.000.000	14	4	3	0	0	4	2	0	7	0	0	0	0	34	1	0	3	0	4	20	4	0	24	62	0.07%
US$ 1.000.000 - US$ 1.000.000	10	3	3	3	3	15	4	2	0	2	0	2	2	30	1	0	1	0	2	3	2	1	6	68	0.08%
US$ 700.000 - US$ 1.000.000	13	9	2	4	4	8	4	3	8	4	1	3	0	63	1	0	0	0	1	6	6	1	13	77	0.09%
US$ 500.000 - US$ 700.000	24	17	13	15	5	8	10	4	12	6	5	4	2	126	0	0	2	0	2	6	8	1	17	145	0.17%
US$ 250.000 - US$ 500.000	82	90	35	46	26	66	17	26	27	21	12	17	2	409	0	1	1	0	2	14	21	13	48	458	0.53%
US$ 100.000 - US$ 250.000	270	157	121	112	90	137	73	108	81	73	54	28	[illegible]	1,293	4	5	11	0	20	30	19	47	96	1,409	1.62%
US$ 75.000 - US$ 100.000	113	72	51	98	34	51	28	57	38	38	28	14	0	580	4	8	6	2	20	17	18	13	48	655	0.75%
US$ 50.000 - US$ 75.000	173	142	110	107	87	102	66	88	45	52	52	28	1	1,053	6	5	0	0	11	18	13	34	63	1,127	1.30%
US$ 25.000 - US$ 50.000	370	381	280	270	281	215	190	238	86	174	140	173	4	2,782	14	13	10	7	44	58	18	127	203	3,029	3.48%
US$ 10.000 - US$ 25.000	820	886	683	820	851	386	624	552	121	436	420	205	6	6,621	20	20	18	8	64	200	58	553	811	7,496	8.62%
Menores a US$ 10.000	9,011	5,665	6,086	1,605	6,872	1,817	2,730	2,505	180	5,263	4,260	385	33	42,844	40	50	19	8	117	1,734	274	27,638	29,646	72,407	83.29%
TOTAL PRESTATARIOS	8,866	7,486	7,378	2,940	8,253	2,813	3,746	3,581	596	6,092	4,978	839	53	55,672	91	102	68	25	287	2,108	438	28,429	30,873	86,932	100.00%
Porcentaje	7.92%	8.61%	8.49%	3.38%	9.49%	3.24%	4.31%	4.12%	0.69%	7.01%	5.73%	0.96%	0.06%	64.04%	0.10%	0.12%	0.08%	0.03%	0.33%	2.42%	0.50%	32.70%	35.63%	100.00%	

FUENTE: Sistema Bancario, Anexo III, Circular 125/90
(1) Incluye Cartera Directa bruta y Contingente
(2) Incluye Intereses de Documentos Descontados cobrados por anticipado

Table 4-11. Private Banks' Performance Ratios from July 1, 1989 through June 30, 1990 (Bs million)

	BSC	BBA	BNB	BUN	BME	BHN	CBB	BIG	BIS	BLP	BPP	BIB	BFI	Total for All Banks
Profit or loss/ Net worth (%)	0.04	-4.2	-4.68	5.8	3.8	6.79	5.00	-14.55	1.84	4.26	-1.88	-12.07	-57.36	-0.5
Net worth/total assets (%)	0.07	7.32	7.41	7.67	9.7	7.57	7.94	8.43	18.42	7.8	10.75	8.53	7.76	8.5
Provision/arrears (%)	26.24	20.50	15.98	16.8	18.18	20.47	14.86	12.12	72.8	17.66	25.76	22.53	37.62	23.0
Arrears-provision/ Net worth (%)	23.44	78.83	73.15	70.92	48.16	51.48	94.78	78.25	15.68	52.6	35.35	60.93	150.23	54.0
Net interest income ($000) (from intermediation)	14.3	5.0	3.5	4.7	7.1	5.8	3.7	4.3	5.6	3.9	2.2	0.5	-0.5	59.5
Avg. balance of performing assets for the year ($000)	425	262	234	216	180	231	201	177	120	147	89	80	52	2,388
Net interest yield (%)	3.4	1.9	1.5	2.2	3.9	2.5	1.8	2.4	4.1	2.7	2.5	0.7	-0.9	2.5
Admin. expenses/ avg. balance of performing assets (%)	3.1	3.9	3.5	3.2	3.2	2.5	2.2	4.1	4.5	3.9	7.5	2.5	1.0	3.6
Performing/total assets for June 30, 1990 (%)	77.0	77.0	72.0	78.0	77.0	76.0	79.0	78.0	79.0	78.0	56.0	80.0	56.0	76.0

Chapter 5

STATE BANKS AND COOPERATIVE INSTITUTIONS

The Financial Sector Assessment Team did not concentrate on the state banks and the possible alternatives available to them to serving their intended clienteles, partly because this subject was of major interest to the parallel World Bank Mission and its Aide-Memoire, which the team endorses and on which it has relied heavily. One member of the team quickly surveyed the Banco Agricola Boliviano (BAB) and prepared a separate report on alternatives for agricultural credit. This report has been used as a source but has not been included in this volume.

The three state-owned banks that once played an important role in development and other financing are now totally insolvent. Despite repeated attempts to restructure them, they continue moribund and should be closed. The Banco de Estado (BANEST) may have to remain open for a period to serve various government functions, but the others can be closed immediately.

Cooperative and mutual savings institutions play a marginal role in accommodating savings and providing some credit to smaller producers and housing, but their capacity is limited and their central institutions (FENACRE) are experiencing some financial difficulty as well. Eventually some of the individual cooperative units might be developed as channels for small producer credit, as suggested in the World Bank Aide-Memoire (Appendix B).

Solvency

As of June 1990, the state banks in Bolivia had assets of US$212 million. Although they reported a net worth of US$62 million, if loans in arrears, seized assets, and "other assets" are accounted for they have a negative net worth of US$(76 million). They are thus insolvent.

On an individual basis the adjusted net worth of BANEST is US$(42.9 million), the Banco Minero (BAMIN) is US$(15.7 million), and the BAB is US$(17.4 million). BAB improved its standing in 1989 by investing capital of US$(51 million).

Liquidity

Current assets of the state banks were only 13.4 percent of current liabilities, far less than the average for the Bolivian banking system. The BAMIN is especially illiquid with a current assets and liabilities ratio of 1.8 percent.

Asset Composition and Quality

Sixty percent of the portfolio of state banks are in arrears: BAMIN, 65 percent; BANEST, 60 percent; and BAB, 49 percent. In addition, seized collateral represents on average 12 percent of total assets: 1 percent for BANEST, 5 percent for BAB, and 30 percent for BAMIN.

Liability Composition

Only BANEST holds public deposits, accounting for 45 percent of its liabilities; the bulk of the rest of BANEST's funds is from public sector enterprises and the government. About 30 percent of all state bank liabilities are to the Central Bank.

Profitability

Reported return on equity, in book terms was -3.09 percent for BANEST, -16.9 percent for BAMIN, and a positive return of 4.6 percent for BAB. However, because the banks are insolvent, these figures are meaningless.

BAB made 3,051 loans in 1989 to 2,161 farmers and 890 livestock rearers (0.33 percent of the country's farmers). The acreage cultivated by these farmers accounted for 0.61 percent of the country's total cultivated acreage. With such a low coverage, BAB is hardly critical to the country's agriculture sector. Sixty-five percent of BAB's portfolio is in arrears. In order to operate at a profit with its current high expense level, BAB would need a healthy portfolio 20 times its current size.

The new BAB management believes that tightened internal management and controls and reorienting the bank toward serving medium-sized farmers who are more likely to pay its loans would enable the bank to make a profit. The Financial Sector Assessment Team agrees with the World Bank Mission that this strategy is unlikely to work. BAB suffers from a severe lack of credibility with its borrowers, confirmed by the recent rescheduling of

US$13 million of its outstanding loans and by the inadequate guarantees that the BAB demands. The World Bank Mission recommended closing the BAB.

BAMIN is perhaps the weakest of the state banks. Its actual financial condition is worse than reported because its financial statements are reputed to be especially inaccurate. Its loans are concentrated with a small number of favored borrowers, and its board is controlled by the private sector mining industry.

BAMIN's management, like BAB's, has a restructuring plan, which involves rearranging its portfolio, dropping nonremunerative activities, and rescheduling its debt. The credibility of BAMIN's management is even lower than BAB's, because its board just voted against vigorously pursuing delinquent loans. The World Bank Mission recommended that BAMIN's lending be stopped, its assets be sold, and its debts be valued and collected. It also suggested that some of its peripheral activities might be sold to private parties.

BANEST has been insolvent since 1985. Attempts to make it a commercial bank have failed. Even its newest loans have turned out to be hard to collect. The World Bank Mission recommended cessation of new lending and that BANEST be limited to performing functions for the government and Central Bank and helping to control public enterprises. Meanwhile, the government will explore transferring BANEST's remaining function to private sector commercial banks.

The state banks are moribund, and a revenue drain on the budget and the overall financial system. They provide no meaningful financial services and cost the government and public heavily.

The World Bank Mission reviewed various non-bank intermediaries, cooperatives, credit unions, and nongovernmental organizations (NGOs) as potential alternatives to serve some of the clienteles the public sector banks were meant to serve, specifically small-scale farmers and businessmen. These non-bank intermediaries are small in terms of assets and are experiencing some difficulty themselves. They will require extensive technical assistance and strong supervision by the Bank Superintendency. The Inter-American Development Bank is planning a project with such groups and will soon survey 20 or more to work out detailed selection criteria.

There are approximately several hundred NGOs in Bolivia, a number of which have undertaken credit programs, usually at subsidized rates and with high arrearage. To this number could be added the 185 credit unions affiliated with FENACRE and the mutual savings societies connected with CACEN.

Both FENACRE and CACEN have had bad experiences with agricultural credit. CACEN ran into difficulty with a rural program it operated in Trinidad that involved more than $700,000. Currently 18 percent of the mutual society portfolios are in arrears. FENACRE had 15.5 percent of its portfolio in arrears and had made provisions for another 30 percent. Despite its difficulties, FENACRE intends to use several million dollars of Inter-American Development Bank funds for 2,000 rural borrowers using six field agents.

There are a few other agricultural finance institutions, typically dealing with larger farmers. The Fondos Ganaderos had a portfolio that was 34.6 percent in arrears. The Financiera de Desarrollo SAM had only 7.2 percent of its loans in arrears. These are small lenders in contrast with the private sector commercial banks that have begun to lend to the larger farmers, estimated to number 33,000 of 920,000 farmers in the country. The commercial banks lent US$51 million dollars for agriculture in 1989, or US$110.7 million if agro-industry is included; US$30 million of these loans was against Central Bank refinanced lines.

Two second tier lenders also exist or are proposed. The Fondo de Desarrollo Campesino, founded in 1989, intends to be a major credit source to NGOs and informal groups. It is scheduled to give US$82.5 million dollars of loans in the period 1990-1991. One member of the Financial Sector Assessment Team indicated that the Fondo was not ready for such an ambitious program and that the money involved is likely to be lost. The World Bank Mission agreed, but was somewhat less pessimistic, and simply recommended that the fund limit itself to donor money, rather than try to intermediate deposits or deal with borrowers who could deal with regular financial institutions.

Chapter 6

CAPITAL MARKETS

Capital markets provide long-term debt and equity finance for the government and the corporate sector. By making long term investments liquid, capital markets mediate between the conflicting maturity preferences of lenders and borrowers. Capital markets also facilitate the dispersion of business ownership and the reallocation of financial resources among corporations and industries.[22]

Background

The most serious deficiency in the Bolivian financial system is the lack of sources of long-term investment capital and formal risk capital instruments and markets. These markets encompass the accumulation, transfer, and exchange of medium and long-term risk capital (both debt and equity) to complement the short-term, lower risk loan capital mobilized by the banking system. In order to generate risk capital for development investment, Bolivia must encourage the development of the institutions and instruments of the private capital markets.

Bolivia has taken the first steps in a natural evolution toward more diversified and liquid formal capital markets. With the assistance of the USAID Strengthening Financial Markets project, there has been a gradual development of fledgling market institutions in Bolivia—a regulatory body, a stock market, and brokerage companies.

Securities markets usually start by trading short-term money market instruments, such as government securities, interbank deposits, bankers' acceptances, certificates of deposit (CDs), and commercial paper of

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[22]World Bank. World Development Report 1989. Oxford University Press, Washington, D.C., p. 109.

nonfinancial corporations. Trade of bonds or debentures, which represent general obligations of either governments or public or private corporations, generally follows, as confidence in the market and the issuing companies builds, and as the demand for these type of securities grows, along with the internal capacity of contractual savings institutions (life insurance and pension funds), which attract pools of long-term savings.

Capital Transactions in Informal Markets

In Bolivia, a significant level of capital market activities takes place within the informal sector, well outside organized and regulated institutions. For example, the "inmobiliarias" in Cochabamba attract and place capital equivalent to US$20 million. Money lenders advertise in newspapers. Companies receive loans from individuals or other companies that have excess liquidity at interest rates better than they could achieve by borrowing from the banks. The well-known existence of these informal markets for risk capital demonstrates a pent-up demand for investment capital.

Capital Markets Institutions in Bolivia

Bolsa de Valores

The Bolsa Boliviana de Valores (BBV) began operations in October 1989. Technically, the BBV is a corporation with 88 shareholders, consisting of a group of private parties (founders) who have promoted the establishment of the exchange over many years and brokers who have purchased seats on the exchange floor for US$10,000 each and shares of the BBV itself.

Activities to date on the bolsa, although limited to secondary trading of CDs, has been meaningful. Trading in these money market instruments has reached significant levels. Daily highs of $17 million have been registered, with a 10-month total of more than $340 million. In view of the conditions that prevail in the Bolivian economic and financial markets, this initial year of operations is quite impressive.

Regulators

The Comisión Nacional de Valores (CNV) is empowered to regulate and control the securities exchanges, financial instruments, and those responsible for public offerings and exchange of securities.

Additional regulations published by the Ministry of Finance in March 1988 established the internal structure and functions of the CNV. The President of the CNV is designated by the President of the Republic, and it has four members, one from each the following ministries: finance, industry, commerce, and planning. A representative of the Central Bank also sits on the board. A staff of 14 professionals administers CNV's supervisory functions.

CNV is the focal point to (1) help develop new instruments in the capital markets and (2) police BBV activities to prevent and restrict opportunities for fraud, misappropriation of funds, and other illegal activities. Protecting investors and creating confidence in the system are of paramount importance.

CNV is a relatively new organization. The collective practical experience of the staff remains limited. The challenge facing CNV is to gain experience with different types of instruments and to promote their development in the Bolivian market. To become effective, the CNV staff will require considerably more practical experience with the operational aspects of regulation and with the instruments that are new to Bolivian markets.

Brokers

The brokers who are the trading members of BBV are primarily financial institutions. Requirements for becoming a broker include minimum capital of US$70,000 and a guarantee of another US$70,000. Of the 20 authorized brokers, 14 are active. Of those 14, 11 are newly formed divisions of commercial banks. But minimum capital requirements are not the only way to encourage responsible brokerage.

In the long run, the skill and ability of a security firm in the traditional fields of marketing, pricing and customer service will determine its success. We would recommend that a firm be entitled to operate as a security firm with a minimum of capital, but that it be required to demonstrate that it is staffed with people who have received training and skills appropriate to the business. As certifications and licensing systems are developed, the personnel of the securities firm should be required to achieve these certifications.

Bolivia's brokers require extensive education and training to be able to play their essential part in the development of more complex markets involving equities and debt instruments. Hands-on experience with other Latin American securities professionals would seem to be the best method of acquiring this training.

Brokers are responsible for developing potential new issuers and buyers for the instruments that will become available to them. In practice, however, the broker's trading is currently limited to purchases of CDs for their respective banks. There is, however, a growing level of trading for third-party buyers: as noted earlier, 86 percent of CDs were still held by banks as of July 1990.

The brokers recently formed their own Asociación Boliviana de Agentes de BBV. This association is a significant step and could serve as a channel to promote the education and training of brokers.

In their primary and secondary market roles, brokers are prohibited from underwriting and purchasing securities for their own account. This restriction was undertaken as a safety measure to prevent undue risk-taking by the brokers. The restriction seriously limits the market-making function of brokers and limits the underwriter to a "best efforts" placement. As a result, all the risk of an issue is placed onto the issuer, who is not in a position to understand the extent of his risk. Because the measure prohibits brokers from carrying an inventory of stock to satisfy demand as it comes along, secondary trading requires precise matching of offer and bids.

Given the high proportion of commercial banks which operate as brokers, the most obvious purpose of this restriction is to prevent the banks from using depositors' money to operate their securities business. This is a legitimate concern, but it is best treated by other means. We recommend that the banks be required to establish separate corporate structures for the securities business, which would effectively insulate the deposit-taking banks from the financial operations and results of the brokerage business.

We believe that these securities companies should be allowed to pursue the securities business without artificial restrictions such as those which prevent purchasing and selling securities for their own account. The regulatory objective should require that the securities firms present periodic audited financial statements to attest to their financial condition, and that this information be available to the market. The participants in the market can then make an informed choice on the company they will entrust their business with.

