A REVIEW OF BOLIVIA'S TITLE 1/111 - SUPPORTED AGRICULTURAL AND LIVESTOCK PRODUCTION AND MARKETING CREDIT PROGRAM

Prepared by

Dr. William Lesser
(Department of Agricultural Economics,
Cornell University, Ithaca, New York)

F I N A L R E P O R T

International Food Policy Research Institute
1776 Massachusetts Avenue N.W.
Washington D.C. 20036

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EXECUTIVE SUMMARY

This report is an evaluation of the PL 480 Title III small farmer credit program in Bolivia. The program, known as the "Trust Fund," utilizes private Bolivian banks and cooperatives to channel loan credits to small and medium-sized farmers, and agroindustrial and artisanal enterprises. Loan rates are 13 percent annually in real dollar terms, of which 9 percent is charged by the PL 480 program, 4 percent is the profit spread for the credit institutions (known as Intermediate Credit Institutions, or ICIs), plus a one percent "commission" retained for a bad-debt pool. The "Trust Fund" Program was initiated on a trial basis in December 1984 and began full operation the following year. Through 1987 the funds granted or committed amount to about US$22 million.

The "Trust Fund" Program is evaluated in three distinct spheres, 1) its institutional success, 2) its fiduciary integrity, and 3) its impact on credit recipients. Of these, the institutional success is judged to be the most relevant measure of the overall contribution of the Program to the Bolivian economy.

A. Institutional Success

<u>Summary</u>

PL 480 Title III "Trust Fund" credits are channelled through the Bolivian Treasurer General to the ICIs which, in turn, lend them to several classes of recipients. Each ICI signs a Letter of Understanding outlining the privileges and responsibilities. Fundamentally, the ICIs guarantee the loans (which are to be repaid to PL 480 after five years) and must conform to certain restrictions on loan allocations (60 percent to small farmers, 40 percent to other classes of borrowers, a small farmer being one who receives up to US$15,000) and amounts (maximum US$70,000 without special approval).

The ICIs are also asked to maintain special administrative offices known as Development Departments, which also administer agricultural credits from the public sector. The "Trust Fund" Program is administered by the Office of the Executive Secretariat, a largely independent government office. The Secretariat approves and handles the fund's transfers, checks the regular reports from the ICIs and monitors the recipients to determine if the credits are being used in accordance with the objectives of the PL 480 Title III project. Those objectives have been stated as to "permit an expanded number of rural producers to increase their production, productivity and incomes through better access to production and marketing credits." Special attention is to be given to improving "the lives of the poorest Bolivian people."

Conclusions

The "Trust Fund" Program is a notable administrative success in the sense that it provides an efficient means of channeling credits to a broad spectrum of the Bolivian agricultural sector. Stipulations about the distribution of credits have been adhered to. The principal reasons for this success are 1) the maximum management flexibility granted to the ICIs, and 2) the effective operation of the Executive Secretariat as the administrative authority. The Executive Secretariat, in turn, is effective because of its a) independence from other Bolivian governmental offices, b) carefully designed organizational structure, and c) quality of the staff. With proper planning, these organizational attributes are transferable to other countries.

Recommendations

The administration of the "Trust Fund" Program can be improved by instituting the following practices:

1) Streamline the transfer of funds from the Central Bank to the "Trust Fund" as a means of making credit availability more predictable.

2) Establish commercial savings accounts under the control of the Executive Secretariat in each ICI as a means of administering funds prior to their release to beneficiaries.

3) Raise the interest rate on loans as a means of limiting the need to allocate loans presently (January 1987) priced far below market-clearing levels. The need to apply this recommendation may change as commercial interest rates fluctuate over time.

4) . Raise the spread for small loans to increase the attractiveness of lending to small farmers.

5) Devise systems to reward the most cooperative ICIs by channeling larger amounts of credits, or by increasing the "spread" paid to these institutions.

6) Increase the field supervisory staff of the Executive Secretariat.

7) Enhance the data processing capability of the Executive Secretariat.

8) Emphasize the oversight responsibility of the USAID/Bolivia Mission, especially field evaluation of credit recipients.

B. Fiduciary Success

Summary

Following the hyperinflation of 1984 the USAID producer credit program in Bolivia was essentially decapitalized, along with much of the remainder of the Bolivian economy. That experience made protecting the real value of the fund a very significant objective, one which was largely achieved in 1985 when loans were denominated in dollar terms. Subsequently, borrowers are required to repay loans adjusted for the official dollar/peso exchange

rate. The addition of this "maintenance of value" clause was the most significant change in the management of the "Trust Fund" since its initiation.

Conclusions

With the denomination of loans in dollars the major source of value erosion of the "Trust Fund" was eliminated. However, repayment ultimately depends on the stability of, particularly, private Bolivian banks. The banking system there is largely unregulated so that the integrity of the system cannot be assumed. Real value will also erode if the official exchange rate lags the internal inflation rate. Current indications are that the exchange rate increase is about ten percentage points below the inflation rate, as measured by the CPI. Thus, some real value loss can be expected in the judgment of this investigator. Default rates to banks for "Trust Fund" loans are low, within the one percent set-aside pool, but the newness of the program does not permit a firm conclusion on that point.

Recommendations

1) Raise interest rates as a means of compensating for the apparent erosion in the real value of the "Trust Fund,"

2) Give high priority to existing plans to audit private Bolivian banks, and

3) Disburse "Trust Fund" credits throughout the private Bolivian banking sector so as to minimize the loss should a bank failure occur.

C. Impacts on Credit Recipients

Summary

Presently, capital shortage is a, if not the, major impediment to the expansion of the agricultural sector in Bolivia. Credit is required throughout the sector, but perhaps most urgently by medium sized farms and

input/processing industries which are not sufficiently profitable to borrow at commercial rates (presently (January 1987) 6 percent per month in pesos, 90 days maximum duration, subject to change).

The brief duration of the Program, combined with the limited amount of current data and detailed agronomic studies, make it very difficult to draw any firm conclusions about the production impact of the "Trust Fund" credits. In order to state most succinctly what can be determined, it is helpful to describe the impacts separately on a) agroindustrial and artisanal enterprises, b) medium-sized farms, and c) small farms.

Conclusions

Agroindustrial and Artisanal Enterprises

This group is especially credit-limited so that reasonably-priced credits appear to provide major assistance. However, a detailed evaluation of the Bolivian input and processing/distribution sectors is required before the credits can be allocated optimally. The artisanal sector is poorly defined, making allocations to that group highly arbitrary.

Medium-Sized Farms

This group benefits directly from the availability of credits, especially medium-term investment credits (five years). Documenting the amount of production response from loans to this group could be accomplished largely from review of loan applications presently on file, but was not attempted due to the time limitations of this review.

Small Farms

Very little literature exists on the sources and uses of credit by small (campesino) farmers in Bolivia. Thus, it was not possible to determine if the "Trust Fund" credits were a sole source or supplemented/supplanted other credits, especially those from informal

sources (e.g., dealers and input suppliers). In general, studies of the productive impacts of small farm loans have been found to be highly costly, if not impossible altogether. Based on field interviews with farmers and coop personnel, it was not clear that farmers with access to "Trust Fund" credits operated differently from other area farmers, implying that credits were substituted for higher-cost ones. It was further tentatively concluded that technical assistance is required if small farmers are to make efficient use of increased credits for production costs. High borrowing costs beyond interest charges likely inhibit interest in these loans by individual small farmers.

Recommendations

1) A study of the Bolivian input and processing/distribution sectors is required as a guide to allocating loans intended to enhance the efficiency of these systems,

2) USAID/Bolivia needs to define the purposes of loans to artisanal enterprises as a means of improving loan allocation,

3) Bank records should be reviewed as a first approximation of the production impact of medium-sized farm loans,

4) A review of the Bolivian agricultural economy will assist in the prioritization of the sectors to receive medium sized farm loans,

5) The sources of campesino credit need to be documented before the role of "Trust Fund" loans can be understood,

6) Alternative means of extending technical information, such as using local demonstration farms and/or input suppliers or rural bank branch offices, must be identified and tested.

7) The spread for loans to small farmers must be increased in

recognition of the high administrative costs and risks involved in lending to this group.

8) Borrowing costs to small farmers need to be reduced to make these noninterest loans attractive, combined with an emphasis on allowing flexibility in loan administration to meet the changing credit needs of small borrowers.

D. Major Issues

Causes of Success

Success of the Program can be attributed principally to the following factors:

1) Major credit needs of the Bolivian agricultural sector at this time.

2) Principal emphasis on market forces, rather than regulation, to guide the activities of the ICIs.

3) The careful structuring and efficient operation of the largely independent administrative body, the Executive Secretariat.

Major Limiting Factors

The following are judged to diminish the "Trust Fund" Program from achieving its full potential:

1) Irregular fund disbursements from the Central Bank.