Certificate of Deposit Market

CDs are involved in a money market operation that begins with the auction, each Wednesday, by the Central Bank of short-term maturities (1, 3, 6, and 12 months). Interest is computed on a discounted basis. The secondary trading of Central Bank CDs takes place on the BBV, where they compete with CDs issued by commercial banks. It is noteworthy that the yields on CDs issued by the Central Bank are higher than on those issued by the commercial banks. This difference most likely stems from the failure, on one occasion, of the Central Bank to meet a payment on a matured instrument on time. The market has remained nervous about the Central Bank, and therefore demands a higher premium on its paper.

New Instruments: Money Markets

The next challenge facing BBV is the development of new financial instruments that will build trading activity in the market. This will require an ability on the part of the brokers to innovate and sell new financial products on the market.

In the near term, the most promising prospects appear to be short-term money market instruments such as commercial paper, bankers' acceptances, and commercial bills of exchange.[23] Given the gap that exists in the rates of interest between bank deposits and bank loans, qualified issuers could achieve considerable savings by issuing commercial paper in lieu of borrowing from the banking system. The resulting competition in the banking system would be healthy and would help to establish a rate of interest that more accurately reflects the market.

Another prospect could be short-term money exchanges between individuals and firms, a widespread practice in informal markets. Some of this volume could be shifted to the formal markets, which would provide the attendant benefits of better regulation and lower costs.

Issuers are reluctant to place their paper on the BBV. They fear that they will have to make too much of their business public. At the same time, several of the firms that could issue high-quality paper can arrange cheaper finance privately as corporate deposits. As the treasurers of big corporations explain, they become their own financiera, taking public deposits directly. Success in selling paper to potential issuers and prospective buyers would depend on an active, aggressive underwriting and brokerage industry capable of bearing its share of the risk of an offering.

Debt and Equities

Privatization of state-owned companies will provide an unparalleled opportunity to develop a broad range of securities, that is, equities, long-term debt instruments, convertible debentures, and municipal debt instruments. The recommendations for pursuing this opportunity have been developed in the recent study of privatization by Price Waterhouse.

As a result of the Strengthening Financial Markets project, a new and possibly significant financial market instrument has been authorized, namely, a convertible subordinated debenture designed to be issued by Bolivian banks seeking additional capital from the domestic market. This new financial market instrument is an imaginative and important innovation. Its features will include several years of a high premium rate, with a mandatory conversion to equity shares on a formula determined at issuance. The proceeds of the instrument will be included for computation of capital by the Bank Superintendency.

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[23]Commercial bills of exchange or commercial paper are promissory notes with fairly short maturities (normally less than 270 days) sold by firms to raise working capital. A banker's acceptance is a commercial bill for which a bank guarantees payment.

The ultimate success of this instrument will depend on practical considerations such as the interest of the banks in new capital, the conversion price, and the interest rate offered in relation to other less risky investment returns. Like any new product on the financial markets, the outlook depends on proper structuring, a strong level of promotion, and ultimately, price. A number of negative opinions have been offered in interviews on the closed nature of bank ownership, the length of the term, the prospect of a secondary market for liquidity, and the inherent problem for the issuers to determine proper pricing. These are all formidable problems, but they are not insurmountable. The instrument is based on sound logic and could serve as a pattern or catalyst for other financial products. Two sales of the instrument have already occurred.

Another product could be municipal bonds, particularly as the municipalities privatize some of their services. Developing this product will require legal changes to enable municipalities to borrow, be sued, and guarantee obligations. Municipalities will also need technical assistance to improve their fiscal management capability.

Principal Obstacles to Development of Capital Markets

The obstacles to the development of money markets are similar to the factors constraining capital markets in the world generally.

1. Only 5 percent of companies are formally organized as limited liability companies and are thus eligible for listing on the market.

2. Registration and disclosure requirements discourage issuers.

3. Bolivia lacks an underwriting industry with the skills, experience and financial capability to underwrite a new issue.

4. The prospect of failure of an untried instrument and untried market now falls wholly on the issuer, who has no experience in financial markets.

5. The legal rights of buyers of financial instruments in the event of default have not been defined.

6. The return on investment criteria must be quite high in order to compete with the 12 to 15 percent per annum range that investors can reap for short-term deposits in the banking system.

7. The depth of market issuers and buyers and products is limited.

8. The Commercial Code is outdated and does not provide a positive climate for financial assets.

When questioned about capital markets development issues by brokers and the financial markets team advisers, potential issuers most often frame their responses in the form of what they do not want to happen. Their responses primarily reflect a reluctance to experiment with financing their business needs in an unknown market. The four principal responses have been (1) we do not want to open our books, (2) we do not want to lose control, (3) we do not want to be the first, and (4) we do not want to have an unsuccessful sale.

Experience has demonstrated that well-designed programs of technical assistance, policy change, and training of market participants will bring about the changes necessary to promote the development of a capital development market. It should be noted that no amount of institutional development will succeed in creating an active market if the pace of investment in the economy remains stagnant. In this report we recommend interventions designed to build the skills and the institutional framework for more active capital markets.

Technical Assistance and Training Needs

The challenge confronting BBV and the securities industry will be to expand the participation of private sector issuers and investors and to motivate private sector intermediaries to serve as catalysts for bringing issuers and private investors together by offering specific new products. Meeting this challenge requires a realistic time frame and a substantial amount of technical assistance.

To the extent that BBV and the industry develop equity and long-term debt products, the problem of valuation will become more difficult and will require skills that do not exist in Bolivia today. Valuation of the limited number of existing products is relatively simple: pricing is limited to short-term interest rates. Long-term debt instruments trade on prices relative to fluctuation in interest rates for which no real base exists in Bolivia. More challenging still will be the ability to value equities. The brokers and underwriters who will assume this responsibility will require education and training, as well as on-the-job training with market participants in functioning markets in other parts of the hemisphere.

Insurance Companies and Pension Funds

The establishment of an active and healthy insurance and pension fund industry is a high priority for the development of Bolivia's financial markets. Insurance and pension funds develop sources of long-term savings for investment in the economy. They have the potential to grow into a significant source of institutional demand for the financial products being developed for the markets.

The insurance industry in Bolivia includes 15 companies and a cooperative. Of these, four companies account for two-thirds of the business. Total industry premiums paid in the past year approximate $25 million. Of this amount, most relates to property, casualty, and motor vehicle products, with very small amounts of life insurance. It is interesting to note that the Government of Bolivia and the state-owned enterprises account for an estimated one-half of total premiums paid.

An estimated 80 percent of the insurance risks are reinsured through traditional international groups such as Lloyd's, AIG, and IRI. Reinsurance premiums are quite high; fire insurance is priced at 1.3 per mil compared with 0.7 for comparable insurance in Chile, which also includes earthquake coverage, unlike Bolivia.

After payment of the various fees and commissions, the industry develops only approximately $6 million in funds that can be invested in the financial markets. By law, investment is directed into real estate and public and private sector bonds. A significant amount of the real estate investment is directed by the government, which accounts for the near bankrupt state of several companies holding these assets.

The regulatory environment is unnecessarily restrictive, and the Insurance Superintendency appears to be ineffective. Industry statistics have not been published for 1988 or 1989. Investment regulations that mandate the channels for available investment funds are outdated and responsible for many losses. The future growth of the industry will depend on creating a legal and regulatory environment in which insurance companies can compete as financial intermediaries with broader investment options consistent with sound operations and the development of capital markets.

Aside from total reform of the insurance laws and regulation, future growth will require the development and sale of new products. One new product currently receiving attention is health insurance, a new concept in Bolivia and one that has grown dramatically in the last 3 years. Another new product possibility is third-party motor vehicle coverage, again a new concept for Bolivia. New legislation would be required to expand third party-coverage to private vehicles, but this program alone could expand industry premiums by US$10 million.

Pension funds exist for employees of the government and state-owned enterprises, but they are primarily unfunded obligations with no assets. Private sector pension funds that existed before the hyperinflationary period of the 1980s were largely wiped out. Today, pension funds do not represent a meaningful amount of financial assets, nor do they have a significant number of participants.

There is substantial merit in rehabilitating the private pension fund industry. As the case of Chile illustrates, the results could be dramatic. Currently, the 19 Chilean pension funds are collecting and investing some $60 million per month. In Bolivia, however, the development of such funds will require creation of a completely new legal and regulatory regime. The potential of private pensions funds as a source of long-term savings is so great that USAID should consider the provision of technical assistance toward creation of the required environment a priority of its financial market development assistance effort.

Creation of mutual funds would be an important institutional development in the financial markets of Bolivia. Mutual funds would be appropriate candidates for USAID support and assistance in their early stages. They could be important in attracting the savings of the working classes to, for example, privatized state enterprises, or even to short-term money market instruments. Here again, an investment law adjusted for operation in Bolivia should be enacted. Technical assistance for mutual fund promoters would help to foster their promotion.

Taken together, the insurance industry, pension funds, and mutual funds represent a high potential source of long-term savings that are missing from the current makeup of the Bolivian financial system. With longer term objectives than are expected from the banking system, these types of institutions are a necessary evolution in the growth and development of the financial system in Bolivia.

Conclusions

The development of deeper and more diversified risk capital markets is a high priority of any plan to improve the ability of the Bolivian financial sector to play a role in the financing of development. Improved capital markets will be especially crucial if and when the Government of Bolivia decides to pursue the privatization of state-owned companies. In a real sense, the development of capital markets and the privatization of these companies are intimately linked.

Development of the stock market (BBV) has been impressive over the past year. Notwithstanding the numerous constraints on the environment, the amount of trading has reached substantial levels and has provided the market and its participants with essential practical experience. This experience, although limited, must now be leveraged into other kinds of instruments.

Short-term expectations for dramatic new departures through new instruments and listings on the BBV should be modest. It is unrealistic to expect that capital markets will grow rapidly on a self- sustaining basis with the current state of education and training, the limitations of the current financial system (detailed in this report), and the small size and relative youth of the current financial system.

The apparent lack of desire and incentive on the part of potential private sector issuers is a significant obstacle. Yet experience in markets around the world suggest that this factor is present during the early stages of every emerging capital market. Nevertheless, as the capital markets in other countries (Indonesia, Thailand, Taiwan, and Korea, to name only a few of the most successful) have grown, family dominated companies have shrugged off their traditional attitudes and entered the capital markets primarily because it had become good business to do so.

In the absence of actual experience with market operations, potential issuers understandably may view the market with doubts. As genuine issues are brought to market, the demonstration effect will, over time, help to break down this reluctance. The more the market represents a real financial opportunity, the more potential issuers will want to access it.

Along the way, trends in other sources of financing will have an influence as well:

As long as commercial banks and development banks continue to make loans to borrowers without requiring audited financial statements from those borrowers, debt markets may appear to be more attractive. Good financial regulation, however, should require the use of these statements, and thus contribute to the breakdown of reluctance about proper financial disclosure.

As long as banks extend short-term loans to borrowers with little regard to the appropriate "debt/equity" ratio which the borrower should maintain in order to qualify for further lending, debt markets will appear to be more attractive and permissive. Such lending, however, can only be classified as "quasi-equity" or "junk financing."

Industrial and commercial enterprises faced with the necessity for new equity in order to maintain acceptable debt/equity ratios or to support growth or expansion will realize the imperative to access the market. The shorter term money markets will feel this drive in the beginning; but gradually, assuming continuation of economic growth and stability, one would expect longer term debt or equity issues to come on to the market.

As the markets grow and become a more familiar feature of the financial system, the perceived need of some investors for liquidity will become a more important force, leading to the further growth of both the new issues market and the secondary market.

For the foreseeable future, financial instruments are likely to be limited to short-term money market instruments. This is significant and should be strongly encouraged. The benefits to the system would be great, principally as a new source of competition to the banks, with all the benefits that competition brings. A few medium or longer term issues may be feasible in the short run, but it would be too much to expect this part of the market to expand until more sources of long-term financing demand become apparent.

The absence of any meaningful level of long-term savings pools in the economy of Bolivia creates inherent limitations to a capital market. Effective reform and development of insurance and pension fund industries are essential. The addition of a mutual fund industry to the range of market institutions would be useful.

Chapter 7

INFORMAL CREDIT MARKETS IN BOLIVIA

Informal financial activity, or informal credit markets, is financial activity conducted outside the purview of government regulations. Our survey excludes illegal financial activities such as prostitution, gambling, theft, and the drug trade.

Little is known about informal finance because of its "invisibility." However, several estimates indicate that urban informal markets in Bolivia (La Paz, Santa Cruz, Cochabamba) conduct business equal to about US$150 million to US$300 million per year.

The purpose of studying informal financial markets is to (1) assess how they complement formal financial markets, (2) understand their role in providing credit to small borrowers who may be considered marginal credit risks by formal sector institutions and (3) develop either policies to enhance their contribution to economic development or financial systems that mimic their characteristics, thus increasing borrower access to them.

Characteristics of Bolivian Informal Credit Markets

Informal sector enterprises are the most common form of business in Bolivia. The informal economy is estimated to employ approximately 60 to 65 percent of the economically active population and generate more foreign exchange than does the formal sector.[24] It is estimated that in La Paz alone the informal sector provides 74 percent of the jobs in manufacturing, 56 percent in construction, 43 percent in transportation, and 86 percent in commerce.[25] Informal sector enterprises tend to also be small enterprises,

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[24]The Economist Intelligence Unit, *Country Profile, Bolivia*, 1989-1990.

[25]USAID. Micro and Small Enterprise Development Project Paper, Aug. 1988.

with some 92 percent of them employing fewer than four persons, according to the Bolivian Chamber of Industry.

Development of informal credit mechanisms in the informal productive sector has resulted from (1) its expansion, (2) the number of participants in it, and (3) the limited credit available to it from formal channels. In addition, loss of confidence in the formal financial system following dedollarization and the period of hyperinflation (1983-1985) caused people to search for alternative credit sources, which led them to informal financial institutions.

The distinguishing characteristic of Bolivian informal financial markets is that they appear to pervade all economic strata. Informal financial markets serve large as well as small firms. This chapter examines the role of informal finance across different sizes of firms in Bolivia.

Sources of Formal and Informal Financing

To determine the sources and proportions of credit used by entrepreneurs, a structured survey of 30 small, medium-sized, and large enterprises was conducted in La Paz (see Appendix C for methodology and results). A questionnaire was used to determine the primary sources of finance and to estimate to what extent and why the firms used informal financing. The Bolivian Chamber of Industry defines small industry as 5 to 14 employees, medium industry as 15 to 29 employees, and large industry as 30 or more employees. The most significant findings of the survey are described in the next sections.

Extent to Which Firms Resort to Informal Finance

Loan Use

The firms surveyed cited working capital as the major use of loans. The following table summarizes the reasons given for borrowing. (Note: Multiple answers were given for each type of loan use; totals are number of firms responding in each category and percentage of the 30 firms surveyed.)

	Small		*Medium*		*Large*		*Total*	
Loan Use	*No.*	*%*	*No.*	*%*	*No.*	*%*	*No.*	*%*
Working capital	9	82	6	86	11	92	26	87
Fixed assets	8	73	6	86	6	50	20	67
Emergency	1	9	1	14	5	42	7	23
Total	11	100	7	100	12	100	30	100

Average Loan Sizes

As can be expected the range of average loan size increases with the size of the firm. Of small enterprises, 45 percent borrowed $1,000 to $10,000, whereas 57 percent of medium enterprises borrowed $10,000 to $50,000, and 50 percent of large enterprises borrowed more than $100,000.

Average Loan Length

Average loan lengths also increase with the size of the firm. The majority (45 percent) of small enterprises borrowed for less than 1 month, often from suppliers. Of medium-sized enterprises, 86 percent borrowed for periods between 3 and 12 months; 33 percent of large enterprises had loan terms of more than 1 year.

Average Loan Terms Needed

Fifty-six percent of the total sample group said that they needed credit terms of 1 to 3 years, both for working capital and fixed investment purposes. As can be expected, the desired terms increase with firm size.

Informal Finance Mechanisms

The providers of financial services share common characteristics and provide similar intermediation services to clients. Services are provided by (1) family and friends, (2) suppliers, or (3) professional money lenders, pawnbrokers, tradespeople, and associations of acquaintances. The third category includes "prestamistas," who are individuals who lend money, often their own; "casas comerciales" (commercial houses), which often are involved in import and export activities and offer intermediate credit for a commission; and "inmobiliarias," which initially started as real estate houses and subsequently became involved in financial intermediation. Another category includes "tramitadores," individuals who facilitate the paperwork involved in lending, such as validating collateral, for a fee.

The unifying factor among these operators is that they lend money informally, at more or less uniform rates of interest and terms. The main difference among them is the number of clients they have and the volume of money they manage. In our survey, the prestamistas were the largest group of informal lenders. Their average loan amount was less than $1,000, and their volume of transactions per month averaged $1,600. The Central Bank reports that there are roughly 880 prestamistas in La Paz. If this figure is accurate, it can be estimated that in La Paz alone prestamistas move $33 million a year.

A Central Bank study estimates that these intermediaries nationwide account for between Bs 8,342 million and 1,025 million a year.[26]

How They Operate

The informal market money lenders promote their services in the classified section of the major newspapers in the country. Both borrowers and lenders advertise freely; sometimes the same firm advertises as both borrower and lender. In *El Diario*, we noted 34 ads on a given day, of which 20 were from lenders and 14 were from borrowers. The total number of advertisers during a 2-week period averages approximately 40. Several advertisers had different advertisements and different telephone lines for different market segments.

Several inmobiliarias, particularly in Cochabamba, operate as "investment houses." (See Table 7-1.) They attract savings from the public, offering rates of 5 to 6 percent monthly on savings accounts, compared with formal bank rates of 1.5 percent monthly. Rather than on-lend these funds, they usually invest them in their own businesses (which are alleged to be money-laundering facilities for drug money). Many inmobiliarias are "fly-by-night" operations, although others have been in operation for several years. In 1986 and 1987, many of them shut their doors overnight, fleeing with more than $30 million in savings.

Source of Funds

Of the sample of informal financial sources surveyed, 25 percent lent their own capital, 10 percent were intermediaries between savers and lenders and charged commissions ranging from 4 to 6 percent, and 65 percent lent a portion of their own funds and a portion of borrowed funds. Of the 65 percent, 33 percent owned 30 percent of the capital, 11 percent owned 25 percent, 11 percent owned 10 percent, and 11 percent owned 5 percent. When asked what sources of capital they had besides the portion they owned, 42 percent borrowed from formal banks in the range of 25 to 30 percent of total funds at 2 percent monthly interest rates), and 58 percent received a portion of funds in the range of 70 to 95 percent from savers.

From the 1985 survey by ACCION of 231 micro-traders, and 246 micro-producers, the following sources of finance were identified: own funds (68 percent), family or friends (9 percent), money lenders (9 percent), banks (3.5 percent), partners (3.5 percent), non-bank institutions (1.1 percent), and others (2.2 percent).[27]

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[26] January 1989 exchange rates.

[27] Products on consignment or installment credit.

Table 7-1. Financial Activities of the "Inmobiliarias" (Cochabamba)

Firms	Capital Bs.	No. of Clients	Deposits (US$)	Investments (US$)	Interest (US$)	Tax Evasion (US$)
FINSA	260,000	5,800	9,217,479	7,096,000	460,874	46,087
MULTIACTIVA	60,000	3,100	8,102,000	8,013,000	405,100	40,510
VIAL	600,000	790	1,562,800	893,000	93,768	15,628
ORCOBOL	49,000	76	60,385	125,000	3,623	362
INVANC	30,000	32	7,625	19,581	2,357	236
TOTAL	999,000	9,798	18,950,289	16,146,581	965,722	102,823

SOURCE: Superintendencia de Bancos, Direct Communication

Registration

Of the 13 firms that responded, 77 percent were registered and 23 percent were not. However, they are often registered for only a portion of their actual activities. Thus, they may be registered as attorneys or real estate agents, but not as loan brokers.

Loan Size

The range in loan sizes demonstrated the wide variety of market segments served by lenders. The range in the sample group was $50 to $90,000. Average loan sizes varied within the group, from $100 to $15,000, and 58 percent of the lenders had average loan sizes under $2,000. The two prestamistas in the sample had average loan sizes of under $1,000. The average loan size of the 12 largest respondents was $3,550.

When asked for their criteria for lending, all firms responded that they lent primarily on the basis of collateral. Only 50 percent mentioned personal knowledge of the client as a factor in lending. The following table shows the forms of collateral required.

Form of Collateral	*Percent*
Mortgages	55
Telephone lines	50
Property	45
Vehicles	40
Jewelry	25
Checks	10
Promissory notes	10
Household appliances	5

Interest Rates

The majority (75 percent) of lenders operate as financial intermediaries, charging a 6 to 8 percent commission fee for "matchmaking." These lenders bear the risk of default only for loans made from their own funds. The lenders who own their capital charge interest rates of 3.5 to 10 percent monthly and do not charge a commission fee. Of the remaining 75 percent of the sample, 50 percent pay their depositors a monthly interest rate of 5 to 7 percent, and 25 percent pay 6 to 8 percent. Lending rates are the same as borrowing rates.

Effective Interest Rates

All lenders in the sample require that the first interest payment be deducted up front, and those that charge commissions deduct both the commission and the first interest payment up front. The monthly interest rates apply to the total amount of the loan, not the declining balance.

Loan Disbursement Time

Ninety-five percent of the lenders disbursed loans within hours, or at most, one day, assuming documents were in order.

Loan Use

Clients borrow for several reasons: working capital (100 percent), emergencies (58 percent), fixed investments (33 percent), and consumption (8 percent).

Arrears

Ninety-two percent of the lenders said that they had clients in arrears. The percentage of clients in arrears ranged from 1 to 100, with the average claiming 25 percent and 42 percent of the lenders claiming less than 10 percent of clients in arrears. These percentages compare favorably with the clients of formal banks, which have an average of 20 percent of their portfolios in arrears. In the case of default, collateral is sold or auctioned almost immediately. Many lenders bring suit, because all loans are signed contracts between the lender and borrower.

Comparative Advantage

Most of the informal financing sources interviewed claimed that clients preferred their services to those of banks, because of the delays, excessive paperwork and bureaucracy involved in obtaining bank loans. Banks generally are not interested in processing loans of less than $10,000. They also have more rigid requirements concerning types of collateral than the informal lenders. However, it does not appear that most lenders in the survey lend to marginal groups, given their collateral requirements and average loan sizes. It does not appear that they lend to the microenterprise sector.

Supplier Credit

The importance of supplier credit in the informal financial sector was underscored by 46 percent of the entrepreneurs interviewed. According to the sample, large firms (67 percent) were more likely to use supplier credit than were medium-sized (40 percent) or small (27 percent) enterprises.

Policy Implications and Options

Informal credit markets have a positive role in financing productive activities that are not served by formal lenders because of cost, perceived risk, and lack of know-how. The main virtue of informal credit markets is that they provide credit to people who do not meet the standards for borrowers established by the formal financial markets.

Chapter 8

KEY SECTORS AND DEMAND FOR CREDIT

Assessing the credit needs of the various sectors of the Bolivian economy is difficult. Data are available only on the expressed needs of a limited number of formal sector firms. (Table 8-1 provides general background information; Tables 8-2 through 8-12 present data on formal sector firms. The tables can be found at the end of the chapter.) No data are available on the bulk of Bolivian firms, whose credit needs are served by the informal sector. In the following sections, formal sector data are provided based on actual demand as gathered in a short set of studies conducted by Muller Asociados economists. Data are provided on agriculture,[28] mining,[29] the industrial sector,[30] and the commercial sector,[31] followed by a discussion of development finance needs and sources.

Agriculture

The credit needs in four major agricultural regions in Bolivia are described below. In all cases credits are granted in dollar-indexed terms. Suppliers' and buyers' credits are becoming a major source of working capital for the agricultural sector because of the scarcity of bank credit. The

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[28]Justiniano, Jose Guillermo. "Actividad econòmica y sistema financiero: el sector agropecuario comercial." La Paz, Sept. 1990. (Study prepared for the "Financial Sector Assessment, Bolivia 1990" project.

[29]Valda, Roberto, and Emilio Ruiz. "Identificaciòn de los factores econòmico-financieros e institucionales que impiden el crecimiento armònico de la mineria boliviana." La Paz, Sept. 1990. (Study prepared for the "Financial Sector Assessment, Bolivia 1990" project.

[30]Sarfaty, David. *The Industrial Sector in Bolivia, 1987: Productive and Financial Aspects*, 1990.

[31]Donoso, Susana. "El sector comercial y su relaciòn con el sistema financiero." La Paz, Sept. 1990. (Study prepared for the "Financial Sector Assessment, Bolivia 1990" project.)

agricultural credit demand figures we have are only for the larger, more commercial farms, especially in departments of Santa Cruz and Cochabamba.

Taken all together, the effective demand for agricultural credit by the larger commercial agricultural sector can be estimated at between US$90 million and US$100 million. For all agriculture, including the traditional sector, credit demand estimates range from US$211.6 million to US$785.8 million, as recorded in the memorandum that Miguel Angel Garcia prepared for this project.[32] The Department of Santa Cruz accounts for the vast majority of this demand for credit.

Santa Cruz

The potential demand for working capital for the agricultural sector in the Department of Santa Cruz for the period 1990-1991 is estimated by the Cámara Agropecuaria del Oriente at US$66 million. This working capital would be used to cultivate 350,000 hectares, assuming that farmers would need credit to fund 80 percent of their costs of cultivation. Actual levels of cultivation are much lower, however, and the effective demand for working capital credit is US$30-35 million. In addition, the effective demand for working capital by cattle raisers in Santa Cruz is equivalent to US$10 million.

Traditionally, the Central Bank has financed the working capital needs of Santa Cruz through refinanced credit lines to private sector commercial banks. Since 1987, these lines have become less important. They declined from US$27 million in 1986/87 to $3.1 million in 1989/90. Now, traders' credit and suppliers' credit represent approximately 48 percent of total financing in Santa Cruz. In 1989, PL480 funds were used to finance US$2.508 million in Santa Cruz through private banks in addition to Central Bank refinancing.

Agricultural credit for working capital in Santa Cruz in 1989 is shown in the following table:

	In US$million (to nearest 0.1 million)	*Percent*
Central Bank Refinance Lines	3.1	9.1
Banco Agrícola	0.5	1.4
FINDESA	8.5	25.0
UCF	1.4	4.1
Cooperatives	2.5	3.9
Moneylenders (estimate)	1.5	4.4
Suppliers	7.0	24.0
Agroindustries	4.5	13.3
Exporters	5.0	14.7
Totals	33.9	100.0

[32]Miguel Angel Garcia, "Agricultural Credit: Role of the Agricultural Bank, and Alternative Institutions," 1990.

The use of fixed capital refinance lines in Santa Cruz in 1989 is as follows:

	Percent
Operations	27
"desmonte"	43
Cattle raising	18
Infrastructure	22
Land reclamation	8
Equipment purchase	9
Total	100

The need for fixed capital in Santa Cruz was estimated at US$30 million a year and is distributed as follows: US$5 million for the preparation of new land (i.e., 10,000 hectares per year at US$500/ha); US$20 million for machinery and equipment replacement (i.e., 20 percent of 250,000 hectares at US$400/ha); and US$5 million to import cattle stock.

Beni

In the Beni, cattle growers are selling their 2- to 3-year old cattle to Brazil because of high domestic production costs and extremely attractive prices in Brazil. The credit demand in the Beni is therefore not significant at the present time, but in the medium term Bolivia will again experience shortages in cattle meat and credit needs will re-emerge.

Cochabamba

Working capital for Cochabamba in the past year was provided by private banks including US$591,862 from USAID PL-480. Other funds came from other sources. In Cochabamba, working capital of poultry and floriculture was limited except for a US$250,000 loan for maize purchase to poultry growers from Pl-480 funds. The total Pl-480 finance as we just noted was US$591,862. For fixed capital: US$1.7 million was provided by private banks out of refinance lines, BAB extended US$437,000 to poultrymen and FOCAS extended more than US$1 million for increasing rose cultivation. In addition, the Association of Flower Producers (ASOBOFLOR) is reported to have secured a US$6 million credit from the World Bank.

Yungas

The smaller coffee growers in the Yungas zone in the Department of La Paz normally get their credit for working capital from the traders who buy their crop. But UNDP has extended US$4.7 million in credit to individual producers and US$1.7 million to four coffee cooperatives under the AGROYUNGAS project. Recovery has been difficult and the project is winding down. Also in the Yungas, in 1989, roughly US$2.1 million of credit was extended to cattle-raisers under IDB and BAB programs.

Mining

Credit demand for the mining sector (excluding COMIBOL) for 1989 was equivalent to US$80 million, of which 52 percent is used for working capital and the remaining 48 percent is used for fixed investment capital. This reported effective demand excludes many small units. Medium-sized mining companies demand 46 percent of this credit, cooperatives 30 percent, and small mining companies 24 percent.

Up to March 1990, the credit used (stock of credit) by the mining sector (excluding COMIBOL) was on the order of US$125.4 million, of which medium-sized mining companies received 44 percent, cooperatives 26 percent, and small mining companies 30 percent.

The supply of credit by sources of origin for March 1990 is as follows:

Source of Credit	*US$ millions*	*Percent*
FONEM	12.1	9.6
BAMIN	35.6	28.4
FSE	1.9	1.5
Commercial banks	32.4	25.8
Traders	10.7	8.5
Suppliers	28.3	22.5
Money lenders	4.4	3.5
Total	125.4	100.0

In the past, FONEM (National Fund of Mining Exploration) financed 10 percent of the mining sector, but it is now insolvent. More than 27 percent of its portfolio consists of bad loans. Because of FONEM's poor record of administration for several previous loans, the World Bank did not disburse 50 percent of the US$7.5 million it had planned to loan to FONEM. Further, it has recommended the closing of FONEM.

BAMIN (Mining Bank) provided US$36 million in credit to the mining sector, of which 34 percent came from IDB, 26 percent from CAF, and 10 percent each from USAID and the World Bank. At this point, BAMIN does not have financial resources. It has a warehoused stock of obsolescent machinery and equipment of Russian, Polish, and Czechoslovakian origin that ostensibly is worth US$17.9 million, but, in reality, is of little value. The World Bank has suggested that BAMIN be closed also.

The FSE (Emergency Social Fund) has created a program called "Fondo Rotativo Minero" to provide mining cooperatives with a credit line of US$2 million, of which 50 percent has been used. The program finances the purchase of equipment and provides technical and administrative assistance to the cooperatives.

Commercial banks finance 26 percent of the mining sector's credit requirements. Four banks provide 64 percent of the total credit: Banco

Hipotecario Nacional (24 percent), Banco Industrial, S.A. (24 percent), Banco Boliviano Americano (8.5 percent), and Banco Nacional de Bolivia (8 percent). These banks use funds obtained from USAID, IDB, CAF, World Bank, and the Central Bank.

FONEM and BAMIN have provided credit for investment on concessional terms. Commercial banks provide more expensive credit than FONEM and BAMIN even when using funds from subsidized refinanced lines. Informal credit by traders, suppliers and lenders is very expensive and short term.

Industrial Sector

As in agriculture and mining, actual credit demand figures exist only for the organized formal sector. Any figures must be supplemented by those contained in this report.

When interviewed for the Survey of the Industrial Sector (SIIP) conducted in 1987 by the Chamber of Industries, 75 percent of industrial establishments included in the survey stated that they have problems obtaining financing, and 25 percent said that they do not. Of the 75 percent having problems with financing, 75 percent said that they needed credit for working capital and 59 percent said they needed credit for purchase of machinery and equipment. For larger firms (i.e., more than 30 workers), the percentages were 88 and 40 percent, respectively; for smaller establishments (i.e., fewer than 30 workers) the figures were 74 and 60 percent, respectively.

When the interviewees were asked about which sources they used to meet their needs for working capital and investment capital, they responded as follows:[33]

	Establishment (%)		
Source	*Small*	*Large*	*Total*
Reinvestment of profits	79.0	48.8	76.5
Additions to capital from new investors	3.1	3.2	3.1
Credits from banking sector	9.5	41.5	12.1
Credits from savings and loans	1.1	0.0	1.1
Other private lenders	7.3	6.5	7.2
Total	100.0	100.0	100.0

[33]These figures are somewhat different from those contained in the survey reported in Appendix C and drawn from a somewhat different universe but they point in the same general direction.

As expected, small establishments finance themselves mainly through their own profits and have little access to banking credit. Large establishments finance themselves through the banking system in 42 percent of the cases, but profit reinvestment is a significant source of financing even for them.

The industrial sectors that had the greatest access to the banking system were (1) chemicals (21 percent), (2) food processing (16.3 percent), (3) nonmetallic products (13.6 percent), (4) textiles and clothing (12.4 percent), and (5) metallic products, machinery, and equipment (9 percent).

The total credit stock received by the industrial sector up to July 1990 was on the order of US$222 million. Total credits received by this sector during 1987 were US$49.2 million. This figure was reduced to US$25 million in 1988, US$29 million in 1989, and US$5.5 million in the first semester of 1990. Of the credit received in 1987, 60 percent was used by larger establishments and 40 percent was used by smaller establishments.

The demand for credit in 1987 by the different industrial sectors was as follows:

Industrial Sector	*Credit Received (%)*	*Employment (%)*
31 Food processing	45.1	24.9
32 Textiles and clothing	18.5	28.2
33 Wood and wood products	8.6	17.8
34 Paper and products, printing	4.6	3.5
35 Chemical products	10.0	1.5
36 Nonmetallic minerals	6.1	3.6
37 Basic metal products	0.7	0.1
38 Metal products, machinery, and equipment	5.8	14.8
39 Other manufacturing	0.6	5.6
Total	100.0	100.0

Commercial Sector

The commercial sector was studied through 38 interviews with merchants of different sizes in La Paz, Cochabamba and Santa Cruz. Four categories of merchants were included in the sample: commercial firms (21 percent), big merchants (11 percent), medium-sized merchants (55 percent), and small vendors (13 percent). "Commercial firms" are established firms dedicated to imports, exports, or sales of domestic goods. They have employees and can accumulate stocks. "Big merchants" are wholesalers and retailers; they have employees and the owner is the manager and can accumulate stocks.

"Medium-sized" merchants are retailers and sell in small shops; work is organized around the family. "Small vendors" are retailers in the streets, markets or fairs; they are organized around the family and cannot accumulate stocks. They renew their goods daily.

Because of the small size of the sample and its lack of representativeness, we cannot infer a pattern of behavior of the commercial sector from our findings. Nevertheless, the results appear to show reasonable patterns of conduct.

The commercial firms obtained their credit from banks and suppliers. In 50 percent of the cases credit was greater than US$100,000, and 25 percent was between US$10,000 and US$100,000. In one case, the loan amount was greater than US$100,000, and in the four remaining cases it was between US$1,000 and US$10,000. The big merchants obtained 50 percent of their credits from banks, 25 percent from suppliers, and 25 percent from money lenders.