2) Oversight required to maintain a reasonable loan disbursement rate from the ICIs.

3) Interest rates are set too far below competitive levels, creating allocative complexities.

4) ICIs are under-rewarded for small loans, limiting the impact of the Program on that sector.

5) Loans to small producers require additional flexibility and technical services to make them competitive with informal sources and fully productive.

I. INTRODUCTION

This paper provides an external review of a small producer credit program in Bolivia. The program, in effect since 1984, is supported by wheat sales under two successive PL 480 agreements, 1978 and 1985, between the governments of Bolivia and the United States. The credits involved are lent by private banks and other credit institutions for a five-year period after which the principal, plus interest, is returned by the banks to the control of the Bolivian PL 480 Program office to be re-lent. Thus the funds establish a perpetual credit source. This has led to the Program being known, in Bolivia, as the "Trust Fund." That title distinguishes it from other ongoing credit programs and is used throughout this report. Formally, the "Trust Fund" Program consists of three related projects:
1) "Agroindustrial Credits to Small and Medium Enterprises,"
2) "Strengthening of Producers' Associations," and 3) "Small Farmer Agricultural and Livestock Production and Marketing Credit."[1]

A. Objectives of the Review

The stated objective of the "Trust Fund" Program is to establish PL 480 Title III funds as a credit source for small and medium size farms and related small-scale agricultural industries. Under this Program, private banks as of 1984 are used as a means of distributing and administering the credit.[2] This is to be carried out under the general requirement that funds be used to "...improve the lives of the poorest Bolivian people..."[3]

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[1]"Project Paper Index for the PL 480 Title III Food for Development Program." Fall 1985, p. 60.

[2]Programa Ampliado de Credito a Pequenos Agricultores. Fondos en Fideicomiso, Informe de Evaluacion, La Paz, June 1985, p. 18.

[3]Agreement between the government of the USA and the Government of Bolivia for Sale of Agricultural Commodities, April 9, 1986, p. 20.

This objective describes the general purpose of the extension of agricultural and related credit in a country which has been described as credit deficient. However, it provides only a very general basis on which to evaluate a complex, ongoing program.

The difficulty of the evaluation is increased by the newness of the project, which dates but from the end of 1984. To provide more specific objectives for the review, the "Trust Fund" Program is evaluated in three distinct spheres:

1. Institutional success--the efficiency with which the credits are being disbursed by private Bolivian banks and other private sector institutions operating within the guidelines of the Program. Also considered are the reasons for that success and transferability to USAID Missions in other countries.

The current views on credit programs in developing countries identify the functioning of the credit agencies--what is referred to here as institutional success--as the most appropriate measure for evaluating credit programs. As Adams and Graham write in their review article, "Because the farm-household impacts of loans are so difficult to measure, the new views hold that the performance and vitality of the lender and the overall [rural financial markets] may be the most useful measures of the success or failure of a credit program."[4]

2. Fiduciary success--the degree to which the Program organization and administration is capable of preserving the integrity of the funds during a period of ongoing economic transition in Bolivia with its threat of the resurgence of the hyperinflation of earlier in the decade, and

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[4]D.W. Adams and D.H. Graham, "A Critique of Traditional Agricultural Credit Projects and Policies." J. Development Econ. 8(1981):347-366, p. 355.

3. Production success--the degree to which the Program has actually benefited the target groups in enhancing their standards of living.

The amount of information available on the third objective is quite limited at this early date in the "Trust Fund" Program operation.

B. Information Collection Procedures

This program review was conducted by Dr. William Lesser, Associate Professor, Department of Agricultural Economics, Cornell University, under contract to the International Food Policy Research Institute (IFPRI). Assisting in the review were Lic. Oswaldo Vega, PL 480 Program Assistant, USAID/Bolivia, and Lic. Alberto Gonzales, Technician, Office of the PL 480 Executive Secretariat.

Three weeks of field analysis (January 3-22, 1987) were carried out. During that period the following institutions and individuals were interviewed and information/data collected (in approximate chronological order). These visits included the major producing regions of La Paz (Altiplano), valley areas (Cochabamba) and tropics (Santa Cruz):

USAID/Bolivia Mission

Unidad de Analisis de Politicas Economicas

Central Bank of Bolivia

Unidad Crediticia y Financiera La Paz

Banco de Credito Oruro - La Paz

Federacion Nacional de Cooperativas de Ahorro y Credito de Bolivia (FENACRE) - La Paz Office

Cooperativa de Ahorro y Credito "Sorata" (President, Secretary and Members)

Banco la Union - Cochabamba

Dairy Producers Association - Cochabamba

FENACRE - Cochabamba Headquarters (Manger, President and Staff)

Recipient - medium size farm in Cochabamba area

Integrated Cooperative - "Cochabamba" (Manager, President and Members)

Banco Hipotecario - Santa Cruz

Banco de la Union - Santa Cruz

Oil seed and wheat producers Association - Santa Cruz

Banco de Oruro

CORDECRUZ - Santa Cruz Development Corporation

Recipient - broiler operation, Santa Cruz

Recipient - hog farrowing and finishing operation, Santa Cruz

Cooperative "Santa Cruz Norte"

Banco Industrial, Santa Cruz office

Promasor - Corn and Sorghum Growers' Association - Santa Cruz

Banco Industrial, Santa Cruz office

II. OVERVIEW OF AGRICULTURE AND AGRICULTURAL CREDIT IN BOLIVIA

The purpose of this section is to provide some background from which the PL 480 "Trust Fund" credit account may be evaluated. Secondary statistics are used where available, but in Bolivia such data are generally sketchy, somewhat out of date and, according to many who are knowledgeable about their compilation, of questionable accuracy. In other cases estimates of knowledgeable individuals are used. Thus, in all instances the material presented here should be interpreted with some allowance for error.

A. Production by Region and Crops[5]

In the broadest terms, Bolivian agriculture is composed of three distinct ecological regions: the Altiplano, the Intermountain Valleys, and Tropical Plains. From the Altiplano come mostly traditional crops such as potatoes, barley, quina, broad beans, and a little wheat. Otherwise unusable areas are grazed by sheep and cattle, with donkeys often maintained for transportation and traction. However, plots are typically small and often steeply sloped, limiting cultivation to hand labor. The farmers in these areas are typically "campesinos" who received land grants during the agrarian reform of 1952-1953. Several cooperatives, however, maintain communal land which is farmed jointly. The Altiplano includes large portions of the Departments of La Paz, Oruro and Potosi.

The lower elevations of the Intermountain Valleys allow the production of such crops as corn, wheat, potatoes, and vegetables. Farms are small (mini-fundio) to medium size. Major valleys are found in the Department of Cochabamba, Chuquisaca, Tarija and Santa Cruz. The final ecological area, the Tropical Plains, is the agricultural frontier. Several Departments, especially Santa Cruz and Tarija, are moderately intensively farmed, producing such crops as cotton, sugar cane, soybeans, corn, rice, and fruits and vegetables. Of these only sugar, and some coffee, is exported to any degree. Livestock consist of poultry and dairy. Beni remains largely unsettled with extensive grazing predominating. A very limited transportation system necessitates air shipment of live cattle, a costly and limiting process. Farm sizes range from small to extremely large. Like any

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[5]This subsection draws heavily on D.R. Jackson, "Private Agricultural Producers Associations Project Proposal," Final Draft, 5/8/86, section III.

tropical area, soil fertility varies and good management practices are often required to maintain viable production.

Agriculture provides an estimated 20 percent of gross national product. However, recent statistics show considerable annual variability in both areas planted and yields (Table 1). The reasons for this variation, aside from annual inconsistencies in data, are not entirely clear.

B. Farm Numbers by Type[6]

Data on farm numbers are limited and must be inferred from the 1976 census, the most recent available. Overall, agriculture is estimated to provide 47 percent of the employment in Bolivia.

About 48 percent of the population, or some 2,800,000 individuals, are considered to be campesinos. With an average family size of six, that translates into about 500,000 campesino farms. These are located generally in the relatively densely populated Altiplano. Other informal estimates have placed the number of campesino farms at 750,000. Most of the consumption of staple foods in Bolivia is derived from these small farms. Recent improvements in transportation have allowed campesino farmers to increase the marketable parties of their crop, but production by-and-large remains traditional and near subsistence.

The second largest category of farmers is the "Colonos," or lowland settlers. The colonos are migrants into the valley areas of La Paz, Cochabamba, Tarija and Santa Cruz. In 1985 about three-quarters of the estimated 130,000 colonos farmers migrated under their own initiative. The remainder responded to government incentives which continue as unemployed miners are resettled in agricultural areas. The colonos are a mixed group of farmers ranging from near-subsistence to large-scale producers.

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[6]D. R. Jackson, op cit., "Social Soundness Annex."