Medium-sized merchants had more diversified sources of credit: 50 percent was obtained from suppliers, 38 percent from cooperatives and lenders, and 22 percent from "pasanakus"[34] and from within the family. The size of their loans fluctuated between US$100 (33 percent) and US$10,000 (29 percent). Small merchants have access to credit from pasanakus (40 percent) and the family (60 percent). All their loans were below US$500; in 80 percent of the cases they were below US$100, and in 20 percent of the cases they were between US$100 and US$500.

There is a correlation between the type of organization that grants credit and the size of the organization that demands credit, as can be observed in the following figures:

Lender	*Credit Amount (%)*	*No. Credits (%)*
Bank	54.6	15.8
Supplier	40.2	39.5
Cooperatives	3.3	10.5
Money lender	0.9	13.2
Pasanaku	0.1	7.9
Family	0.9	13.2
Total	100.0	100.0

Merchant houses and big merchants take between 70 and 80 percent of the total amount of credit given, whereas 71 percent of the other credit (received by medium and small merchants) represents only 5.2 percent of the total amount of credit given.

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[34] See Chapter 2 for definition.

Credit terms for various commercial subsectors indicate that commercial firms and big merchants receive credit for periods between one month and one year (50 percent of the cases in the latter category), whereas 50 percent of medium-sized merchants receive credit for less than 30 days, and 40 percent of small merchants receive credit for less than 60 days.

The interest rate, as expected, is smaller for the commercial firms and big merchants (e.g., 2 to 3 percent a month in 63 percent of the cases) and between 4 and 6 percent a month for medium-sized and small merchants.

Development Finance, Needs and Sources

The are three ways to estimate investment demand: one can project demand on the basis of historical data, one can use the same historical data and make projections based on a desired level of income growth, and one can sum known investment needs, determined on the base of some sort of survey.

Neither of the first two approaches seem valid in Bolivia now, where investment has been at a low level for several years, and where the question is whether there is demand for sufficient investment to fuel income increase. In their discussions with entrepreneurs and bankers, the members of the team found few projects potentially yielding the over 25-35 percent often required by Bolivian lenders. Further, the widespread evidence of excess capacity and reported disinvestment in many sectors point to limited investment potential at present.[35]

There has been borrowing, for new investment, from FOCAS and Central Bank refinance lines. Some of borrowing is almost certainly rolled over. A great deal goes to agriculture, and all of it up to now has been at subsidized rates. The question is how much of this demand will be sustained as interest rates rise as a result of the relatively recent reforms, especially the auctioning off of funds under the refinance lines. There is also some investment in construction certainly occurring.

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[35]The Chamber of Industry (Cámara Nacional de Industrias) informs us that as of August 1990, industry was using only 51 percent of its installed capacity based on a one shift (8 hours) operation per day. In the last trimester of 1990, as a whole, it was using 59.6 percent of its installed capacity. In the first trimester of 1991, it projected the use of 63 percent of its installed capacity. Only 10 percent of the industrial units affiliated with the Chamber and covered in the survey operated on a three shift, 24 hour basis, 16.5 percent on a two shift basis, and the remainder on a one shift basis.

The existence of idle capacity and disinvestment in many sectors is strong evidence of a lack of interest in new capital investment. In addition, the usual signs of excess investment demand, i.e. pressures on refinance lines, relending of borrowing under refinance lines, and various innovative instruments in the informal market do not seem to be present.

Small industrial enterprises (with less than 4 employees) surveyed in 1987 by the Chamber of Industry did claim they have difficulty getting plant and equipment finance—but the survey does not indicate about whether they would be willing to pay the very high rates currently demanded. Further, the development finance options usually discussed do not concern these units. Their financial needs will be handled, if at all, by microcredit schemes such as PRODEM.

New Project Finance

The supply of credit for fixed capital investment is low. As indicated in previous sections, the capital needs of the current banking customers are met primarily from refinanced lines of credit from the Central Bank. Potentially, another source of new finance would be the new Bolivian stock market, but it has not been a source of new project finance as yet. Informal credit is not available for fixed capital investment except perhaps in buildings.

In terms of fixed capital investment currently advanced by the banking system, agricultural borrowers have more than US$20 million. ASOBOFLOR is reported to have secured a US$6 million credit line with the World Bank. The mining sector has almost US$40 million; and the manufacturing sector, some US$220 million dollars. It is not clear how much of this credit corresponds to actual assets because some of it is given to enterprises that are in arrears and thus represents roll over. In addition, no increment has occurred in these amounts in recent years.

Priority for Working Capital

In any new investment, a large portion of the total is working capital. However, the current demand in Bolivia for working capital is low, as most of the country's productive sectors are idle or working below capacity. Almost fifty percent of the country's industrial and mining capacity is idle. Agriculture as well has a great deal of slack capacity. Working capital would normally be required to activate this capacity and provide increments to income at low marginal cost.

Since money is fungible, whether it is working or fixed capital which is advanced as credit is immaterial. The balance is handled out of equity. However, working capital is easier to finance. It turns over rapidly and is easier to monitor. The physical assets which correspond to it are relatively easy to liquidate.

Working capital finance is a far more important activity in developing country financial markets than fixed and typically long term finance. Consequently, working capital finance usually has some short-term priority. In the long-term, of course, the existence of markets for long term risk capital is critical.

Sources for Long-Term Fixed Capital Finance

New term capital investment is ultimately the motor of what Simon Kuznetz called "Modern Economic Growth", the sustained increase of income. Because efficient direct finance for long-term capital investment on terms that are closer to the lifespans or payback periods of the assets financed is scarce, there have been public initiatives in many countries to promote first development finance and more recently capital markets.

Usually the primary source for fixed capital investment is equity, primarily owner's equity, and the percentage of self-finance is higher the less developed the economy concerned, (World Development Report 1989), however, in poor countries, owner's equity is limited and is often invested outside the country.

The traditional response to the problem of lack of new term capital investment was to supply subsidized capital through development banks. That response is now generally rejected. Neither the government nor the banking system can afford the required subsidies. In any case, due to its fungibility, the additional money is likely to quickly leave the low return activities it is intended to support in order to take advantage of higher returns elsewhere. Furthermore, because of the low interest rates, poor projects are likely to be selected and corruption will be rife.

Precisely because of the fungibility of money, there is a consensus that emphasis should be placed on facilitating the availability of working capital that will permit the activation of high return idle capacity and allow entrepreneurs to invest their own equity in capital equipment as profits grow and opportunities present themselves.

In addition, development banks which are not full service banks do not mobilize savings and thus perform only half of the financial intermediation task. Priority should be given to assisting with the development of those institutions which mobilize local sources of loan term capital, both debt and equity, i.e. insurance companies, pension funds and other capital market institutions.

There is no evidence that another general development finance institution in the Bolivian financial system, primarily financed by donor funds would contribute materially to further <u>financial sector</u> development. The arguments against new development finance institutions in the case of Bolivia are (1) that demand does not seem adequate, (2) that they are typically associated with subsidized credit, (3) that they do not mobilize savings as do capital markets and (4) that, as noted in the World Bank Aide-Memoire (Reviewed in Appendix A), they have a poor history in Bolivia. There is some evidence that a private development finance institution was successful with USAID assistance beginning in the 1960s. But that institution still suffered from the lack of ability to mobilize savings, which is one of the reasons it became a commercial bank. Of course, private development finance institutions of various kinds should develop as demanded by the market and as sources of savings appear to support them. The recommendation in this report of an export finance institution is based on the need to develop a specific technical competence for serving exports in the financial system, not primarily because of shortage of capital.

Table 8-1. Bolivia Sectoral Growth, Investment and Credit, 1981-1989

Sectors	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
GDP Growth										
Agriculture	-0.93	6.92	-17.21	19.03	7.72	-3.52	3.51	2.42	-1.46	
Mining	3.77	-3.04	-7.24	-12.2	-10.63	-14.39	1.52	19.88	15.14	
Manufacturing	-7.75	-12.36	0.19	1.02	-8.32	1.92	2.51	5.43	3.51	
Electric, gas and water	12.53	2.54	2.26	7.78	-3.8	7.4	-5.95	5.52	5.14	
Construction	-10.24	-8.87	0.43	-5.28	-3.67	-21.45	-0.94	14.49	6.46	
Commerce	8.72	-6.62	18.71	-17.14	0.55	10.9	8.17	-3.91	0.29	
Transport and communications	11.65	-4.59	0.53	8.05	4.75	5.33	5.13	0.44	2.33	
Financial institutions	-2.43	-3.1	-7.85	0.5	2.21	-4.7	-4.07	1.11	0.71	
Communal services	-0.49	-3.03	-9.64	-5.97	-2.9	-1.72	-3.01	1	0.72	
Public admin. services	1.96	4.21	-3.18	-4.02	-5.76	-15.97	2.44	-1.5	1.2	
Domestic service	2.84	2.18	2.14	0	0.93	0.55	-2.06	1.12	0.42	
GDP at buyer price	0.92	-4.36	-4.46	-0.6	-0.97	-2.49	2.6	2.96	2.79	
Investment growth										
Agriculture	50	-74.51	40.38	83.56	102.96	46.35	-39.65	-45.04	-7.52	
Manufacturing	31.96	-28.88	12.53	-33.85	32.59	10.65	-11.8	2.77	8.29	
Construction	54.55	-27.99	21.97	-26.79	-17.03	27.76	10.71	-20.7	27.12	
Transport	47.22	-54.24	7.52	16.38	30.94	0.56	16.48	-22.56	4.07	
Credit growth										
Agriculture	-13.11	-24.91	-51.95	57.45	52.36	6.68	31.07	28.96	40.28	-26.32
Mining	-10.81	31.64	-46.93	30.3	49	-43.91	23.04	21.6	66.51	-5.83
Manufacturing	-3.81	88.48	-57.16	4.22	83.07	-27.89	45.37	12.73	23.45	-8.38
Construction	33.52	-6.92	-58.94	-6.04	-2.64	17.42	21.02	-16.12	104.22	-13.66
Commerce	32.28	-20.3	-62.21	-11.96	74.93	0.39	73.31	11.18	3[illegible].85	38.64
Other	-11.57	-20.26	-61.39	-1.26	341.31	-43.03	47.15	-66.71	-3[illegible].45	173.82
Total credit	-1.42	-14.64	-56.97	13.81	95.94	-21.93	42.68	18.52	27.91	-1.19

SOURCE: UDAPE - "Estadisticas Economicas de Bolivia", La Paz, July 1990.

Table 8-2. Industrial Establishments by Sub-Sector and Size of Establishment, 1987

Subsector	Number of Persons Employed 1–4	5–14	15–29	30+	Total
31 Food processing	2,911	165	33	51	3,160
32 Textiles, clothing	3,432	84	27	38	3,581
33 Wood products	2,068	160	26	12	2,266
34 Paper products	372	55	12	12	451
35 Paper products	105	42	23	16	186
36 Non metal minerals	368	62	14	14	458
37 Basic metals	6	7	1	0	14
38 Machinery, equipment	1,697	137	26	16	1,876
39 Diverse manufacturing	701	17	3	0	721
Total	11,660	729	165	159	12,713

SOURCE: Chamber of Industries Survey of Industrial Sector (SIIP Survey), 1987.

Table 8-3. Qualitative Analysis of the First National Survey of Private Industry

Responses	Responses by Number of Employees 1-4	5-14	15-29	30+	Total Establishments
Establishments that have no finance problems	363	112	49	56	580
Establishments that have finance problems	1,148	362	94	103	1,707
Problems with operational capital	821	292	77	91	1,281
Problems with working capital	147	61	21	14	243
Problems with capital for machinery and equipment	709	208	49	41	1,007
Problems with capital for building and structure	250	88	27	13	378

SOURCE: SIIP survey 1987.

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Table 8-4. Industrial Sector: Sources of Finance by Larger and Smaller Establishments, 1987

Source	Smaller Establishments 1-29 Persons	Larger Establishments 30 + Persons	Total Percent	Total No
Reinvestment of profits	79	48.8	76.5	1,168
Additions to capital from new investors	3.1	3.2	3.1	47
Credits from banking sector	9.5	41.5	12.1	185
Credits from saving/loan entities (mutuales)	1.1	0	1.1	16
Other private lenders	7.3	6.5	7.2	110
Total	100	100	100	1,526

Source: SIIP Survey, 1987.

Table 8-5. Industrial Sector: Credits Received by Subsectors and by Source of Funds, 1987

Sources	Subsectors									Total
	31 Food Processing	32 Textile Clothing	33 Wood Products	34 Paper Products	35 Chemical Products	36 Nonmetal Minerals	37 Basic Metal Products	38 Metal Products	39 Other	
Domestic public	4,617	4,532	930	139	517	396	0	156	11	11,298
Domestic private	10,235	2,105	2,842	914	2,432	1,382	375	1,138	165	21,588
International organizations	3,135	1,903	239	1,070	273	0	0	120	0	6,740
Foreign governments	120	0	0	0	0	729	0	12	2	863
Foreign private	3,307	318	0	0	128	350	0	870	0	4,973
Savings and loans	147	10	93	107	1,452	62	0	170	9	2,050
Other private	610	208	137	52	123	69	6	397	62	1,664
Total	22,171	9,076	4,241	2,282	4,925	2,988	381	2,863	249	49,176
Percent	45.1	18.5	8.6	4.6	10.0	6.1	0.8	5.8	0.5	100.0

SOURCE: SIIP Survey, 1987.

Table 8-6. Credits Received by the Bolivian Industrial Sector by Size of Establishment and Source of Finance

Lenders	Total	No. of Employees			
		30 +	15–29	5–14	1–4
Domestic public	11,300	4,233	4,507	2,339	220
Domestic private	21,592	14,846	1,663	4,125	957
International organizations	6,742	2,807	1,603	2,064	268
Foreign governments	864	715	88	48	2
Foreign private	4,974	4,720	0	150	103
Cooperatives and savings and loans	2,054	1,563	155	117	216
Other private lenders	1,667	702	207	92	565
Total	49,193	29,586	8,223	8,935	2,331

SOURCE: SIIP Survey, 1987

Table 8-7. Credits Received by the Bolivian Industrial Sector by Size of Establishment and Subsectors, 1987

Lenders	Total	No. of Employees			
		30 +	15–29	5–14	1–4
Domestic public	23.0	14.3	54.8	26.2	9.4
Domestic private	43.9	50.2	20.2	46.2	41.1
International organizations	13.7	9.3	19.5	23.1	11.5
Foreign governments	1.8	2.4	1.1	0.5	0.1
Foreign private	10.1	16.0	0.0	1.7	4.4
Cooperatives and savings and loans	4.2	5.3	1.9	1.3	9.3
Other private lenders	3.4	2.4	2.5	1.0	24.2
Total	100.0	100.0	100.0	100.0	100.0

SOURCE: SIIP Survey, 1987

Table 8-8. Industrial Sector: Working Capital of Larger and Smaller Establishments and by Subsectors, 1987

Subsector	(Thousands Bs.) Total	Larger Establishment	Smaller Establishment	(Percentages) Total	Larger Establishment	Smaller Establishment
31 Food processing	107,495	100,764	6,731	100	93.7	63.0
32 Textiles, clothing	5,183	3,165	2,018	100	61.0	39.0
33 Wood products	2,077	955	1,122	100	46.0	54.0
34 Paper products	2,829	2,257	572	100	79.8	20.2
35 Chemical	3,184	2,000	1,184	100	62.8	37.2
36 Nonmetal minerals	4,184	3,869	315	100	92.5	7.5
37 Basic metals	152	0	152	100	0.0	100.0
38 Machinery, equipment	1,704	479	1,225	100	28.1	71.9
39 Diverse manufacturing	194	0	194	100	0.0	100.0
Total	127,002	113,489	13,513	100	89.4	10.6

Source: SIIP Survey, 1987

Table 8-9. Industrial Sector: Changes in Fixed Assets by Subsectors

Subsector	(Million Bs) Fixed Assets (a)	Fixed Assets (b)	Change in Assets
31 Food processing	347	324	-23
32 Textiles, clothing	261	235	-26
33 Wood products	66	66	0
34 Paper products	34	33	1
35 Chemical	54	55	1
36 Nonmetal minerals	135	129	-6
37 Basic metals	3.5	3.2	0.3
38 Machinery, equipment	113	107	-6
39 Diverse manufacturing	6.2	5.8	-0.4
Total	1,020	960	-60

(a) April 1, 1987.
(b) March 31, 1988.

SOURCE: SIIP Survey, 1987.

Table 8-10. Industrial Sector: Gross Capital Formation and Depreciation, 1987

	(Thousand Bs) Gross Capital Formation	Depreciation	Ratio of GCF to Depreciation	Subsector's Share of Industry Assets	Ratio of GCF to Depreciation Weighted
31 Food processing	39,398	28,201	1.39	34.00	47.26
32 Textiles, clothing	3,349	25,718	0.13	25.60	3.32
33 Wood products	8,766	4,722	1.85	6.50	12.02
34 Paper products	14,815	3,468	4.27	3.30	14.09
35 Chemical	12,405	4,655	2.66	5.30	13.93
36 Non metal minerals	3,563	12,498	0.28	13.20	3.69
37 Basic metals	68	311	0.21	0.30	0.07
38 Machinery, equipment	6,472	9,635	0.67	11.10	7.42
39 Diverse manufacturing	722	452	1.59	0.60	0.96
Total	89,558	89,660	1.00	99.90	102.76
					(Avg) 11.42

SOURCE: SIIP Survey, 1987

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Table 8-11. Comparison of Gross Capital Formation and Utilization of Capacity by Industrial Subsectors, 1987

	Industries that invest less than their depreciation	Utilization of capacity (%)		Industries that invest less than their depreciation	Utilization of capacity (%)
31 Food processing	1.39	50.62	32 Textiles, clothing	0.13	47.04
33 Wood products	1.85	48.46	36 Nonmetal minerals	0.28	46.7
34 Paper products	4.27	48.24	37 Basic metal	0.21	43.36
35 Chemical	2.63	45.03	38 Metal products	0.67	36.81
39 Diverse manufacturing	1.59	45.74			
Unweighted average	2.35	47.21	Unweighted average	0.32	43.07
Weighted average	15.65	–	Weighted average	3.62	–

NOTES: Weights: percentage of each subsector's assets to industry's total assets.