TABLE 1

Areas Planted and Production for Selected Agricultural Products,

By Department, 1982 and 1983

	1982		1983	
	Hectares	Production (MT)	Hectares	Production (MT)
RICE				
Total	54,296	86,660	43,569	61,725
La Paz	6,100	7,320	5,709	2,979
Cochabamba	---	11,100	4,000	4,123
Santa Cruz	35,100	63,900	27,273	45,612
CORN				
Total	257,780	449,605	260,844	337,190
La Paz	12,580	17,130	19,712	14,954
Cochabamba	74,040	95,570	44,168	45,352
Santa Cruz	79,000	135,800	66,908	133,563
WHEAT				
Total	96,422	66,000	70,507	40,347
La Paz	2,615	1,350	4,101	877
Cochabamba	37,857	26,500	21,358	13,367
Santa Cruz	5,250	4,200	723	901
POTATOES				
Total	159,349	900,000	108,157	316,454
La Paz	29,449	159,500	18,970	61,703
Cochabamba	48,000	270,000	27,322	92,387
Santa Cruz	3,600	28,000	1,214	1,487
TOMATOES				
Total	2,510	32,000	2,555	24,323
La Paz	130	650	145	551
Cochabamba	310	2,945	383	1,599
Santa Cruz	1,595	25,200	1,569	18,955
SUGAR CANE				
Total	72,920	3,300,630	66,599	2,648,540
La Paz	100	1,200	316	2,845
Cochabamba	0	0	0	0
Santa Cruz	61,010	2,337,250	55,449	2,072,915
SOYA BEANS				
Total	48,750	86,305	33,137	51,852
La Paz	0	0	0	0
Cochabamba	0	0	0	0
Santa Cruz	41,070	78,450	25,997	40,035

Source: Ministerio de Asuntos Campesinos y Agropecuarios, Departamento de Estadisticas, "Estudio de Pronostico Agropecuario 1984," March 1984, pages B-1 to B-15.

A final classification of farms may be termed commercial, often absentee, producers. These operations concentrate on nontraditional crops such as vegetables and livestock. Farms are located near towns and cities in the eastern lowlands. Numbers are estimated to be small, but the influence of this group on agricultural policy and related matters is described as being much out of proportion to their numbers.

C. Producer Associations

Through one or several channels, both governmental and private, most Bolivian farmers appear to be organized into groups in one fashion or another. At the private level, all groupings may be described as producer associations. Of the estimated 300 such associations in operation in 1986, they may be classified into four types:[7]

1. Agrarian Reform

These associations were established in conjunction with the agrarian reform of the early 1950s and continue to provide a largely political role. No services are provided.

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[7]Based on an interview with Jorge Bonadona, director of the USAID/Bolivia project to strengthen producers' associations. Jackson, "Social Soundness Index" op cit., provides a slightly different classification:

LOCAL LEVEL

A) Farmers' Unions - Oldest, most widespread and variable. Found in virtually every rural community.

B) Cooperatives - Second most numerous, variable in activities and type of membership. Average 30-60 members.

C) Producer Federations - Compulsory membership, often involved in price negotiation, or where prices are not fixed, with social services.

D) Producer Associations - Newest type with strong service orientation, often for a single commodity/region.

REGIONAL LEVEL

These are federations of primary-level groups established to exploit size economies.

2. Cooperatives

The forms and functions of cooperatives vary. Most appear small with limited capital and technical capability. However, three or four cooperative federations exist which individually contain considerable resources. FENACRE (Federacion Nacional de Cooperativas de Ahorro y Credito de Bolivia), one of the larger, represents about 200 associated cooperatives. There is, of course, considerable variability among the individual federated groups.

3.. Producer Associations

These are varied in size and function. While the total number is unknown (a census is presently underway), the 32 largest are regional in focus. A number represent individual crops (e.g., Associacion de Productores de Papa en Cochabamba) while others are federations of associations (e.g. Camara Agropecuaria del Oriente, Santa Cruz). The largest of these provide credit and technical services as well as negotiate/lobby with private and governmental groups. Membership seems associated with the newer lands and with larger farms. Santa Cruz, for example, has about 80 percent of producers involved in associations, while only 10 percent of farmers in La Paz are so organized.

4. Producer Federations

Federations negotiated prices for select commodities when commodity prices were fixed by the government. They are limited in number.

Regionally, the agricultural sector is represented through DDCs (Departamental Development Corporations), one per Department. Formally, producer organizations (including those described above) are Directors of these DDCs. Along with other Directors representing groups as diverse as universities and industries, the producer-directors are involved in

development plans at the Division level by relaying concerns and interests to the President of the DDC. The DDCs constitute the principal regional development structure and control funds from the federal government and from royalties derived from such commodities as tin, oil and natural gas.

In a less organized fashion, producer groups lobby the federal government, especially the Ministry of Agriculture, and the Central Bank and Agricultural Bank.

D. Sources of Agricultural Credit

Agricultural credit in Bolivia is a complex subject, made more difficult to understand by the general lack of consolidated data. In general, the major source of credit is the Central Bank, with the PL 480 "Trust Fund" account providing important but, nevertheless, relatively small supplementary amounts. The best available estimate of annual aggregate agricultural credit requirements is US$200 million, although the method used for computing this figure is uncertain. However, since it was made by a public bank, which is known for a commercial-agriculture bias, it probably does not reflect the needs of small farmers.

Central Bank Credits

In 1985 the Central Bank of Bolivia provided US$127,710,567 in development credits (preliminary figures). Of that amount, 93 percent (US$93,893,389) went to agriculture, and less than one percent went to so-called artisanal projects. All loans are for a year or less. Agricultural credits are channelled in several ways, including through the Agricultural Bank, which makes direct loans, and through private banks which administer the credits, much in the same fashion as the "Trust Fund" credits (see IV below). Interest rates for these credits as established by the Central Bank is presently 13 percent. The credits are denominated in dollars so the

interest is in real dollar terms (a 10 percent inflation of the peso against the dollar is projected for 1987—during 1986 the rate was about 25 percent). This interest rate is substantially below commercial loan rates.

The Central Bank requires participating private banks to contribute 20 percent of their own capital for these loans. However, as the mandated rate (13 percent annual) is so far below commercial rates (six percent monthly in January 1987), it is unlikely that request is actually implemented.

PL 480 Credits

During 1984-1986 the PL 480 Title III "Trust Fund" programs provided US$13.2 million in credits to the agricultural sector and related enterprises (Table 2):

TABLE 2

Trust Fund Credit Disbursements, 1984-86

Disbursing Institution	Disbursed 1984-85 (pilot program)	Disbursed 1985-86	Committed 1986-87
Banks	1.9	7.7	9
Cooperatives	—	3.6	

Source: Executive Secretariat and Agreement between the Government of the U.S.A. and the Government of Bolivia for the Sale of Agricultural Commodities, April 9, 1986.

Thus, in 1986 the "Trust Fund" credit program amounted to about ten percent of the credit disbursed by the Central Bank.

International Development Bank

The International Development Bank has committed, on a one-time basis, US$100 million for agricultural credit. These funds are to be disbursed during 1987 through the Central Bank.

Other Sources

A number of other governments, including Switzerland, Holland and the European Economic Community, provide agricultural assistance to Bolivian farmers. However, the best available information suggests that the aid is generally on a project basis and does not include provision of credit.

Small farmers normally have a range of informal credit sources, including dealers and suppliers. As a rule, banks do not make agricultural loans to farms of any size.

III. AGRICULTURAL CREDIT PROGRAMS UNDER THE 1978-84 PL 480 TITLE III PROGRAM

In May 1978, the U.S. and Bolivian governments entered with the first Title III program ever established, a US$75 million, five-year (1979-83) commitment. This section provides a brief overview of the agricultural credit portion of that program as an assist to the understanding of the subsequent (1984) agreements. The initial program was interrupted by the mid-1980 coup of Garcia Meza. Among the results of that coup was a freezing of the capital advances, and a buildup of the economic pressure which culminated in the hyperinflation of 1984. Given these factors it is convenient to describe the agricultural credit project as pre- and post-1981. That period also corresponds to the timing of two external reviews which serve as the basis for this subsection.[8]

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[8]J.K. Hatch et al., "An Evaluation of the Bolivian Food for Development Program: Its Institutional Performance and Impact on Farmers, 1979-1981." Rural Development Service, NY, March 31, 1982.

J.K. Hatch et al., "Second External Evaluation of the Bolivian Food for Development Program: Its Institutional Performance and Impact on Farmers." Rural Development Service, NY, July 12, 1984.

A. Credit Programs 1979-81

The initial agreement called for the allocation of US$15 million over five years (1979-83) for the Expanded Agricultural Credit to Small Farmers Program. The basic objective of that program was that of the present one, the provision of credits to finance small farmers, especially the smallest ones. However, because the conduit of funds was, at the time, the Agricultural Bank of Bolivia, there was a strong interest in making that institution more responsive to the needs of small farmers. Thus, as distinct objectives, the project required: 1) a quickening of the time required to disburse funds, and 2) an economical administrative plan.

The procedure adopted was to grant the Agriculture Bank's 83 field offices authority to grant loans. Subsequently, many loans were made on the spot with the assistance of an "eligibility manual." Loans were granted at an annual interest rate of 13 percent, essentially without collateral in most instances. In a related program, a trial crop insurance project was devised. This small program (target number of policies to be written was 1,650) was, in part, intended to provide borrowers with a means of repayment in case of significant crop failure. To be eligible for the insurance program, producers were required to adopt advance production methods.

By the cut off date in August 1980, total loan disbursements amounted to $US3.67 million ($4 million including repayments) with an additional $1 million capitalization of the insurance fund. This capital was transferred into 1,278 loans averaging nearly $2,000 each at the (then) prevailing exchange rate. Average loan length was 4.4 years so that most loans were of the longer term (5 year) investment credits as opposed to the 18-month crop loans. Initial participants in the insurance program amounted to but 100.

With this program marking the first time small farmers ever received credits from the Agricultural Bank, the loan initial default rate of 1.8 percent (8 percent for three related credit lines), and the rapid disbursement—14 days or less--the program was judged an overwhelming institutional success. Interviewed beneficiaries further attested to improvements in their standard of living as a result of the credits made available.

B. Credit Programs 1982-84

Following the initial suspension of support, the PL 480 budgetary support was again interrupted in 1982-83 due to subsequent political considerations. Thus, even though the original agreement was extended for an additional year (until 1984), the total disbursements under the small farm credit program amounted to only some US$6.5 million of the planned US$17 million.

Several additional events occurred which changed the program from its initial plan. In 1982-83 severe flooding created great hardship, especially among small farmers. In response, several emergency credit programs were established using PL 480 Title III funds. These programs were established very rapidly and met at least some of the desperate needs of small farmers for crop production capital.

More significant to the long-term viability of the "Trust Fund" account was the enormous devaluation of the peso which occurred in 1984. On April 12 of that year the value of the peso fell from 500 to about 2,000 per U.S. dollar. This had a devastating effect on the value of the capitalization of the small farmer account and that of the crop insurance program. Moreover, creditors were paying large negative real interest rates. With inflation possibly as high as 2,000, while program borrowers were charged but 33-43

percent, the devaluation of the capital of the project continued. Borrowers could further enhance returns on the borrowed funds by lending them for short periods. Thus, it seems likely some of the capital was diverted away from agriculture into other uses. The crop insurance program essentially collapsed due to the decline in the capitalization.

Overall response to the small farmer credit program remained very positive, but the decapitalization of the initial disbursement combined with the very high administrative costs of channeling funds through the Agricultural Bank called for a different approach. The program established as part of the second five-year agreement responded to these needs.

IV. AGRICULTURAL CREDIT PROGRAMS UNDER THE 1985-88 PL 480 TITLE III PROGRAM

In recognition of the general weak performance and high administrative costs of Bolivian public sector institutions, and the Agricultural Bank in particular, a second channel for disbursing and administering credits was required. This conduit was, under the second (1985-88) PL 480 Title III Program, to be private sector institutions, or Intermediate Credit Institutions (ICI). The ICIs consist primarily of banks, but include several larger credit cooperatives such as FENACRE (see section II). As the performance of these institutions in this capacity was largely unknown, the 1985 PL 480 Title III agreement contained two significant modifications to the small farm credit program: 1) the strengthening of the ICIs was established as a distinct sub-objective[9], and 2) the modified program was first tested as an experiment in December 1984-November 1985. Before examining the specific activities under this new program, it is helpful to review the administrative system through which it operates. For our

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[9]Project Paper Index for the PL 480 Title III Food For Development Program, Fall 1985, p. 43.

purpose, the small farmer credit programs, and similar programs for medium-sized farmers and agroindustrial enterprises, shall henceforth be referred to by the colloquial name employed in Bolivia, the "Trust Fund."

A. Program Administration-General

The PL 480 Title III Program, of which the "Trust Fund" constitutes but several individual projects, is administered under three distinct levels: normative, operative and administrative.[10] The Joint Commission for Rural Development (JCRD), the representative body of the government of Bolivia, and USAID/Bolivia, the representative of the government of the United States, combine to fulfill the normative responsibility, that of establishing general guidelines for the total PL 480 Title III Program.

Operative tasks, principally those of project evaluation, are the responsibility of the PL 480 Title III Executive Secretariat. The Secretariat, a legal, decentralized body of the government of Bolivia, has the authority to make contracts. It is overseen in this role by the USAID/Bolivia Mission, which exercises financial approval over individual projects. Finally, the administrative task—that of monitoring projects—rests also with the Secretariat. Financial control is the ultimate responsibility of the Department of Project Coordination and Control (DPCC), a specialized agency of the Ministry of Finance.

PL 480 Executive Secretariat

Of these institutions, the Executive Secretariat is the most unique, and central, and requires further attention. The Secretariat was established as part of Food for Development Agreement signed May 31, 1978. In addition to the USAID/Bolivia Mission and the DPCC, the Secretariat is

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[10]From a June 4, 1986 letter by Dr. David L. Jessee, USAID/Bolivia Mission, to Ms. Julia Chang Block, Bureau for Food for Peace and Voluntary Assistance, AID/Washington.

monitored annually by the JCRD. However, according to Secretariat personnel, frequent personnel changes on the JCRD has made it a largely ineffective body as regards the specific activities of the Secretariat. Indeed, individuals both inside and outside the Secretariat's office have credited its effectiveness to its largely autonomous position. Considering the reputation of other Bolivian public sector institutions for inefficiency and bureaucracy, this observation is probably correct. The Secretariat is supported through local currency funds under the PL 480 administrative account.

The organization of the Executive Secretariat (as of 1987) may be described as shown in Figure 1 with particular attention to the "Trust Fund" Program.

The specific responsibilities of the Secretariat are as follows:

1) Plan, direct, coordinate, control, verify and implement the Food for Development Program.

2) Review the technical and economic/financial aspects of the projects and approve them within the limits delegated by USAID.

3) Coordinate the implementing agencies—DPCC, USAID/Bolivia and the JCRD.

4) Prepare and submit financial reports, as well as a draft annual report to be approved by the JCRD, and

5) Design and apply methodologies for project formulation and evaluation.

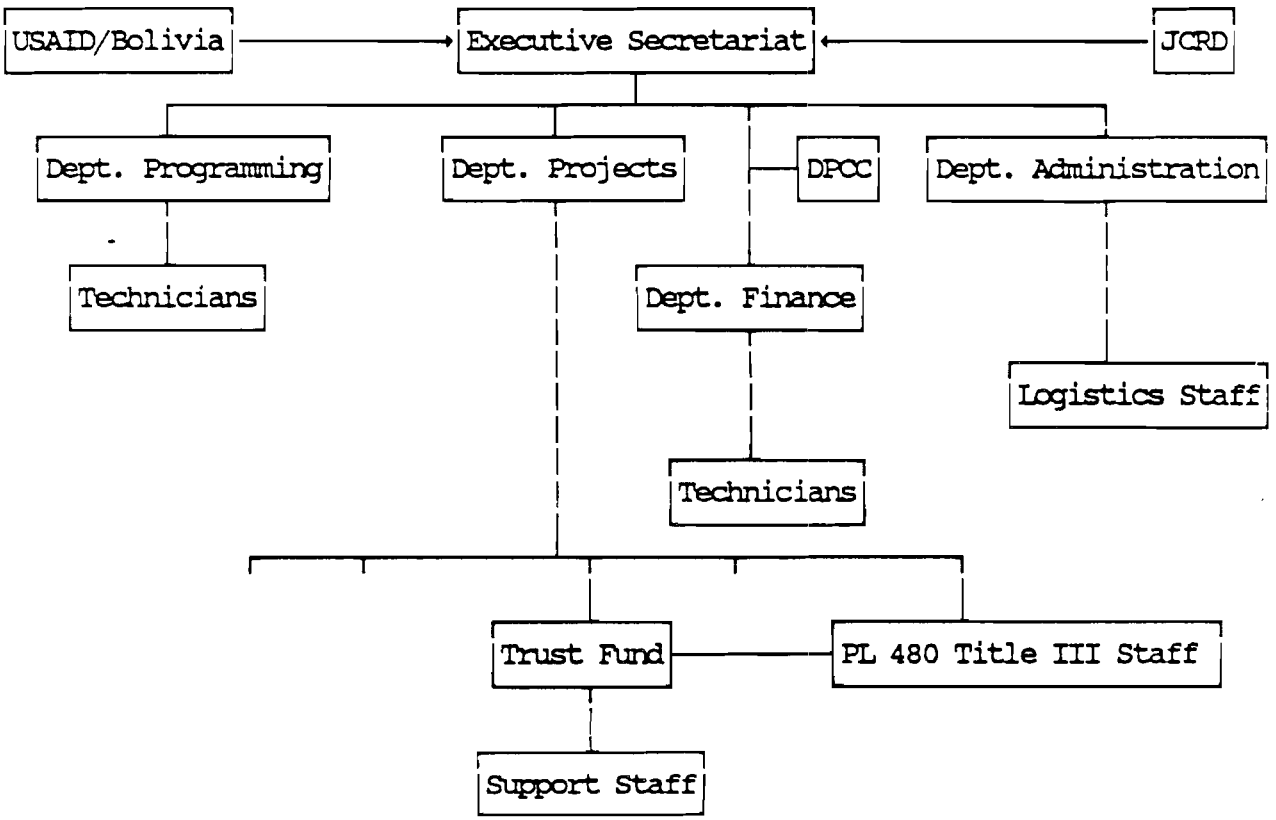
B. Program Administration-Trust Fund Program