SOURCE: SIIP Survey, 1987

Table 8-12. Industrial Sector Sources of Finance by Subsector, 1987 (percent of establishments responding)

Sources	Subsectors									Total	
	31 Food Processing	32 Textile Clothing	33 Wood Products	34 Paper Products	35 Chemical Products	36 Nonmetal Products	37 Basic Metal Products	38 Metal Products	39 Other	Percent	No.
Reinvestment of profits	72.7	79.7	77.8	75.3	60.0	75.4	87.5	79.1	79.9	76.5	1,168.0
Additions to capital from new investment	3.2	3.6	3.8	3.9	6.2	0.8	0.0	2.9	0.0	3.1	47.0
Credits from banking sector	16.3	12.4	8.0	10.4	21.3	13.6	0.0	9.1	8.7	12.1	185.0
Credits from saving/loan entities (mutuales)	0.0	0.0	2.8	2.6	3.7	2.5	0.0	1.2	1.9	1.1	16.0
Other private lenders	7.0	12.3	7.6	7.8	8.8	7.7	12.5	7.7	9.6	7.2	110.0
Total percent	99.2	108	100	100	100	100	100	100	100.1	100	1,526
Total number	344	251	212	77	80	118	8	338	104		1,526

SOURCE: SIIP Survey, 1987.

Chapter 9

SUMMARY OF RECOMMENDED INTERVENTIONS

Presented in this chapter is a discussion of the priorities for the recommendations made in this report, followed by a summary of the Financial Sector Assessment Team's recommendations for each of the following four categories: (1) policy, (2) technical assistance and training, (3) research, and (4) capital funding.

Priorities

The Financial Sector Assessment Team identified three broad needs: (1) strengthened prudential supervision, (2) financial and technical reorganization, and (3) development of new financial markets.

In general, these recommendations are founded on a basic assumption that the direction of economic policy and efforts to open up private investment opportunities in Bolivia will continue in a positive direction.

Programs recommended for USAID implementation are designed to be complementary to those supported by other donors, the World Bank, IDB, and IMF, particularly their financial sector loans. USAID's ability to provide high quality technical assistance would be a valuable addition to other donor programs.

The emphasis of the recommendations which follow is on the means to provide technical assistance to the financial sector. The first priority is assistance to the commercial banks, the primary element in the formal financial sector. These technical assistance programs will complement the work and financing of the World Bank and IDB. The second priority is to improve the structure of Bolivia's financial sector by helping to broaden and diversify its financial sector institutions and practices, thus enabling the development of money capital markets, as well as institutions which will mobilize long term savings for investment.

The main aim of the suggested program is to increase the range of options available to investors in Bolivia to finance their enterprises. Suggested program elements include providing resources that will strengthen balance sheets with needed injections of equity and long-term debt. Unless equity levels of private firms are increased, the options for financial institutions to finance growth in investment will be narrowed, because companies will have exceeded reasonable limits in their debt carrying capacity.

The short-term priority is to restore the health of the existing financial system including the commercial banks. The long-term priority is to develop equity and medium-term debt sources of finance and the savings vehicles that support them.

The banking system is the key formal mechanism for financial intermediation at present. Practically all of Bolivia's formal financial intermediation interventions are carried out by banks or through banks. The whole financial sector could collapse if the banking industry does not overcome its present problems.

Interventions to assist private sector banks should center on providing a solid regulatory structure that is capable of coming to grips with the banking system's current problems and providing solutions to them. These interventions will most probably lead to a smaller number of stronger and bigger banks operating in a more highly competitive market. The banks will need technical assistance and training to cope with their new competitive market role.

The long-term strategy is to provide greater variety and flexibility in instruments and institutions in order to meet the financing needs of the economy. Building up insurance, pension fund, and mutual fund activity would be a key support for long-term risk capital.

Beyond these two priorities, another area of intervention could be to build on USAID's work with commercial banks and the BBV by expanding the links between the formal and informal sectors.

Another priority would be working with existing institutions (cooperatives, mutuales, and COBANCO) and creating new ones to serve the credit needs of small and microenterprises and farmers. Efforts in this area would fit well with USAID policy interests in pluralism, rural development (especially anti-drug work), and employment and would build on existing experience with the institutions concerned. However, donor coordination in this is area is important since it is an area in which other donors are likely to be active.

The lowest priority is on assistance in developing credit-focused development finance institutions, that is, assisting in the creation of an increased number of credit windows for the economy.

In general, technical assistance and related research should have priority over capital assistance, mainly because, if institutions work properly the need for assistance might not be required. But there are three reasons why some balance needs to be maintained with technical assistance: (1) much technical assistance requires some complementary capital assistance for it to be accepted; (2) because the economy of Bolivia requires overall economic support, the capital component of projects enables this support in the least disruptive form; and (3) technical assistance is far more labor intensive, from a USAID mission's point of view, than capital assistance, and its administrative resources for monitoring technical assistance are likely to run out long before their funds for capital assistance.

Policy Recommendations

The first category of recommendations is on policy. These recommendations are being or should be pursued through policy dialogue. They will involve arenas other than the financial sector. The priority for these policy recommendations is as follows:

General Economy

1. Continue support for economic and political policies that will limit inflation and political and economic turmoil, thus reducing country risk, which is the prime constraint to financial sector development.

2. Support continuation of Bolivian government policies and USAID programs that promote foreign investment and privatization. Support to private sector organizations through these programs needs to be continued.

Banking System

3. We support the World Bank Aide-Memoire's recommendation to close the state banks and the joint effort of the World Bank and the Inter-American Development Bank to develop alternative financial intermediaries. Our own suggestions for USAID are given later in this chapter.

4. Support quick passage of the draft banking law, the autonomy and professionalization of the Central Bank. The new law gives the Bank Superintendency discretionary power to take preventive measures for troubled banks. (This may be particularly necessary because of conflicts of interest on the part of the bank

shareholders who are also major clients.)[36] Support the closing of insolvent banks when easy restructuring possibilities do not rapidly present themselves.

Bank regulatory authorities, specifically the Bank Superintendency and the Central Bank, require technical and financial support to enable them to carry out the additional authority granted them by the new banking law. The aim of this support should be to enable these authorities to implement strategies for strengthening the bank system, including restructuring, liquidating, and merging troubled banks as necessary. In order to undertake task of restructuring, the Bank Superintendency should have a restructuring fund, which is described in the text. The fund should not be used to subsidize the owners of weak institutions or be used to buy nonperforming loans on a wholesale basis.

Capital Markets

5. Support new legislation to permit an expanded role for the private insurance and pension fund industry.

6. Revise and modernize the regulatory and tax regime for the insurance and pension fund industry.

7. Support the rewriting of the Commercial Code and other laws governing financial instruments and capital market activity.

Informal Markets

8. Discourage the Central Bank from regulating informal credit markets. No matter how competent a central bank may be, it is incapable of monitoring these markets, and any attempt to do so would deprive important sectors of the economy of critical finance.

   The longer-term strategy might be to encourage informal agents to formalize themselves and link themselves with formal markets, as well as encourage formal-sector institutions to mimic and

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[36]The Superintendency should obtain regular reports on categories of loans that raise issues because of size or conflict of interest, and the Superintendency will be permitted under the new law to act as it thinks appropriate. When questions arise, outside audits may be required that should especially cover any loan that represents more than 2 percent of the bank's capital, any condonement of interest arrears, and the appropriateness of "other charges" on the bank's profit-loss statement.

compete with them to increase competition and efficiency in financial markets.

Technical Assistance and Training

The second category of recommendation deals with providing technical assistance and training to certain financial institutions. This has a high priority—although responsibility is shared with other donors, particularly the World Bank and the IMF. Assistance to the Central Bank and the Bank Superintendency is most critical, although the prime responsibility will remain with the World Bank and IMF. USAID could play a role, perhaps, in providing advice on the new Small Savers Protection Fund.

Banking System

1. We recommend that USAID consider sponsoring technical assistance to the Bank Superintendency in connection with the Small Savers Protection Fund (SSPF) as well as perhaps some assistance to the Central Bank with its initial contribution to the scheme as noted in Chapter 3.

   Workplan: An exploratory mission of three people—one knowledgeable about Bolivian banking and commercial law, one about prudent regulation, and one knowledgeable about deposit insurance funds should spend 3 months evaluating the costs and benefits of this proposal and alternatives. The experts' report should recommend a specific course of action to USAID and the Government of Bolivia for the establishment of such a fund, including its staffing, needed capital and technical assistance, and complementary policy and legal changes that would be required for setting it up.

2. Provide technical assistance to the Bank Superintendency to design a restructuring fund and to help in its supervision and intervention responsibilities, as outlined in Article 148 of the proposed law. Some USAID capital contribution might be useful in this case.

   Workplan: A team including an expert on "banks in crisis" should be sent to assist the Superintendency in designing this fund and to describe what further technical assistance is required.

3. Technical assistance to private sector commercial banks, and the BBV has been USAID's particular responsibility and it should continue that assistance. The private sector banks are critical because of their overall importance; the BBV is important because

of its potential in helping with development finance and the weakness of the private sector banks. [Review of Strengthening Financial Markets (SFM), Appendix A]

Technical assistance to commercial banks should eventually be provided by an autonomous unit, perhaps located in the Central Bank or elsewhere, which would provide long and short-term consultancy to banks, building up its own cadre of consultants. For weak banks, a strict program of conditionality will have to be set up for such consultancy. Such a unit should work in close cooperation with the Bank Superintendency and donor agencies. We do not think that the banks can take charge of such a unit, either individually or through ASOBAN. They have taken no initiative in this respect and would be faced with conflicts of interest.

The primary incentive for banks to actively seek and use technical assistance to improve their operations will come from a more competitive banking environment and increasingly stricter prudential supervision. Technical assistance units can provide training in basic banking skills which will be of use for all banks that want them. More sophisticated technical assistance, however, should be purchased by banks to meet their own needs and strategies.

Certain kinds of technical assistance may be mandated by the supervisory authorities in connection with remedial programs devised for banks in difficult circumstances. We therefore recommend that the Bank Superintendency or the Central Bank have a technical assistance capability in order to implement these restructuring programs more effectively.

4. In the long term, training should be provided by the autonomous technical unit on an in-service basis to all levels of bank employees—ranging from senior managers and directors to the lowest level staff. Training should be provided in strategic planning, bank finance, asset and liability management, analysis of financial statements, accounting policies, solvency analysis, profitability analysis, credit analysis, international export operations, and internal auditing functions and methods.

The first step is to use training to change the attitudes of top management. We recommend that the SFM Project continue to provide assistance to ASOBAN on a request basis and as resources permit.

We also recommend that the project extend its technical assistance to the Central Bank and Bank Superintendency in support of other initiatives recommended here.

Workplan: Any extension of the SFM project itself.

Capital Markets

5. Provide technical assistance to assist the Ministry of Finance and the Insurance Superintendency to provide a legal basis for expanded operations by insurance companies and pension funds. The potential of these kinds of institutions to aggregate capital and channel it into long-term investments has not been realized. The program should focus initially on assistance to the Insurance Superintendency and the Ministry of Finance in the development of a new law that widens the scope for private initiative in the insurance and pension fund industries.

   Workplan: This should involve approximately 6 months of experienced insurance and insurance regulation experts.

   As new insurance and pension fund institutions are organized, they will require considerable technical assistance, particularly in portfolio investment management. As these institutions develop, they will become the most important institutional investors in capital markets. Technical assistance can be an important influence in getting these institutions' participation off to the right start.

   The establishment of a mutual fund law and regulatory framework under the CNV would also promote useful institutional development in the capital markets of Bolivia. Such devices can offer to smaller investors the possibility of obtaining higher returns in the financial markets than they could obtain in the banking system. Such funds could also provide much-needed competition for funds for existing banking institutions.

   Workplan: This will depend on the recommendations of the team in the previous item. Long-term consultancy may be required.

6. Help develop and implement laws for capital market activities. This would include a draft "ley de títulos valores" (a negotiable instruments law), together with revisions in the Commercial Code and other laws governing the holding of financial assets.

   Workplan: Assistance would require active involvement with the Ministries of finance, justice, and commerce and is estimated to require 12 person-months of experienced securities and commercial law attorneys.

7. Provide the CNV, in particular, with technical assistance in their regulatory role. Also, provide training abroad with comparable organizations and the development of relationships and information exchanges with other securities commissions. Continuing technical assistance is required as well in updating their regulations as well as coordinating with self-regulation by the industry.

   Workplan: This activity could also require up to 12 person-months spread over several years.

8. Provide joint technical assistance to the CNV and tax authorities on modifications of tax laws that would promote the use of traded equities and remove biases in favor of debt finance.

   Workplan: A two-month expert visit might address these issues.

9. The lack of financial transparency remains a fundamental problem in the financial markets of Bolivia. Internationally recognized accounting standards are well known in the accounting profession in Bolivia, but their application in the preparation of financial statements is limited and inconsistent. Provide technical assistance to the accounting profession and the regulatory authorities to devise policies and practices that would mandate the employment of sound accounting standards in all audited financial statements prepared for presentation to either the credit or capital markets.

   Workplan: Three to six months of consultancy will be required to plan for assistance to the accounting profession, regulators, and financial markets.

10. Provide technical assistance to the BBV in order to broaden its capabilities. Among issues to be resolved are those of governance. Links should be established with stock exchanges in other Latin American countries. Technical assistance needs to be targeted to brokers and the institutions they represent, particularly guidance on the development of a retail client base. Public education on the BBV could also be assisted. These tasks should be in the terms of reference of the technical assistance to the BBV itself. Transaction specific assistance to issuers to undertake new financial instruments is also required.

    Workplan: Provide a full-time expert, supplemented by short-term experts as necessary, perhaps as part of the SFM project.

11. Institute a program of public education on banking issues to overcome the negative attitudes of much of the country toward banking. One prototype is a short question-and-answer pamphlet that has been widely distributed in Peru, with good results. By gaining public acceptance, education should reduce perceived country risk.

Research

The third category of recommendations refers to specific research programs that should be undertaken in connection with the technical assistance.

1. Conduct a more detailed study of the state of the legal and judicial process for collection of debt and possession of collateral.

   Workplan: An expert on the private law aspects of banking and commercial law should be employed for several months, with terms of reference to supervise a study, most likely by a local firm, of the actual process of debt collection—through and apart from the courts. The expert should be given a mandate to recommend changes that might improve the situation. It needs reiteration, however, that the prime goal is that the banking system not make bad loans in the first place. Depending on the findings of the expert, USAID might either press for changes in the law or provide technical assistance to the legal departments of banks.

   An expert team should be provided as well to review the Commercial Code and suggest revisions complementary to those proposed in the banking and insurance laws. Specific changes will be required to permit the issuance of municipal bonds and the formation of mutual funds, both of which would help in the creation of a vigorous securities exchange.

2. Conduct a series of studies on commercial bank-related topics, with the objective of improving bank profitability and performance, such as the following:

   a. An accurate determination of actual interest income and expense based on disaggregated accounting information and verification of interest computation in order to determine the reasons for low interest income on loans in good standing. This will permit improved management of assets and liabilities in order to increase net interest yield.

b. Reasons for the banks' spread policies, and why the spread in local currency is higher than in dollars.

c. An analysis of cash management policies to find ways to increase the yield on liquid assets without increasing risk.

d. Reasons for large devaluation losses in relation to dollar accounts but not in local currency with maintenance of value accounts.

e. A related study on how the banks handle currency risk.

f. Strategies for improving the proportion of performing assets.

g. Consequences of eliminating intermediation in local currency with maintenance of value, taking into consideration that interest rates are positive and inflation and devaluation rates are relatively moderate.

h. Study the tax law and the mandatory reserve requirement, both of which affect bank profitability. Neither taxes nor reserves are excessive, however, in comparative terms.

These studies might well be treated as tasks under an extension of the present SFM project and involve collectively a lot of detailed work by local firms, and perhaps 2 person-years of expatriate short-term consultants.

Capital Funding

The fourth category of recommendations addresses possible capital funding possibilities, which are dependent on availability of funds. However, a prime concern is how to introduce those funds in a way that will promote economic and financial development.

We recommend against giving priority to support for an underwriting fund, a fund for bank capitalization, nonperforming loans, an offshore guarantee fund, or a new development finance corporation. The logic of our presentation is to emphasize making the present institutions more efficient and competitive and only then look to any new lending windows.

Support for an export finance facility or bank would be a useful supplement to current export promotion policy and to the development of the technical capabilities of the banking system.

Funds should be provided, whether by A.I.D. or others, to help with a Bank Restructuring Fund and the Small Savers Protection Fund. This is dealt with under "Technical Assistance and Training." Additional amounts might be supplied to support new alternative financial institutions mimicking informal sector characteristics and serving, initially experimentally, some of the constituencies that the informal sector serves; other funds might help promote linkages between the commercial banks and informal markets.