In addition to the general administrative relationships described above, the "Trust Fund" Program incorporates activities of the ICIs and the

FIGURE 1

Organization of the Executive Secretariat

January, 1987



Central Bank. These relationships are described here, along with those presently in use between the secretariat and the USAID/Bolivia Mission.

Central Bank of Bolivia

The Central Bank has two responsibilities in regard to the "Trust Fund" program. First, the Central Bank establishes the allowable interest rate for agricultural-related projects (presently 13 percent in dollar-denominated loans plus a one percent bad debt fund pool). Second, the Central Bank certifies banks and other credit agencies as Intermediate Credit Institutions for the purposes of distributing federal funds. Without that certification, a bank or other group does not qualify as a conduit of "Trust Fund" credits or other funds, although other requirements must be met before any ICI is used in the "Trust Fund" Program. Certification by the Central Bank involves a formalized application and review process, including evaluation of the financial position of the institution. However, the audit is by no means complete, and a certification is not a precise indication of the long term viability of the institution. Under Bolivian law, banks are largely unregulated and unaudited.

Intermediate Credit Institutions

As the principal institutions handling the trust funds, the ICIs were, and are, subject to certain restrictions on their activities beyond Central Bank certification as an ICI. First, in order to be authorized to handle these accounts, an institution must apply to the office of the Secretariat. Applications contain basic information about the financial condition of the bank and its intended commitment to the "Trust Fund" Program including proposed staffing and publicity procedures for the credit programs. If this application is acceptable to the Office of the Secretariat, a Letter of Understanding is drawn between the Secretariat and the ICI which stipulates

the responsibilities of each office and the credit conditions including interest rate (as set by the Central Bank, see Appendix). Letters of Understanding may and indeed have been rescinded by the Secretariat for a failure to perform according to the agreement.

Specific responsibilities of the ICIs for handling "Trust Fund" accounts are as follows:[11]

1) Credits must be used solely to finance activities in the areas of small agriculture, agroindustrial and artisanal enterprises,

2) - The fund should grow in proportion to the amount of undistributed credits and the interest charged,

3) Accounts must be kept separately and be made available for evaluation,

4) A Department of Development/Promotion must be established to promote, evaluate and supervise the credits,

5) Reports on the use and status of the credit line must be filed quarterly, with an annual summary also required,

6) The credit line plus applicable interest must be reimbursed to the Secretariat after five years. This means the institution takes full responsibility for guaranteeing the loans and in its behalf may require guarantees from the borrowers.

The loan rates and administrative fees vary over the duration of the program and are described for each period the credit system has been in operation.

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[11]Programa PL 480 Titulo III, Programa Ampliado de Creditos a Pequenos Agricultores, Fondos en Fideicomiso, Informe de Evaluacion, June 1985, pp. 21-22.

Executive Secretariat

Once a letter-of-understanding has been drawn with an ICI, the Secretariat establishes a general credit line, drawing on that line when requests are presented, and as monies are available. The credit line, along with the inclusion of a new bank in the program, must be approved by the USAID/Bolivia mission. Before granting the funds, each proposal is evaluated by the Secretariat and the credits denied if it does not comply with requirements, especially restrictions on eligible recipients.

The ongoing oversight function absorbs the most staff time. This involves, for each ICI, checking the periodic reports against records so see that credits were advanced in a timely fashion and in accordance with the proposals. Staff must follow up on complaints as they are brought to the attention of the Office. And finally and perhaps most significantly, field visits to each recipient should be made at least annually. However with the current number of recipients, over 700, this is not a realistic goal. During those visits documents are checked and recipients are interviewed to determine if the funds have been handled correctly and, most significantly, if they are being used to meet the program objectives, the improvement in the living conditions of small farmers (and in subsequent expansions small scale agroindustrialists). This latter task involves checking on ancillary programs, such as the provision of technical assistance by a cooperative ICI, or the adoption of specified agronomic practices by an individual recipient. All of these tasks are summarized and reported to USAID/Bolivia annually, with informal reports provided on demand.

Site visits absorb considerable staff time. This is due to both the number of recipients and the difficult traveling conditions. A visit to one recipient, La Coopertiva Sorata, for example, required nearly nine hours of

driving to visit but one of five communities and cooperative headquarters located 150 kilometers from La Paz. Administration of the "Trust Fund" requires one full-time Secretariat staff person plus assistance from other technicians and the Secretariat accountant.

USAID/Bolivia Mission

While the Mission has overall responsibility for the "Trust Fund" program, most of the administrative responsibilities have been successfully transferred to the Secretariat. Remaining are 1) establishing overall project responsibilities, 2) examination of Secretariat accounts and reports, and 3) advancing the credit line, on the request of the Secretariat. Site visits are apparently made infrequently, if at all, as this is but one of 15 large programs operating simultaneously.

C. Experimental Program for 1984-85

Given the dual uncertainties of the administrative capability of the secretariat over ICIs and the functionality of the ICIs themselves with a new and largely unfamiliar clientele group, it was decided in November 1984 to initiate the privatized "Trust Fund" program as a one-year trial (December 1984-November 1985). The basic characteristics of the experiment included:[12]

1) Six banks were involved with funds advanced as:

Bank	Amount ($b billions)	Date of Disbursement
Nacional de Bolivia	2.0	11/27/84
Cochabamba	3.0	12/5/84
Hipotecario Nacional	3.0	12/5/84
Santa Cruz	3.0	12/21/84
Boliviano Americano	3.0	12/21/84
Mercantil	3.0	12/21/84

[12]Programa PL 480 Titula III, op cit., pp. 61-66.

2) Banks had complete autonomy in the disbursement of funds, subject to the definitions of eligible recipients and individual credit limits of $b100,000,000 (about US$11,000) for individuals, and $b500,000,000 (about US$55,000) for small and medium-sized farms.

By the end of the experimental period, loan ceilings were stabilized at US$15,000 (divided 10,000/5,000 for investment and working capital) for individuals and US$70,000 (50,000/20,000 for investment/working capital) for small and medium-sized enterprises. Within these limits, and subject to beneficiary eligibility requirements, banks were free to extend credit without additional approval. Loans in greater amounts require specific approval of the Executive Secretariat and the Mission.

3) Banks must disburse the funds within a five-month period (extended from the initial three due to strike delays). This factor is significant because the differential between the loan rates and then current interest rates made the retention of funds very attractive for the banks, and

4) For their services, banks received an eight percentage point fee A ten percent surcharge (e.g., eight percent) to cover bad debts was also added to the applicable interest rates.

The project is credited with assisting a total of 305 individuals, the great majority small farmers in La Paz Division. In fact, two banks, the Bank of Cochabamba (78) and Boliviano Americano Bank (16) made the largest number of loans, the latter including one group loan benefiting 208 campesinos.[13] The remaining banks clearly made far fewer but larger loans.

In other regards, such as the degree of financial control and the speed with which loan requests were acted upon, and the professionalism of the staff, the six banks were found to perform quite differently. The

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[13] Op cit., Chapter 5 and Annexes C-H.

differences led to the recommendation that but four of the banks (Santa Cruz, Boliviano Americano, Cochabamba and Hipotecario Nacional) be used when the full program was initiated.[14] (The other two trial banks were subsequently readmitted on evidence of improved administrative practices.)

Specific recommendations made at the end of the trial period were:[15]

a. Program Administration

1. Due to cost factors and lack of maintenance of value, the "Reserve Fund" for uncollectible loans was eliminated.

2. Enforce the regular submission of monthly and quarterly reports; in case of noncompliance, the Executive Secretariat should stop disbursements and request restitution of funds.

3. Give a ten-day term for transferring the funds to credit beneficiaries, and

4. Records of credit beneficiaries should include:

- Land ownership (by regions),
- Farmer's equity,
- Production (by regions), and
- Sales.

b. Marketing Plans of the Banks

In order to be included in the program, a bank should submit a credit marketing plan.

c. Financial Administration

To facilitate the financial assessment of the Program, the bank should keep separate accounting records.

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[14] Op cit., Table 9 and page 42.

[15] Op cit., pp. 44-47.

d. Administrative Organization

1. The banks should be properly staffed and take full responsibility for delivering credits including their promotion, evaluation, approval, disbursement, control and repayment.

2. It is recommended that the banks carry out field inspections to insure the proper use of funds.

3. The banks should preferably work through the producers' associations in order to reach more farmers.

e. Credit Administration and Collateral Policies

Since most of the banks do not have uniform and written loan eligibility criteria, the use of manuals and handbooks is recommended for the credit delivery system.

D. Program Administration During 1985-86[16]

During 1985-1986, a total of US$11.3 million was disbursed through banks and cooperatives. By the end of the year, the number of participating private banks had increased to 13 (Nacional, Cochabamba, Hipotecario, Santa Cruz, Mercantil, Boliviano, Inversion, Industrial, Union, Potosi, Oruro, BIG Beni and Blandesa). This includes all but three very small private banks in Bolivia. Foreign banks are presently not eligible to participate. Concurrently, funds were distributed directly through eight cooperatives.

Several significant administrative changes were made that year. Perhaps most significantly, interest rates (as of December 1985) were established relative to the US dollar with a specific "maintenance of value" clause added to agreements with banks and borrowers (Appendix). That is, loans subsequently had to be repaid in real dollar value according to the

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[16]Programa de Alimentas para el Desorrollo PL 480 Tituto III, 1986 (draft form) and "Evaluacion Linea Fondas en Fideicomiso con la Banca Privada" (undated). The Program was initiated in December 1985.

official exchange rate, plus interest. Interest was set at 13 percent annually for borrowers, with one percent added for a bad debt pool. Nine percent was charged to the banks and cooperatives, which retained a four percent spread.

On a more administrative level, the required division of loans between investment and working capital was discontinued, giving the borrower greater discretion in how to use the funds. Banks however were now specifically required to divide loan funds 60 percent to individual small farmers and 40 percent to other borrowers (small and medium-sized farms and agroindustrial concerns). Previously, banks had been encouraged to lend to small farmers, but had no specific distribution requirements. For the purposes of the Project, a "small farmer" is one who borrows US$15,000 or less.

The marketing of the credit line as found wanting, and a much needed change was implemented. Previously, banks solicited applications from borrowers, requested a specific credit line, and disbursed the funds. That led to two distinct problems. First, often more applications were received than there was available credit, leading to disappointment and wasted time. Second, it was necessary to police the banks to see that loans were made in a timely manner. Since the PL 480 Title III credits were borrowed (in $US) at a cost of eight percent annually while commercial loans (in $b) run at about six percent monthly, banks had a considerable incentive to delay disbursements. Further complicating the situation, the disbursements of funds from the Central Bank was (and is) unpredictable. As a partial remedy to these problems, it was decided in 1985 to accept "bundles" of requests from banks in amounts of up to US$200,000-300,000. The Secretariat would notify banks when funds became available and accept applications on a first-come, first-served basis. After checking the requests against Program

requirements, the funds are released. Banks subsequently have 30 days to make disbursements to clients.

Since 1979 the credit program (including sources and projects other than the "Trust Fund") had been responsible for more than 15,000 loans, helping approximately 25,00 families. In 1986 alone, 888 loans were granted under the "Trust Fund."

E. Emergency Credit Program for 1986

In November 1986 the USAID/Bolivia Mission announced an emergency agricultural credit program of US$10 million. A more appropriate title might be "special grants" as the program was not established in response to any national disaster or other particular situation. It did not involve the PL 480 Title III "Trust Fund" Program except that the same personnel in the Secretariat's Office were responsible to distribute the funds to private banks where it was to be handled in a fashion similar to the "Trust Fund" accounts.

Following the announcement, the funds have been slow in arriving. Only in January 1987 were the first US$2 million being distributed, and expectations are that the total available sum will not exceed US$5 million.

This special program is mentioned here because to the understanding of many recipients and their representatives (allocation of funds was handled by cooperatives and producer associations as well as banks), the emergency program was, in fact, the "Trust Fund." Delays on the distribution of those dollars then has reflected unfortunately on the "Trust Fund," and especially on the Secretariat, although the basic problem occurred elsewhere.

V. INSTITUTIONAL EVALUATION

On a basic level, the PL 480 Title III "Trust Fund" Program must be considered an overwhelming institutional success. Funds are distributed relatively rapidly at modest expense (four percent) considering loan size and risks involved, and there is no real evidence of significant default problems. These points require further development, along with an identification of possible weaknesses and communication gaps among the several levels of administration of the "Trust Fund."

A. Private Banks

Participation

One of the thrusts of the 1986 PL 480 Title III Program is the strengthening of private credit institutions (ICIs) by, in part, increasing their loan base through the trust fund program.[17] With all but a few of the smallest Bolivian banks participating in the "Trust Fund," that task seems to have been achieved. Moreover, PL 480 Title III funds are being distributed through most branch offices (Table 3).

The significance of the "Trust Fund" Program can better be understood within the extremely limited credit position of the Bolivian economy. Especially affected is agriculture, which has been identified as providing the economic future of the nation.[18] Credit shortness is attributable to decapitalization and the resultant capital flight during hyperinflation (a situation which in the first quarter of 1987 was reversing), monetary control used as a means of restraining inflation, and a political/economic

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[17]"Project Paper Index for the PL 480 Title III Food for Development Program," Fall 1985, p. 21.

[18]J. Clark, "Evaluation of the First Year of Operation of the Government of Bolivia's New Economic Program." USAID/Bolivia, Sept. 6, 1986, pp. 22-24.

TABLE 3

Banks Participating in the Bolivian "Trust Fund" Program, December 1986

	OFFICES					DISBURSEMENTS MADE FROM				
Bank	La Paz	Cochabamba	Santa Cruz	Oruru	Other	La Paz	Cochabamba	Santa Cruz	Oruru	Other
Boliviano Americano	HO	BO	BO	BO		X	X	X	X	
Cochabamba	HO	BO	BO		BO	X	X	X		X
Credito Oruru	HO	BO	BO	BO	BO	X		X		X
Hipotecorio National	HO	BO	BO		BO	X	X	X		X
Inversion Boliviano	HO	BO	BO	BO		X	X	X	X	
Industrial y Ganadero del Beni	HO	BO			BO	X	X			X
Industrial	HO		BO			X		X		
Mercantil	HO	BO	BO			X	X			
Nacional	HO		BO			X				
Potosi	HO	BO	BO			X	X			X
Santa Cruz	HO	BO	BO			X		X		
UNION	HO	BO	BO				X	X		

HO: Head Office BO: Branch Office Source: Records of the Executive Secretariat

uncertainty which contracts the loan period. Indeed, commercial loans are presently available only for period of 60 to 90 days, with none exceeding 180 days. Thus the "Trust Fund" Program is presently (January 1987) the sole public source of medium-term investment credits, and channeling these funds through private banks allows them to provide an important service for clients.

Default Rates

The rate of loan default experienced by participating banks is not a matter for immediate concern for the "Trust Fund" Program as any losses must be absorbed by the granting bank. Yet the default rate does indicate the quality of loan management, as well as providing an early indication of the long term interest of the ICIs in the Program. A high default rate will, in quick order, lead to withdrawals of the ICIs from the Program. At this early point, the indications are very positive. The interviewed banks are reporting default rates of less than one percent, a level consistent with the documentation reviewed during the field study. Several banks, in fact, report default rates near zero. A complete file on loan status is submitted quarterly to the Executive Secretariat and can be analyzed in greater detail by that body. Preliminary indications, however, are that default is not a significant factor.

The issue of default nonetheless requires a deeper probing. The principal issue in question is the distinction between "default" and "arrears." One banker defined default as payments more than 60 days overdue for which collection proceedings have been initiated. Yet payments similarly overdue may be classified as being in arrears if the loan repayment period is extended. Since the ICIs are administering the credits, they retain full authority to extend terms without the specific knowledge of

the Secretariat. Thus, the situation may be more grave than participating banks have revealed to date. But this is speculative; all the currently available evidence is that default is not a problem with "Trust Fund" credits. A very low default rate, on the other hand, may indicate that banks are being very stringent about the credit worthiness of borrowers and are possibly limiting access to credits for the smaller, less secured borrowers.