Miscellaneous

Positive Recommendations

Bank Restructuring Funds. Assist in the creation of a Bank Restructuring Fund, as described in the Technical Assistance section.

Convertible Debentures for Bank Capitalization. We endorse these bonds for reasons outlined in the text.

Negative Recommendations

Bank Bonds for Long-Term Funding. Banco Hipotecario Nacional (BHN) suggested the creation of a negotiable financial instrument to be sold on the BBV in order to channel funds and raise medium-term funds without increased Central Bank bureaucracy. These bonds do not appear to be feasible at this time.

A number of miscellaneous funds have been proposed that we think are inappropriate.

Fund to Underwrite Risk. We recommend against creation of a fund that could underwrite the risk or a portion of the risk on new BBV issues. Such a fund could be subject to abuse by underwriters who have made careless decisions on pricing and evaluation. Underwriters with their own capital at risk are less likely to make such careless decisions. We note that the recent Price Waterhouse privatization report has recommended a privatization fund to assist with the numerous problems that will emerge as the state tries to privatize various state-owned companies. However, USAID may eventually want to extend some sort of guarantee to assist municipalities in launching their bonds, but this will be in the future.

Fund for Bank Capitalization. The need to increase the capital base of the private banks has given rise to suggestions of donor assistance to enable banks to strengthen their equity structure. One specific example was that as banks make progress "on reducing intermediation costs, funds would be advanced through the Central Bank of Bolivia in the form of capital notes at a favored rate. These funds would be reloaned at market rates, enabling the banks to repay their capital notes to the Central Bank from the interest rate spread, and immediately increase their capital base."[37]

We oppose this proposal because it will subsidize weak and inefficient banks. There are better mechanisms open to competent bank management than new equity injections, for example, restructuring of internal operations, cost cutting, development of new products and divestment of unprofitable business (including nonproductive portfolios).

Providing subsidized capital to already established banks is unfair to potential new competitors. We do not consider it the role of donor agencies to remove from principal shareholders their prime responsibility for successful management of their business.

Fund for Nonperforming Bank Assets. For the same reasons that we cannot recommend a Central Bank capitalization fund, we cannot support donor funding of the Central Bank to permit wholesale repurchase of nonperforming loans from commercial banks.

New Financial Institutions

A considerable number of new financial institutions have been proposed correcting three interconnected deficiencies in the financial system—in the financing of exports, in the provision of medium- and long-term project finance, and in the provision of formal-sector finance to small and micro-enterprises and farmers. USAID is already committed to export financing and it is discussed at the end of Chapter 4.

Development Finance

Positive Recommendations

Serving Smaller Borrowers

A variety of proposals exist to serve small borrowers. All involve pilot efforts to develop primary level institutions that might eventually serve as channels for donors and Central Bank funds. The World Bank Aide-Memoire proposes a process whereby these institutions will be developed and monitored and suggests several institutions that may have potential to serve small borrowers.

As these institutions develop, the banking technical assistance and training unit should extend its services to them as well—but it must understand that their training and technical assistance needs are likely to be very

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[37]USAID/Bolivia, Action Plan 1991-92, Appendix A, 1990, p. 24.

different from those of the commercial banks and that different sources of expertise should be drawn on. It is important as well that these institutions, like commercial banks, try to perform a role in both mobilizing and allocating savings. They must conform to market forces and prices and operate on sound financial principles. To the extent that they deal with a broader public, the institutions may have to consent to some degree of prudential regulation.

A.I.D. has already dealt with almost all the formal sector organizations involved in this case through its work with microenterprises or in housing, such as CACEN. The challenge will be to coordinate that work with the financial sector work proposed under this project.

The legitimate credit needs of small borrowers are large and are not currently being met to any significant extent by the formal sector. They are, however, being met by the informal sector, and any approach taken toward them will require either linkage with the informal financial sector or support to institutions that mimic that sector. Institutions that mimic the informal sector can increase competition with it and thus lower the rates that borrowers have to pay.

A. **Promote formal and informal financial linkages.** This could be done by increasing the flow of funds from formal to informal sector lenders, through discount credit lines. This is occurring naturally: Forty-two percent of lenders surveyed as part of the study on informal financial markets borrowed a portion of their capital from banks to on-lend, and often deposited earnings and savings in formal banks. It appears that enough lenders exist to ensure a competitive market. Credits could be refinanced through input suppliers or nongovernmental organizations. Based on the widespread use of supplier or trade credit in Jordan, a proposal was put forth to provide a supplier credit guaranty scheme in order to guarantee bank lending to wholesalers, against trade credit provided to the suppliers' clients.

   Given the prevalence of supplier credit in the productive sector (46 percent of entrepreneurs interviewed depend on it as a credit source), a supplier credit program could be supported by A.I.D. in Bolivia. Such a program would draw on existing comparative advantages and lower transactions costs of suppliers in providing such credit. Having increased credit lines from banks would permit suppliers to extend greater amounts and longer credit terms, and banks could continue performing their retailing credit functions.

B. **Mimic the informal sector.** Informal credit markets are often studied so that their characteristics and efficiency can be mimicked by formal credit institutions.

Informal lenders are concerned with the "payback" ability of the borrower. They do not demand intensive business plans, project feasibility studies, and lengthy bureaucratic procedures. They disburse loans rapidly. Borrowers mentioned bank delays as the main reason for borrowing elsewhere, despite the higher costs. Whereas informal sector lenders are not concerned with whether their borrowers are formally registered, banks require extensive legal documentation.

Banks could reduce rigidity in the types of collateral they accept. Even though informal intermediaries demand collateral equal to or greater than that of formal intermediaries, they are more flexible in accepting various forms of collateral that are easier to provide, such as the rights to telephone lines, and jewelry.

It is recommended that A.I.D. support bank training programs that incorporate the more flexible and sophisticated lending practices of the informal sector.

C. **Increase competition.** This could be done by supporting the development of alternative specialized financial institutions that mimic the characteristics of informal lending but lend at lower rates. Current examples in Bolivia include PRODEM and FIE, and the proposed COBANCO, which extend small working capital loans to solidarity groups composed of up to six individuals, each of which is responsible for guaranteeing the group loan. It is recommended that A.I.D. increase its support in this area, particularly in view of the success of these programs in limiting loans in arrears to less than 1 percent.

Workplan: A one person-month team could survey the feasibility of the trade credit scheme or other formal and informal sector linkages.

RefinancingCredit Lines

We recommend continuing refinancing lines in the Central Bank for medium- and long-term finance and welcome the Central Bank's decision to allocate them through an auction, which will guarantee market prices for refinance. These reforms will avoid the current distortions caused by subsidized credit. On the one hand, the facilities should be limited to relatively strong banks that can maintain credit discipline. On the other hand, the refinance lines should be open to new institutions to encourage competition and serve clienteles not currently served, as recommended in the World Bank Aide Memoire. These include "financieras," credit cooperatives, and mutual savings and loans associations. These also need refinancing of their working capital lending as do currently informal agents such as those that extend trade credit, installment credit, and, potentially leasing finance and provide other sorts of financial accommodation. Financing and technical assistance for this recommendation are scheduled to come from other donors, thus we will deal here with only those items for which USAID capital funding has been proposed. A broader consideration of development finance is presented at the end of Chapter 8.

Negative Recommendations

Establish a Development Finance Company

Financial Credit Units (UCFs) were formed under USAID's Departmental Development Corporation (DDC) project as financial intermediaries and were subsequently reoriented as investment promotion entities under the Market Town Capital Formation (Formación de Capital de Areas Secundarias, FOCAS) project.

The FOCAS project contemplated eventual institutionalization of the credit fund, and a proposal was developed during 1989 by representatives of the UCFs to this end. The UCF representatives recommended the creation of a Financiera Nacional de Inversiones Regionales (FINIRSA).

FINIRSA was to be a national organization (central office and eight regional agencies). Credit decisions, portfolio generation, management and maintenance were to be the decentralized responsibility of regional management.

FINIRSA was to be a mixed venture: 40 percent public sector (regional development corporations), 48 percent private sector (cooperatives, banks, and private associations), and 12 percent international agencies.

The FINIRSA proposal depended on credit delivery and management by private banks in each region. Participating private banks would assume all credit risks. A loan guarantee program was intended to assist collateral short applicants to qualify for credit.

The proposal has its merits: it is responsive to regional sensitivities, and, it has the potential for serving credit needs. Overall, however, the proposal is not attractive because of its overdependence on the inefficient commercial banking system.

There is little reason for supposing that FINIRSA could prevent commercial banks from using their credit lines to fund the established, collateral-rich customer base. The loan guarantee program intended to minimize collateral problems would probably result in a weakening of the resolve of intermediating banks to ensure timely repayment of the loans.

Intermediary lenders will likely follow the path of least resistance and favor collection under the program guarantee.

The weaknesses of the second story financing institutions proposal opened the way for consideration of another possible intervention area: the sponsoring of a private sector development bank.

Establish a Development Bank

USAID Bolivia commissioned a feasibility study for a private development finance company (DFC) in Bolivia and assisted in its design. The study concluded in October 1989 that there was a strong likelihood that a successful private development institution could be created with USAID support. It recommended that work be authorized on the design of the organization, financial projections, drafting of the legal charter, and assessment of technical assistance requirements.

On paper, the proposal has its attractions. USAID experience with DFCs in Latin America and the Caribbean suggests that these institutions can occasionally be a valuable complement to existing financial vehicles. They have sometimes helped remove obstacles in the identification, analysis, and financing of development projects.

In practice, because of the fragile business environment (for example, country risk, disintermediation from formal to informal sectors, submerging of traditional economy and emergence of drug-based economy, capital flight, high interest rates, and feeble condition of banking system), the DFC proposal as structured is not a sound, self- sufficient venture.

We do not therefore recommend a DFC as an area of appropriate intervention for USAID, for reasons outlined at the end of Chapter 8.

National Guarantee Fund

We join the World Bank Mission in rejecting a public sector national guarantee fund for small businesses. We agree that the fund would only duplicate the efforts of primary lenders, but at a lower quality level if previous public sector activities are any indication. Local-level guarantee funds may assist the banks in drawing on specialized local knowledge. For example, Banco Industrial (BISA) and FUNDES have developed an arrangement, under which BISA extends credit to small and medium-sized entrepreneurs through FUNDES, which is an agency specialized in lending to this clientele.

Appendix A

EVALUATION OF THE STRENGTHENING FINANCIAL MARKETS PROJECT

The Strengthening Financial Markets project is designed to contribute to the resolution or amelioration of some of the major constraints that are hindering the development of the financial markets in Bolivia. The following constraints are addressed by specific project components: sector-wide inefficiencies, institutional weakness, and country risk.

Sector-wide Inefficiencies: Capital Markets and the Bolsa

The securities exchange component of the project contributes both to increasing the financial depth of the market and to developing a more institutionally balanced market that promotes more competition and financial intermediation options.

In a short period of time the project has made extraordinary progress in developing the institutional foundation for the operation of the securities exchange.

This institutional foundation consists of developing the legal framework; organization; database development; coordination links with the Central Bank, Bank Superintendency, banks, and other selected institutions for the securities exchange; and increasing public knowledge of stock market operations. Significant effort has been given to providing training within Bolivia to participants in securities exchanges.

The securities exchange began operation in the last quarter of 1989, trading short-term certificates of deposit (CDs) issued by the Central Bank. The trading of CDs is only a strategy to start up the market.

The challenge now is to introduce and develop the market for other instruments. The following instruments or trading possibilities are under consideration: the Government of Bolivia's tax reimbursement notes issued to the order of exporters (CENOCREN), municipal bonds of the city of La Paz, commercial paper by partnerships (called "compañías de responsabilidad limitada"; their legal framework is somewhat different from partnerships in the United States), and mutual and money market funds. In addition, three private banks are interested in issuing convertible and nonconvertible debentures.

Institutional Inefficiencies: Private Sector Commercial Banks

The institutional weaknesses of the private banks are addressed by the following project components: (1) technical and advisory assistance to the Asociación de Bancos (ASOBAN) and (2) training the staff of the banks. The project's achievements under the ASOBAN component have been modest. On the basis of the results obtained so far, certain adjustments should be made in the focus and implementation of this component. Fortunately, to a large extent the level of effort dedicated to this component has been much lower than the original design called for.

The most significant contribution of the Strengthening Financial Markets project under this component has been the advisory services provided on issues related to the new bank law proposed by the SB and various other issues (capital adequacy, legal reserve, etc.).

The project design established a technical assistance component to expand and improve ASOBAN's services to its member banks. Conversely, it designated IDEA as the implementing agency for the training component. We believe the effectiveness of both the ASOBAN and the training component would improve substantially if the proposed new technical assistance unit in the Central Bank or Bank Superintendency were the implementing agency rather than ASOBAN and the Instituto de Desarrollo Empresarial Administrativo (IDEA), respectively, for these components.

From a practical point of view, we do not believe ASOBAN is an adequate organization to lead an effort to improve the banking sector. It might not be possible for this organization to respond to the risks facing the banking sector under the current circumstances of insolvency of many of its members. ASOBAN has neither put in place nor drafted a strategy to deal with the major causes of the problems facing the banks.

The project activities called for in the project design, under the ASOBAN component, do not address the key problems of the banks as discussed in Chapter 5 of this report, nor does ASOBAN appear to assign them a high priority in comparison with their usual day-to-day activities.

The project's training component began recently with seminars on portfolio classification. Substantial time and effort have been spent in trying to solve bureaucratic and coordination problems of PROCAF (the training unit established for the bank training program) with IDEA. We do not think that IDEA is committed to training bank staff.

Country Risk: Private Sector Organizations

The project design called for support to private sector organizations as a means of encouraging the development of this sector and triggering the economic reactivation process. We believe the support to the private sector organizations probably has a direct impact on reducing the country risk.

The project support aimed at strengthening the policy analysis capability of the Confederation of Private Entrepreneurs of Bolivia (CEPB), as well as the support provided to seven other private sector organizations in institutional strengthening (improve their administration and improve or expand the services to their members), contributes to reducing the country risk and/or ameliorate its consequences. This contribution is based on the following considerations:

- It strengthens the credibility of the private sector in the country by increasing its influence through focusing its voice;
- It contributes to better national policies through private sector participation in policy dialogue and a broader understanding of issues;

In addition, the project support contributes significantly to the development of the financial markets through their private sector groups' united support of the privatization of state companies and their support of foreign investment.

Appendix B

REVIEW OF WORLD BANK AIDE-MEMOIRE

The World Bank Aide-Memoire of June 1990 contains the findings of a joint World Bank—Inter-American Development Bank (IDB) team and addresses a number of questions connected with the conditionality for Bolivia's Structural Adjustment Loan, including extensive discussion of issues concerned with the management of public enterprises. Slightly more than half the aide-memoire is devoted to the financial sector. We are largely in agreement with the document, although our own report, partly because of our coordination with the World Bank, has a different focus. The bank concentrated on prudent regulation, public sector banks and the alternatives to them, and development finance. With certain exceptions we relied heavily on their work in those areas. We paid greater attention to capital markets, private commercial bank management, the informal sector, and the credit "needs" of the various productive sectors.

The World Bank Aide-Memoire is based on the same principles as our report: (1) support for continuing macroeconomic stability, (2) allocation of credit through market mechanisms at market prices, (3) strengthening supervision of the commercial banks, and (4) placing responsibility for the banks' solvency with their management. This implies no subsidy or rescheduling for the debts of ailing banks, and the closure of insolvent banks.

We strongly support the World Bank Mission's recommendations, although their emphasis is somewhat different. The Mission also extensively treats subjects that were not within their planned scope, such as possible linkages with informal sector institutions and assessment of the state of credit demands. Our detailed studies of bank spreads and yields complement the World Bank's focus on bank costs. Our macroeconomic recommendations are roughly the same as theirs.

The aide-memoire concurs with our conclusion about the generally weak status of commercial banks. The World Bank team, however, reached somewhat different conclusions than did our team on the relative importance of bank administrative costs versus excess liquidity (justified by high deposit volatility and low bank capitalization) and low interest yields in explaining high bank spreads, but the practical conclusions do not differ. The methodologies used differ, and it seems hard to reject either at first view. Essentially, our analysis proceeded from a comparison with similar banking systems in Latin America; the World Bank's analysis derived from a mathematical model of the functioning of the Bolivian banking system.

The World Bank Mission agrees with us that bank supervision should be strengthened. The Mission supports rapid approval of the new draft banking law, suggests a return to the higher capital ratio that was required before June 1990, and eventually a return to a risk-weighted capital standard. The World Bank team also supports a specific 10 percent provision for loans in difficulty (Class 3 loans) and a requirement of financial statements and cash flow accounts for loans greater than 2 percent of bank equity (to move them to a cash flow versus asset protection lending posture).

Like the Financial Sector Assessment Team, both our team and the World Bank team supported the use of convertible debentures to increase bank capitalization. The World Bank team is opposed to matching loans to the banks for recapitalization, wholesale Central Bank purchase of nonperforming loans, and other measures that subsidize weak banks.

Our position in favor of deposit insurance for small savers is exactly the same as that of the World Bank team. We are, however, disturbed by provisions in the proposed plan that would charge the fund with duties other than depositor protection. We recommend breaking out these restructuring activities in a separate fund to which separate technical assistance could be given. This is an issue not covered in the aide-memoire.