Development Departments[19]

All participating banks have Development Departments consisting, as the minimum, of three persons: a head, loan officer and secretary. Larger departments would have an additional two to three professionals, a second loan officer and an agronomist and/or engineer. Additionally, most branch offices have two to three persons, with the largest departments in Santa Cruz where agriculture is the major industry. A typical organization of a Development Department in a larger branch office is shown in Figure 2.

These Departments were established at the request of the Central Bank for private banks wishing to manage agriculture credits. As the PL 480 "Trust Fund" Program contributes but a limited percentage of agricultural credit from public sources—up to one third of that amount in one branch office—the staffing of these offices cannot be attributed, in a large part, to the "Trust Fund." However, "Trust Fund" dollars undoubtedly assist in maintaining these departments, especially as many seem underutilized at the present, in anticipation of further growth in agricultural credits in the future.

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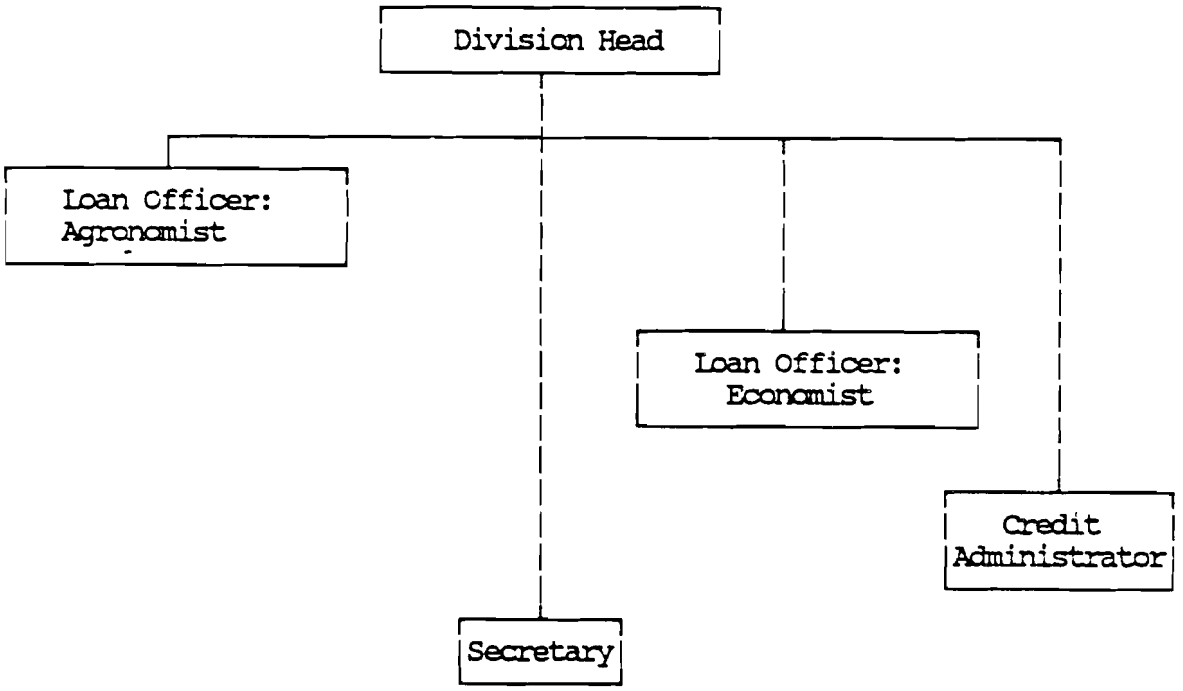
[19]This material was compiled with the assistance of Alberto Gonzales, Trust Fund Administrator for the Executive Secretariat.

FIGURE 2

Organization of a Typical Larger Development Department

of a Participating Private Bank



Based on observations at the eight banks visited during the period of field work, department heads are typically mid-career professionals with considerable banking experience. Many had worked previously for the Central Bank, which seems to have lost a considerable number of employees in recent years, undoubtedly due in part to low public sector wages. Other department employees are typically younger professionals, many with technical backgrounds in agronomy and bank training in loan management. Several have Master's degrees from U.S. universities. These Development Departments then seem to possess considerable expertise. However, differences in staff quality and commitment exist among the Departments, differences which become apparent even during relatively brief interviews.

Costs of Administration

The costs to the private banks of managing PL 480 "Trust Fund" credits is difficult to calculate due to the newness of the Program and the fixed overhead involved in operating the Development Departments. However, most interviewed bankers felt that the four percent spread allowed was sufficient on average to cover their costs (plus, by implication, a reasonable return on risk). More specifically, cooperatives are allowed a two percent administrative fee for their "Trust Fund" loans.[20] Administrative costs for cooperatives are in some senses lower than for banks as the projects and credit worthiness of the borrowers are known beforehand (see Section VII). On the other hand, cooperative projects frequently involve hundreds of very small farmers, a more costly group to administer than the smaller number of larger loans typical of the private banks. Thus, two percent seems a reasonable figure to represent the average administrative costs of the "Trust Fund" loans. For small loans, the costs will be far higher. Studies have placed them up to 20 percent of the value of these loans.[21]

Publicity of the Program

In a country with numerous remote small farmers and associated industries, the publicizing of the "Trust Fund" Program is potentially a difficult task. In reality, that has not proven to be the case. Among the commercial sized farms and enterprises credit is a critical problem, and word of its availability seems to spread rapidly. Most of these enterprises appear to be in frequent contact with the banks, which inform them of the "Trust Fund" accounts. Indeed, during visits to Cochabamba and Santa Cruz

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[20] e.g., FENACRE, "Perfil Para Financiamiento de Cultivas Anuales Cooperativa Integral de Servicios Cochabamba Ltda.," July 1986, p. 7.

[21] Adams and Graham, op cit., p. 349.

with the Secretariat Technician, it was not uncommon to have prospective borrowers waiting in banks, hotel lobbies, etc.

Small farmers acting individually would be difficult to inform. Yet many are represented by an overlapping system of cooperatives, producer associations and Departmental Development Cooperatives (see Section II). These groups are well connected with the Bolivian banking system and show considerable skill in developing projects. Undoubtedly there remains a large number of small, independent farmers who are unaware of the "Trust Fund" Program. However, this group typically lacks suitable loan collateral and is thereby ineligible for loans under the prevailing structure (see below and Section VII for a further discussion of the collateral situation).

Publicizing the Program would have the further effect of raising expectations of potential borrowers and lead to far more applications than available funds can satisfy. Hence, the present informal system for publicizing the "Trust Fund" Program seems best.

Loan Collateral

As the participating banks and cooperatives are responsible for loan repayment, it is to be expected that they demand, in turn, collateral from their borrowers. Among commercial-sized farmers and enterprise operators, loan security is generally not an issue as the operators will typically have some business assets. For small farmers, however, this is generally not the case, especially as the agrarian reform forbids seizing land from campesinos (that is, roughly amounting to holdings less than 40 hectares). Hence, land is not mortgageable. Banks differ widely on other acceptable forms of collateral. Some limit borrowers to mortgages on urban housing and other readily marketable assets. At the other extreme, several accept

countersignatures from equally asset-poor farmers, something that amounts to little more than a group moral commitment.

Cooperatives generally operate on a group basis (up to 60 or 70) with the whole guaranteeing the individual members; however, cooperatives typically have the benefit of a credit history of the membership.

Savings

The "Trust Fund" Program contains no provisions for stimulating local savings. Thus it is entirely dependent on external sources, and the U.S. Government in particular, for its continuation and size. At present, the setting of loan rates far below market levels precludes the use of capital borrowed locally at positive real interest rates.

Suggestions for Program Improvement

When asked how the "Trust Fund" Program could be improved, the interviewed bankers asked for more funds, a larger spread, and an increase in the ceiling amount of loans (presently US$70,000). That is, there appears to be no dissatisfaction with the Program, but an increase in profitability would be welcome.

B. Executive Secretariat

The responsibility for managing the "Trust Fund" is that of the Executive Secretariat. Once the basic operation of the Program was established, that is, with the modifications put in place for 1986, an estimated 80 percent of the time devoted to "Trust Fund" management is for project supervision. The remaining 20 percent of the time is spent evaluating bank proposals for the release of funds, and examining quarterly and annual reports.