The World Bank team endorses considerable changes in the law and judicial procedures for debt collection. We found evidence that the procedures themselves may not be the problem.

We concur with the World Bank team on freeing lending rates on funds allocated through auctions in Central Bank refinance lines. Much of this is somewhat different now because auctions have been introduced since the World Bank team's visit. We certainly endorse the World Bank team's concern that adequate support, technical and otherwise, be given so that the auction works. We certainly concur with the World Bank team as well that only banks that achieve a certain standard of recovery be permitted access to Central Bank refinanced lines.

The World Bank Mission expressed concern with improving the efficiency and autonomy of the Central Bank's Gerencia para Desarrollo, which manages these lines. Our team endorses the specific suggestions to separate the accounts of the Gerencia but leave the Gerencia in the Central Bank to enable monetary policy control, as well as reducing the documentation demands that the Gerencia makes on on-lending banks.

The World Bank Mission recommended the closing of Banco Minero (BAMIN) and Banco Agricola Boliviano (BAB) and the restriction of Banco de Estado (BANEST) activities to serving as a government financial agent until it too is perhaps privatized. We concur, and our treatment of these banks depends heavily on the World Bank team's work.

The World Bank Mission expressed concern about the gap the closure of the state banks might leave in the financial sector but refrained from suggesting the creation of a new public sector, or even subsidized, development finance company. It relied on the gradual evolution of prototypes such as cooperatives, the Fondo de Desarrollo Campesino (farm development fund), and development foundations into ground-level financing institutions. The aide-memoire suggests criteria by which such institutions might qualify to borrow from the multisectoral credit line to be set up jointly by the World Bank and the IDB. Preliminary work is under way by the IDB to survey these institutions and precisely determine eligibility criteria. We endorse these efforts. In contrast with our report, the aide-memoire did not explore the possibilities of linkage with the informal financial sector.

We concur as well with the World Bank team's rejection of the idea of a nationwide small business guarantee scheme; at the same time, we welcome smaller-scale, local guarantee relationships with banks. We are perhaps more apprehensive, or less diplomatic, than the World Bank team on the plans of the Fondo de Desarrollo Campesino to become a major credit provider (see Chapter 5).

The World Bank Mission endorsed the development of capital markets particularly through the development of new financial instruments; promotion of non-bank financial institutions, including insurance companies; support for the stock exchange; and improvement of credit information through use of the resources represented by the Bank Superintendency's Center of Risks. We support all of these initiatives as well as the legal and policy changes suggested to achieve them.

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Appendix C

SURVEY OF CREDIT USED BY ENTREPRENEURS

Methodology of the Survey

A structured survey of 30 small, medium, and large entrepreneurs was conducted in La Paz, using the questionnaire that follows to determine primary sources of finance and to estimate the extent to which and purpose for which firms make use of informal finance. Although financial needs and uses differ by sector, the specific uses of finance, both formal and informal, is covered in each of the sector studies conducted as part of the overall study of the financial sector. This survey was conducted to estimate the use and forms of informal and formal finance by different sizes of urban firms.

Size of the Sample

The survey was conducted of 11 small, 7 medium, and 12 large formal industries, using the definition of size as defined by the National Chamber of Idustry: 5 to 14 employees is a small industry, 15 to 29 employees is a medium industry, and 30+ employees is a large industry. The size of the sample relative to all formal industries in Bolivia is demonstrated below.

No. Employees	*Sample (A)*	*LP (B)*	*(A) as % of B*	*Urban*	*Nation*
0-4		4,638		8,014	11,660
5-14	11	245	4	533	729
15-29	7	52	13	120	165
30+	12	61	20	136	159

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Characteristics of the Firms

The number and percent of firms claiming that they receive credit, in the form of loans from sources other than internally generated capital is summarized below. The survey results show that the credit used by the sample group ranged from $9.5 to $19 million, of which 27 percent, or $2.5 to $5 million was informal credit. Because this sample represents 8 percent of the small, medium and large firms in La Paz, it can be estimated that formal firms in La Paz use approximately $113.5 to $227 million, 27 percent or $31 to $62 million of which stems from informal sources.

Table 1. Firms Receiving Credit

	Small		*Med*		*Large*		*Total*	
	No.	*%*	*No.*	*%*	*No.*	*%*	*No.*	*%*
Receive loans	10	91	6	86	12	100	28	93
Do not	1	9	1	14	0	0	2	7
Total	11	100	7	100	12	100	30	100

Loan Use

Working capital was cited as the major use of loans. As can be seen from Table 2, 87 percent of the total survey group borrowed for working capital purposes, 67 percent borrowed for fixed assets investments, and 23 percent borrowed for emergencies.

Table 2. Major Uses of Loans

	Small		*Med*		*Large*		*Total*	
Loan Uses	No.	%	No.	%	No.	%	No.	%
Working capital	9	82	6	86	11	92	26	87
Fixed assets	8	73	6	86	6	50	20	67
Emergency	1	9	1	14	5	42	7	23
Total	11	100	7	100	12	100	30	100

Credit Sources

As can be seen from Table 3, banks were most often cited as a source of finance, followed by own funds, supplier credit, family credit, moneylenders, credit from partners, and finally from clients. In each category of firm size, the majority cited own funds and bank credit as the most used sources of finance.

Table 3. Credit Sources

Credit source	*Small* No.	*Small* %	*Med* No.	*Med* %	*Large* No.	*Large* %	*Total* No.	*Total* %
Self	8	73	5	71	11	92	24	80
Family/friends	7	64	2	29	2	17	11	37
Moneylender	4	36	1	14	3	25	8	27
Bank	8	73	5	71	10	83	23	77
Partners	3	27	0	0	3	25	6	21
Suppliers	3	27	2	29	8	67	13	43
Clients	0	0	1	14	0	0	1	3
Total	11	100	7	100	12	100	30	100

Credit Proportions

As can be seen from Table 4, the smaller enterprises receive a greater portion of their credit from family and friends than the large enterprises, which is explained by their lesser access to other sources of finance. The large industries, in contrast, had greater access to supplier credit, given their larger volumes and thus more favorable terms. The interesting phenomena is that all categories had access to bank credit, but funded only a portion (25 percent) of their credit needs from this source. The reason was that they were able to access credit for longer-term financing from banks (often up to one year, through refinancing their loans, or through receiving credits from special development credit lines), but resorted to other sources for quick access and for working capital and emergency needs. The moneylender was often the source of last resort, given the relatively high interest rates.

Table 4. Credit Proportions (percent)

	Small	*Med*	*Large*
Self	47	49	47
Family/friends	8	14	1
Moneylenders	8	4	10
Bank	25	25	25
Partners	5	0	5
Suppliers	6	4	12
Clients	0	4	0
Total	100	100	100

Number of Sources

Table 5 demonstrates the number of financing sources used by each category of firms. In each category, entrepreneurs manage diversified liabilities portfolio, with 53 percent of the sample using at least three different sources of financing and 17 percent using four sources. The most typical liabilities portfolios consisted of a mix of credit from oneself, banks, and suppliers or moneylenders.

Table 5. Number of Sources

	Small		*Med*		*Large*		*Total*	
Sources	*No.*	*%*	*No.*	*%*	*No.*	*%*	*No.*	*%*
1	1	9	1	14	1	8	3	10
2	0	0	4	57	1	8	5	17
3	8	73	1	14	7	58	16	53
4	2	18	1	14	2	17	5	17
5	0	0	0	0	1	8	1	4
Total	11	100	7	100	12	100	30	100

Financing Mechanisms

A variety of financing mechanisms are used by the firms in each of the categories, with 92 percent citing the use of loans as a financing mechanism, 38 percent using promissory notes, and 31 percent using installment credit from suppliers. Another financing mechanism cited was the use of overdraft facilities with suppliers and banks.

Table 6. Financing Mechanisms

	Small		*Med*		*Large*		*Total*	
Mechanisms	*No.*	*%*	*No.*	*%*	*No.*	*%*	*No.*	*%*
Loans	9	90	5	83	10	100	24	92
Anticreticos	1	10	0	0	0	0	1	4
Promissory notes	3	30	2	33	5	50	10	38
Installment credit	4	40	1	17	3	30	8	31
Pawns/pledge	0	0	1	17	0	0	1	4
Pasanakus	0	0	0	0	0	0	0	0
Other	0	0	1	17	1	10	2	8
Total	10	100	6	100	10	100	26	100

Proportions of Financing from Mechanisms

As demonstrated in Table 7, 67 percent of financing is done through loans, 19 percent of financing is done through the use of promissory notes, and 11 percent is done through installment credits. Within each category each of these financing mechanisms are used in the same order of priority.

Table 7. Proportions of Financing from Mechanisms

Proportions	*Small* %	*Med* %	*Large* %
Loans	60	61	67
Anticreticos	5	0	0
Promissory notes	19	18	19
Installment credit	16	5	11
Pawns/pledge	0	5	0
Pasanakus	0	0	0
Other	0	11	2

Number of Mechanisms Used

Some 52 percent of the surveyed used two or more financing mechanisms, again, showing that they are optimizing the use of different credit mechanisms, depending on the cost of funds, and access to credit.

Table 8. Mechanisms Used

	Small		*Med*		*Large*		*Total*	
No.	*No.*	%	*No.*	%	*No.*	%	*No.*	%
1	3	30	4	67	6	55	13	48
2	7	70	1	17	2	18	10	37
3	0	0	0	0	3	27	3	11
4	0	0	1	17	0	0	1	4
Total	10	100	6	100	11	100	27	100

Average Loan Sizes

From Table 9, as can be expected, we can see that average loan size ranges increases with the size of the firm. Whereas 45 percent of the small enterprises borrowed in the range of $1000 to $10,000, 57 percent of medium enterprises borrowed in the $10 to $50,000 range, and 50 percent of the large enterprises borrowed in excess of $100,000.

Table 9. Average Loan Sizes

	Small		*Med*		*Large*		*Total*	
Loan Size	*No.*	%	*No.*	%	*No.*	%	*No.*	%
<1000	0	0	0	0	0	0	0	0
1001-10,000	5	45	1	14	1	8	7	23
10,001-50,000	4	36	4	57	4	33	12	40
50,001-100,000	1	9	1	14	1	8	3	10
100,001-500,000	1	9	1	14	3	25	5	17
>500,001	0	0	0	0	3	25	3	10
Total	11	100	7	100	12	100	30	100

Average Loan Length

Average loan lengths increase with the size of the firm. The majority, or 45 percent of small enterprises borrowed on the average for less than one month, often from suppliers; 86 percent of the medium enterprises borrowed on average for periods between 3 and 12 months, whereas 33 percent of the large enterprises had average loan terms of over one year. Again, as the enterprises increased in size, they reported easier access to credit, and increased bargaining power with credit suppliers for better terms.

Table 10. Average Loan Length

	Small		*Med*		*Large*		*Total*	
Loan length	*No.*	*%*	*No.*	*%*	*No.*	*%*	*No.*	*%*
< 1 month	5	45	0	0	0	0	5	17
1-3 months	3	27	1	14	2	17	6	20
3-6 months	1	9	3	43	2	17	6	20
6-12 months	2	18	3	43	4	33	9	30
> 1 year	0	0	0	0	4	33	4	13
Total	11	100	7	100	12	100	30	100

Average Loan Terms Needed

Fifty-six percent of the total sample group stated that they needed credit terms of 1 to 3 years, both for working capital and fixed investment purposes. The desired length of term increased with firm size, as can be expected.

Table 11. Average Loan Terms Needed

	Small		*Med*		*Large*		*Total*		
	No.	*%*	*No.*	*%*	*No.*	*%*	*No.*	*%*	
0-6 months		1	9	1	17	1	10	3	11
6-12 months	1	9	1	17	1	10	311		
1-3 years	7	64	2	33	6	60	15	56	
5 years	2	18	1	20	0	0	3	11	
> 5 years	0	0	1	17	2	20	3	11	
Total	11	100	6	100	10	100	27	100	

Ratio of Collateral/Loan

The average collateral to loan ratio of 2:1 was used by 76% of the firms in the sample. The larger firms had access to the lowest collateral to loan ratios, given their greater access to supplier and other firms of credit. While banks typically ask for 2:1 ratios, and moneylenders require on the average 3:1 ratios, supplier credit is usually available on relatively easier terms, with either no collateral requirements or 1:1 ratios, depending on the volume of purchases.

Table 12. Ratio of Collateral:Loan

	Small		Med		Large		Total	
Collateral:Loan	*No.*	*%*	*No.*	*%*	*No.*	*%*	*No.*	*%*
1:1	0	0	0	0	3	25	3	12
1.5:1	0	0	1	20	1	8	2	8
2:1	8	1	4	80	7	58	19	76
3:1	0	0	0	0	1	8	1	4
Total	8	100	5	100	12	100	25	100

Conditions of Arrears/Default

As demonstrated in Table 13, the large enterprises had greater possibilities for refinancing loans, and less likelihood of their collateral being seized. Forty-five percent of the enterprises surveyed mentioned the possibility of refinancing their loans.

Table 13. Conditions of Arrears/Default

	Small		Med		Large		Total	
Arrears/Default	*No.*	*%*	*No.*	*%*	*No.*	*%*	*No.*	*%*
Seize collateral	3	27	3	43	2	18	8	28
Refinance	6	55	3	43	4	36	13	45
Ref. if pay portion	2	18	1	14	5	45	8	28
Total	11	100	7	100	11	100	29	100

Microentrepreneurs and Their Access to Credit and Sources of Financing

Although informal sector firms, the majority of which are microenterprises (0 to 4 employees), were not surveyed, data from previous surveys conducted by ACCION in 1985 and by CEDLA in 1989, gives us an indication of the major sources of financing for microenterprises, or informal sector firms. Based on ACCION's survey of 231 micro-traders, and 246 micro-producers, the following sources of finance were identified:

Source	*Percent*
Own funds	68
Family/friends	9
Moneylenders	9
Banks	3.5
Partners	3.5
Non-bank inst.	1.1
Others[a]	2.2

[a]Products on consignment, or installment credit.

The sizes of loans are minute, in relative terms; 50 percent of respondents needed loans of less than $100, 22 percent needed loans of $100 to 500, and 28 percent borrowed in amounts greater than $500. In 1989 CEDLA conducted a survey of 93 microentrepreneurs, and of this sample, 67 percent used their own funds as a source of credit, family and friends accounted for another 26 percent, 4 percent used moneylenders, and 3 percent had access to non-bank institutions. Of the sample, 18 percent had access to supplier credit; 44 percent had credit terms of one month, and 62 percent borrowed in amounts under $125. The loan range in the sample was from less than $50 to $1,400; 75 percent of the sample borrowed for working capital purposes, 11 percent for fixed investments, and 14 percent for "other" purposes. Based on a study of 450 microenterprise units composed of self-employed individuals in the commercial sector in La Paz, who account for 60 percent of the activity in the commercial urban informal sector, 80 percent of loans came from informal sources (supplier credit, or friend and family). This sector received 6.7 percent of funds from banks, 48.5 percent from suppliers, 13.5 percent from moneylenders, 29 percent from family and friends, and 2.3 percent from cooperatives and other such institutions.[1] Although it is not possible to quantify the volume of credit used by informal productive units, anywhere from 25 to 80 percent of the credit used by this sector stems from informal sources.

Characteristics of Intermediary Institutions

World Bank Investigation

According to an investigation conducted by the Bank Superintendency of five financieras in Cochabamba, these institutions did not report their deposits, which were in excess of $19 million. Also, they did not present any feasibility study for investing these funds in subsidiary enterprises to demonstrate their ability to pay from 60 to 100 percent interest rates. The deposits are renewed automatically in the absence of the creditor. None of

[1]Sylvia Escobar, "Comercio en pequeña escala en La Paz," 1988.

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the five financieras registered the deposits captured in their accounting books, and all evade taxes on interest payments, totalling an estimated loss of $103,000 monthly for the government in taxes. Between the five, they pay on the average $1 million in interest payments monthly. These institutions are legally constituted as sociedades of limited liability. They crop up with surprisingly little capital; for instance, the five inmobiliarias in Cochabamba, which had mobilized $19 million in deposits by April 1990 began with a combined capitalization of only Bs. 990,000. Deposits from their almost 10,000 clients permitted them investments of over $16 million in their subsidiary businesses. Again, for three of the five financieras, there was no explanation for the difference in the amount of deposits captured and the amount invested. The two smaller ones reported greater investments than savings, which leads to the assumption that they are not fully declaring all deposits, or that they have resources of "doubtful origin."[2]

The same study reports that the transactions are formalized through a "loan contract," which are personal notes between the depositor and the inmobiliaria owners. The deposits are guaranteed through letters of exchange that do not compromise the institution. Again, contrary to most characterizations of informal money markets, which are that they are geographically limited and serve known clients, these inmobiliarias mobilize deposits in the major cities of Bolivia. For example, FINSA clients are from Cochabamba, Oruro, and La Paz, in proportions of 88, 10, and 2 percent, and in terms of volumes of deposits, 92, 6, and 2 percent, respectively.

	FINSA	*MULTI-ACTIVA*	*VIAL*	*ORCOBOL*	*INVANC*
Type	S.R.L.[a]	one person	S.R.L.	S.R.L.	S.R.L.
Estimate	1/89	-	4/90	4/90	4/90
Capital (Bs.)	260	60	600	40	30
Deposits (US$)	9,217	8,102	1,563	60	8
Investment (US$)	7,096	8,013	893	125	19
D-I	2,121	89	670	65	11
Interest rates[b] monthly (%)	5-6	5	6	6	6
Interest payment monthly (US$)	461	405	94	4	2
Lost tax income (US$)	46	41	16	.4	.2
No. clients	5,808	3,100	790	76	32
Avg. deposit (US$)	1,587	2,585	1,978	1,645	595

Note: Monetary figures in thousands.

[a]Sociedad de responsabilidad limitada (limited company).
[b]First month paid in advance.

[2]Wilson Garcia Merida, Las "inmobiliarias" facetas, Aug. 26, 1990.

Central Bank Study

However, the financieras cannot be totally characterized as money-laundering channels. Based on a survey of 20 moneylenders in La Paz, a good portion of productive activities are financed by financieras. According to a study by the Central Bank, using data from the Renta Interna, it is estimated that there are 1,256 such establishments in Bolivia, with the greatest concentration in La Paz and El Alto. These establishments were estimated to account for Bs. 8,342,075,000 to 10,251,250 annually. ($ at Jan 1989 rate)
The following table shows informal intermediaries by department:

Dept.	*No. of Intermediaries*	*Daily Volume (Bs. 000)*	*Total Volume (Bs. 000)*
La Paz	880	2 - 2.5	1,760 - 2,200
Santa Cruz	167	2 - 2.5	334 - 417.
Cochabamba	114	1	114
Oruro	60	1	60
Rest	35	.5	17.5
Total	1,2566.5	2.28	5.5 - 2.80 8.5

Source: Mercado Formal del Sector Financiero, Banco Central, enero 1989.

Other Lenders

According to a World Bank study (1987), verified by the sample survey of 20 lenders, the traditional view of the usurious moneylenders lending their own money does not accurately characterize Bolivia's informal financial markets. In Bolivia, the main participants in these markets are agents who intermediate groups of savers with groups of potential borrowers, and collect a commission of 6 to 8 percent from the borrower. These financial agents advertise their services in the major newspapers in La Paz, Cochabamba, and Santa Cruz.

Survey Results on Moneylenders

Source of Funds

Of our sample, 25 percent were lending their own capital, 10 percent were pure intermediaries between savers and lenders, and were charging commissions on the average of 5 percent, but ranging from 4 to 6 percent, and 65 percent were lending a portion of their own funds, and a portion of borrowed funds. Of this 65 percent, 33 percent owned 30 percent of the capital, 11 percent owned 25 percent, 11 percent owned 10 percent, and the remaining 11 percent owned 5 percent.

Percentage of Capital Owned	*Percentage of Lenders*
0	10
5	11
10	11
25	11
30	33
100	25

When asked what their sources of capital were other than the portion they owned, 42 percent borrowed from formal banks, in the range of 25 to 30 percent of total funds, at 2 percent monthly interest rates, and 58 percent received a portion of funds, in the range of 70 to 95 percent from savers.

No. of Capital Sources	*Percentage of Lenders*
1	47
2	47
3	6

Registered

Of the 13 who responded, 77 percent were registered, and 33 percent were not. However, although the majority are registered, they often register only a portion of their actual activities. For example, in our sample of 20, two financieras were registered as "law offices" even though the majority of their income was from the lending activity. Others are registered as real estate agencies, and pay taxes only on the registered portion of their activities.

Range of Loans

The range in loan sizes was wide, again, reflecting the various market segments served by the different lenders. The range in the sample group was from $50 to $90,000. Fifty percent of the group had lending limits of $10,000 or less, and the remaining 50 percent lent for amounts exceeding $10,000, up to $90,000. Several lenders advertised loan availabilities of up to $400,000, although they were not part of the sample group.

Average Loan Size

Although the average loan size based on the 12 respondents of the sample group is $3,550, average loan sizes varied within the group, from $100 to $15,000, and 58 percent of the lenders had average loan sizes under $2,000. The two "prestamistas" in the sample had average loan sizes of under $1,000.

Average Loan Lengths

Month	%
1	33
2	8
3	58

As demonstrated earlier, loan terms most commonly average 3 months, with the possibility of renewing the loan, however, with the same conditions applied and commission and first month of interest payment discounted upfront.

Maximum Loan Lengths

Month	%
2	5
3	60
6	30
12	5

Again, the majority had maximum loan lengths of 3 months. However, for loans in excess of $10,000, the terms would be extended to 6 months.

Ratio of Guaranties/Loan Amount/Types of Guaranties

1.5:1	40%
2:1	20%
3:1	40%

Unlike most informal credit arrangements, which traditionally require less stringent guaranty to loan requirements than formal institutions, and which lend more on the basis of character than collateral, Bolivian informal moneylenders' collateral requirements equal or supersede formal bank collateral requirements, which average 2:1.

However, these moneylenders accept different types of guaranties than the formal banks. For example, for loans under $5000, rights to telephone lines are an accepted guaranty. Telephone lines cost $1,500, and one line is acceptable guaranty for a $750 or a $1,000 loan, depending on the collateral requirements of the lender. Other commonly accepted collateral for loans under $5,000 are jewelry, vehicles, household electronic appliances (e.g., televisions), and in a few cases, personal checks from a current account in a major bank, or promissory notes, in the value of the acceptable collateral to loan ratio. For loans in excess of $7,500, 100 percent of the moneylenders interviewed asked for collateral in the form of vehicles (depending on the re-sale value), mortgages, property liens, or other real assets. The survey

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responses are summarized below, though again, the form and amount of collateral varies with the loan amount.

When asked what the criteria for lending was, 100 percent responded that they lent primarily on the basis of collateral, while only 50 percent mentioned personal knowledge of the client as a factor in lending The following forms of collateral are required:

Collateral	*%*
Checks	10
Telephone lines	50
Jewelry	25
Household appliances	5
Promissory notes	10
Vehicles	40
Property	45
Mortgages	55

Nominal Active and Passive Interest Rates

The lenders who own their capital charge interest rates in the range of 3.5 to 10 percent monthly, and do not charge a commission fee. Of these five, or 25 percent of the sample, 2 lent in the range of 5 to 7 percent monthly, one lent at 3.5 to 4.5 percent monthly, one lent at 10 percent monthly, while one had different rates depending on the amount of the loan—8 percent monthly for loans up to $5,000, and 6 percent monthly for loans exceeding $5,000.

Of the remaining 75 percent of the sample, 50 percent paid depositors 5 to 7 percent monthly interest rates, and 25 percent paid from 6 to 8 percent. The same rates were charged lenders. The majority, or 75 percent, operate as financial intermediaries, matching lenders and borrowers, and charging a 6-8 percent commission fee for "matchmaking." The majority do not bear the risk of default, except for the loans made from their own funds.

Percentage of Sample	*Active (%)*	*Passive (%)*	*Spread (%)*	*Fee*
25	0	3.5-10	3.5-10	0
50	5-7	5-7	0	4-6
25	6-8	6-8	0	4-6

Effective Interest Rates

One hundred percent of the lenders in the sample required that the first interest payment be discounted upfront, and of those that charged

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commissions, this amount was deducted upfront along with the first interest payment. The monthly interest rates apply to the total amount of the loan, and not the declining balance. Eighty-five percent also only lent on the basis of all collateral documents being in order.

Loan Disbursement Time

Ninety-five percent disbursed loans within hours, or maximum, one day, assuming documents were in order. However, the majority assisted in getting documents in order, so regardless, average loan disbursement time is within the day asked. Five percent disbursed loans between one and three days from receiving the request.

Loan Use

When asked what clients are borrowing for, the responses are summarized below. However, over the course of the survey, when information was often solicited through posing as a potential borrower, not once did any lender ask the purpose of the loan.

Use	*% Response*
Working capital	100
Emergencies	58
Fixed investments	33
Consumption	8

Arrears

Ninety-two percent of the lenders mentioned that they had arrears. The percentage of the portfolio in arrears ranged from 1 percent to a 100 percent (in the case of one lender). Only 20 percent responded to this question, so an average of the portfolio in arrears would not be representative, though 50 percent of respondents had less than 15 percent of their portfolio in arrears. Again, the range for the percent of clients in arrears ranged from 1 percent to a 100 percent, with the average claiming 25 percent of their clients in arrears, and 42 percent claimed less than 10 percent of clients in arrears. This compares favorably with the formal banks, which average 20 percent of their portfolios in arrears. In the case of default, collateral are sold almost immediately. Since the majority are involved in activities other than lending, such as real estate, etc, collateral are sold as part of this other activity. Often, seized assets are auctioned. None of the moneylenders mentioned the judicial system as ineffective, and many resort to the courts, since all loans are signed contracts between the lender and borrower.

Volume of Transactions

The average monthly volume of loans per month in the sample group (12 respondents) is $446,1000, with an average loan volume of $37,125 per lender. The range in volumes in the sample is from $1600 to 300,000.

Number of Clients

The average number of clients per lender in the sample group is 21, of which 8 are repeat clients, and the rest are new. The range in the number of clients is from 6 to 50.

Major Competition

As summarized below, lenders felt their major competition was from other informal lenders, banks, and suppliers:

Competitors	*% of Respondents*
Other informal lenders	40
Formal sector lenders	30
Supplier credit	10
Do not know	20
Total	12-100

Other Types of Services Provided

Seventy-five percent of the sample responded that they provide services other than lending. Again, the majority of them were legally registered to provide these 'other' services. Of this 75 percent, the types of services provided are summarized:

Services	*% of Provider*	*% Total*
Anticreticos, real estate	67	50
Document facilitators		
Passports, property titles, etc	80	60
Promissory notes transactions	20	15
Accounting	7	5
Total	15	20

Client Profile

The majority stated that their clients were individual or micro-traders. While it was not possible to determine the client mix within the portfolios, 33 percent had mixed portfolios, serving micro to medium sized businesses.

Client	*% Lenders*	*% Lending exclusively*
Micro/indiv	67	42
Small	42	8
Medium	42	17
Mixed	33	33
Total		12-100

Length in Activity

Fifty-eight percent had been in operation for less than three years. This reflects the fact that many of these businesses closed down after the period of hyperinflation, when they lost volumes of business after clients lost trust when many closed overnight fleeing with over $30 million in savings.

Period	*%*
< 1 year	17
1-3 years	41
5-6 years	17
20 years	17
37 years	8
Total	12-100

Comparative Advantage

The majority interviewed claimed that their clients preferred their services to the banks because of the delays in getting loans from banks, and the excessive paperwork and bureaucracy involved in bank loans. They claimed that their clients often have bank accounts at major banks, but borrowed for emergencies and working capital. They also mentioned that many of their clients were traders, and could not afford the excessive bank delays. Other reasons mentioned were that clients needed quick access to relatively small amounts of money, and banks generally were not interested in processing loans of less than $10,000, or that clients often had the value of collateral necessary, but lacked the types of collateral accepted by banks. Other reasons mentioned were that banks were self-serving, and were not interested in servicing 'marginal' groups. However, given the collateral requirements, and average loan sizes, it does not appear that the majority of lenders in the survey lend to marginal groups either. The microenterprise sector, composed of 4 or less workers, does not have access to credit from these lenders.

Supplier Credit

The fact that 46 percent of the entrepreneurs interviewed use supplier credit as a source of financing reflects the importance of this source in the informal financial sector. In addition, according to several surveys conducted by CEDLA and ACCION, approximately 18 to 38 percent of credit in the informal productive sector comes from suppliers as well. In the survey sample, use of this source differed by size of firms, with 67 percent of large, 40 percent of medium and 27 percent of small enterprises using this source. This may reflect benefits from economies of scale; the larger the volumes of purchases from suppliers, the better the access and terms. While suppliers were not interviewed as part of this study on their credit terms, information was discerned from the users and recipients of this credit. The terms of supplier credit are more favorable than bank or any other source of credit, aside from family sources.

Supplier credit ranged in cost from 0 percent to 3 percent monthly. Collateral were either personal guaranties, credit cards, or sometimes 1:1. The majority of this credit was for under three months, although terms also went up to 6 months in some cases. When asked why suppliers provided credit on such relatively favorable terms, it was often stated that given the lack of economic reactivation, suppliers had to sell on credit to sell at all. When asked why they used sources of credit other than from suppliers, given the terms, the response was that suppliers had ceilings on the amount of credit they could extend. Entrepreneurs generally preferred supplier credit as a financing source. Supplier credit met 7 percent of the credit needed by entrepreneurs in the sample group. Of the $9.5 to $19 million used by the 30 entrepreneurs in the sample group, $0.7 to $1.4 million was funded by supplier credit. It can be estimated that $23.3 to $47.2 million of credit to the productive formal sector in La Paz stems from suppliers.

Pasanakus/Anticreticos

Rotating saving and credit associations (ROSCAS), known as "pasanaku" in Bolivia, are a popular form of informal finance universally. ROSCAS typically are formed by a group of individuals, who contribute equal amounts to a common fund, which is then rotated to each member of the group by drawing lots. This informal system works to the advantage of the first recipient of the fund, in that it is an interest free loan, and serves the last recipient the least, in that the receiver gets no compensation or earnings on the contribution to the fund. Recent research in Bolivia showed that one-third to one-half of all adults living in urban areas often participated in pasanakus and that their payments amounted, on average, to about one-sixth of their salaries. These associations were even found among employees of formal financial intermediaries. Despite high inflation and poor loan recovery by formal lenders, Bolivians reported few problems in their ROSCAs. More than 90 percent of the people interviewed joined ROSCAs primarily because they wanted to save more and felt that membership forced them to do so.[3]

According to research conducted by Adams and Canavesi, the average size of membership in the pasanakus surveyed was 10 with a range from 5 to 110. 60 percent of the membership were women, and 90 percent were composed of friends. Sixty percent allowed the organizer to take the first pot. Two-thirds of the pasanakus were conducted in U.S. dollars. In 1987, the average individual contributed approximately $18 to the pasanakus per collection period.

Adams identified three types of pasanakus in Bolivia; simple office groups, market pasanakus, where the organizer received a commission, and promotional pasanakus used by merchants and banks to promote the sale of goods such as clothing, automobiles, furniture, and the like. The office pasanaku is the most popular form, where the organizer is a respected colleague, who receives no special consideration for her organizing function. In some cases the organizer is responsible for making good on any defaulters, but in general all group members share the risk in this form of pasanaku.

The commission pasanaku is the most common form of savings and credit for microentrepreneurs, and is often the only source of finance aside from personal funds. It takes many shapes and forms, although the principles remain the same. For market women, this is a convenient way of saving. Often, groups of an average of 10 persons organize, and determine the regulations of the Pasanaku. Generally, each member pays one Boliviano ($0.30) into the common fund, and the "pot" gets distributed on the average of every 10 days, but this can vary, in the rotating order pre-established upfront. The key organizer often receives a commission of 10 percent of the "pot" amount on the average. The organizer may also have the option of taking the first pot, or not having to pay shares. Generally speaking, the organizer also has the use of the money until it is distributed. The organizer often has a strong moral obligation to make good on defaults by individuals she has recruited, for organizing and collecting the funds, and ensuring that the informal regulations are complied with. The organizers often manage up to 10 pasanakus.

The promotional pasanaku became prominent during the period of hyperinflation, as a means of increasing sales of goods and services. Car dealers, carpenters, appliance stores, merchants and tailors organized pasanakus as a substitute for installment payments, to increase sales. For

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[3]World Development Report 1989, pg. 114

example, as explained by one pasanaku participant, an appliance vendor organized a group of 8 people for an eight month period, each of who contributed one/eighth of the price of a television on a monthly basis. This permitted each member (except the last one) to purchase a television without having to save for a full eight months, and permits the vendor to sell on credit, on less riskier terms than if he were to sell 8 televisions on eight month installments.

A form of expanding pasanaku membership was the 'pyramid' structure, when each new member had to bring in an additional two members. However, this system has rapidly declined, since newcomers often had no idea as to where they were in the order, and often had to wait years before receiving their lot, and because they defied the basic principles of pasanaku arrangements, which is to organize on the basis of trust. The variations in the pasanakus are determined by group members, who can contribute more and receive the pot twice or thrice. It is stated that pasanakus are often used by investors, who contribute up to $10,000, for financing fixed investments. However, none of the investors in our sample used pasanakus as a form of finance.

Ninety-one percent of the 470 persons surveyed by Adams cited the desire to save as the primary reason for participating in pasanakus. This informal saving mechanisms is an indicator of the general mistrust of the banking system after the economic crisis.

The main reasons cited for the popularity of pasanakus was the low transactions cost to the borrower, the ability to save and borrow from one source, increased ability to save, and the flexibility of such systems. Banco Boliviano Americano has recently instituted a savings plan called CREDIPLAN, which mimics the characteristics of pasanakus.

A term finance mechanism used in Bolivia, called "anticretico", is where a home owner exchanges the home for a large cash payment, which is then re-exchanged after the agreed upon period of time. The interest rate that could have been earned on the money is the rental value of the house. This form of "financing" is used both in the formal and informal sector. Many of the casas comerciales or inmobiliarias intermediate anticreticos for a commission of 3 to 6 percent. Anticreticos are intermediated for private homes, stores, and offices. For instance, the "renter"' pays an agreed upon amount, $25,000 (to use an example from an interview), for a three-room office for up to 2 years. In almost all cases, the contract is binding for the first year, with the option to renew. The "renter"' pays a 3 percent commission upfront to the intermediary, and receives the full $25,000 at the end of the contract. The owner gets a minimum of 16 percent interest on the $25,000 for 2 years and has full use of these funds for the stipulated period, and the renter pays the opportunity cost of the funds, instead of the $600 monthly rent for 2 years.