Project supervision differs when the recipient is a bank or a cooperative. With bank allocations, the principal potential problems are 1)

delayed release of funds, and 2) improper use of funds by a recipient. In the first case, the slow disbursement is, as noted previously, a concern because a difference in interest rates gives banks a considerable incentive to delay as long as possible fund disbursement. Generally, the Secretariat is informed of delays only by checking with the banks and/or by following up on complaints from branch offices and recipients. With the numbers of banks, branch offices and beneficiaries involved, this is a time consuming and inexact task. A proposal has been made that beneficiaries be identified by a project number and banks be required to notify the Secretariat when the disbursement is made.[22] If that approach included something as detailed as a copy of the check sent to the beneficiary, it would seem to go a long way to resolving the problem. But the fact remains that prompt disbursement is counter to the immediate financial interest of a bank whenever there is a large disparity between the commercial and trust fund interest rates, and enforcement will require constant supervision. In general, forcing allocation through regulation and oversight has not been highly successful in other similar credit programs worldwide.[23]

The second matter, that of improper use of funds, is more difficult to detect given the fungibility of credit. Participating banks, to be sure, are required to administer the "Trust Funds" in accordance with the Letter of Understanding, and most banks do indeed visit projects prior to project acceptance and at least annually thereafter. The reason for those visits is, in part, to determine if the funds have been spent as per the proposal. Has, for example, the requested tractor been purchased and put into use?

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[22]Secretariat Executive, "Evaluacion Linea Fondos en Fideicomiso con la Banca Privada" (undated).

[23]See Adams and Graham, op cit., p. 349.

But the principal responsibility of the participating banks is to see that the operation is sufficiently profitable to permit loan repayment. That, and the avoidance of clear cases of fraud, is as much as can reasonably be expected of a participating bank.

The performance expectations of the PL 480 Program, however, exceed protecting the fiscal integrity of the credit line. The intention of the PL 480 program is to assist small farmers and operators of small and medium sized enterprises to use the credits to improve their living standard through agriculture and related enterprises. This implies a productive use of credits exceeding the mere ability to repay the loan. Determining if that is indeed taking place requires site visits by the Secretariat. To be sure, not everything can be known from a site visit as financial transactions may be exceedingly involved even when relatively small quantities of funds are involved, but even less is evident from La Paz.

Much of the time of the Secretariat is then spent visiting beneficiaries. The task is an arduous one. A visit to a cooperative (La Sorata) 150 kilometers north of La Paz required nine hours of riding on mountain roads, a very fatiguing trip. Yet the visit revealed that the coop records were in uncertain order, the names of the recipients were not immediately available, and the exact uses of the credits could not be specified. The coop management was admonished and requested to improve record keeping, but it will probably require a repeat trip to determine the outcome. Moreover, the technical assistance described in the Proposal was nowhere in evidence.[24]

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[24]FENACRE, "Perfil de Financiamiento para Cultivo de Papa" Cooperativa de Ahorro y Credito "Sorata" Ltda., August 1986.

On a previous occasion a review revealed that an allocation to an enterprise was misused, and the funds were eventually returned. The participating bank was temporarily suspended from the "Trust Fund" Program.[25] A similar occurrence transpired with another cooperative (Santa Cruz Norte). An earlier loan went into default due to the irresponsibility of a number of the members. Prior to being reinstated, the cooperative was requested to repay the prior commitment, to purge the irresponsible members (nearly half of the total) and to strengthen the leadership. The result, according to the present officers, is a much improved cooperative.[26]

These examples are cited to emphasize the importance of site visits by the Secretariat staff. Such visits generally involve two people, a technician and an agronomist. Yet with over 700 projects presently underway, and more being proposed on an ongoing basis, the effective level of project field supervision is very much in question.

C. Mission Staff

The purpose of establishing the Executive Secretariat was to shift the administrative burden of the PL 480 Programs away from the USAID/Bolivia Mission and the PL 480 program office. In the case of the "Trust Fund" Program this has been accomplished. By my own estimate, it appears that no more than ten percent of the PL 480 administrator's time is spent on overseeing the operation of this Program.

This is appropriate, and in agreement, with the purposes of the organization of the PL 480 Program and the Executive Secretariat. Yet there

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[25]Secretaria Executiva, "Evaluacion Linea Fondos en Fideicomiso con la Banca Privada" (undated).

[26]For a description of the restructured cooperative, see FENACRE, "Perfil de Proyects para el Financiamiento de Cultivas de Maiz y Arroz" Coopertiva Santa Cruz Norte, August 1986.

is an open question if the time spent by the Mission and PL 480 staff in supervising this Program is sufficient to remain current on the important, ongoing administrative decisions. In particular, there is an evident lack of current knowledge about the use of credits by the Program beneficiaries. More field visits are required to keep the Mission and PL 480 staffs abreast of the effects of the Program on the Bolivian agricultural and related sectors. Satisfying this request will require an increase in staff size as existing personnel are fully committed.

D. Reasons for Success

The PL 480 Title III "Trust Fund" Program is successful in distributing credits through private financial institutions, primarily because of a carefully planned administrative structure. The plan relies most heavily in providing market incentives for banks, cooperatives and other organizations to provide 1) project evaluation and supervision, and 2) guarantees for the funds. This Project demonstrates that these services can be more efficiently provided by the private sector than by the public, be that a national bank or the AID Mission. The private institutions are benefited by having staffs where they are required, and by a simpler and clearer set of objectives than those which typically face public institutions.

But while the Program organization creates substantial incentives to achieve the objectives, it also incurs private incentives to thwart those goals. Most significant of those disincentives is the gap between the Project interest rates (13 percent annually in dollars plus one percent) and commercial interest rates (about 70 percent annually in pesos in January 1987, but subject to fluctuations). This raises two distinct issues: 1) how to allocate funds priced far below the market-clearing level, and 2) how to assure the funds are used as intended in agriculture and not diverted (even

temporarily) to higher-returning uses. The matter of prompt disbursement, significant today, will grow in importance as loans are repaid to banks and re-lent. The answer to these two issues, of course, is to have an administrative/enforcement body. In Bolivia that role is served by the Executive Secretariat.

The keys to successful disbursement of agricultural credits are then 1) careful program planning involving adequate private sector incentives, and 2) a strong, independent and well funded oversight body. The system of private economic incentives, with appropriate modifications for local conditions, is eminently exportable. What is more critical is the establishment of the administrative/enforcement body. In many contexts this will likely require careful planning and persistence to assure that the requisite independence is indeed granted. It will not be sufficient to accept a poorly constituted body or one which is accountable to political bodies as the funds must be allocated accordingly to Program guidelines, not political considerations. It may require considerable perseverance to see that the body is structured properly. As important is an agreement to pay salaries sufficiently high to attract and retain properly trained personnel. The funds provided through many PL 480 Programs should be sufficient to give enough leverage to achieve these goals.

VI. FIDUCIARY EVALUATION

Following the sharp devaluation of the Bolivian peso in mid-1984 and the resultant decapitalization of the "Trust Fund" loans, then denominated in pesos, the integrity of the fund became a critical priority. By the end of that year, under a revised letter of understanding stipulating loan conditions, loans were demarcated in U.S. dollars with a maintenance-of-value clause related to the official exchange rate. Thereby, the value of

the fund is largely assured. But for this to be true, it is required 1) the banks, which serve as guarantors of the loans, are themselves solvent, and 2) the official exchange rate reflects accurately internal inflation. These matters are explored here.

A. Stability of Private Bolivian Banks

Should one of the "Trust Fund" participating banks fail, the Mission would, in all likelihood, have to resort to the courts to reclaim its loan. Yet, it is equally likely the Government of Bolivia would present a prior claim, its position strengthened by fact of holding the reserve requirements in the Central Bank. The position of the Mission to recover is then in much doubt, so that the best protection measure is to work only with solvent banks.

Determining the stability of private Bolivian banks is difficult as their accounts are not regulated and public audits are not mandated. Banks may present accounts, but accuracy is unverified. At this time there is no specific evidence that any banks are in danger of failing, but rumors persist about a few. It is known that only two banks earned money in 1986, and that decapitalization and forfeit were results of hyperinflation. But this information is not specific enough to act upon, even though the likelihood of a bank failure has been raised in several quarters.

Complete audits of banks are beyond the means, and likely the authority, of the Secretariat and Mission/PL 480 "Trust Fund" staffs. Plans are underway for a USAID/Bolivia and World Bank audit as part of a broader reform of the Bolivian private banking system. For the interim, there is little which can be done under the "Trust Fund" except be aware of potential problems and be prepared to respond rapidly at an indication of

difficulties. The disbursement of funds in numerous banks, the present policy, minimizes the dependance on any one firm.[27]

B. Inflation, Exchange Rates and Real Value

The concern with the relationship between inflation and exchange rates is not that the dollar value of the "Trust Fund" will decline. That value is assured by the agreement on credit terms which requires repayment in real dollar terms. Rather, the issue is that internal inflation may exceed the adjustment in the official exchange rates, reducing over time the real peso value of the loans, a form of peso devaluation.

There is reason, in the judgment of the author, to believe the official exchange rate lags internal inflation as the control of peso devaluation is a key element in restraining domestic inflation. Indeed, the Central Bank is contributing substantial amounts of its dollar reserves to maintain the value of the peso in the exchange auctions. A 10 percent peso devaluation (official inflation rate) is targeted for 1987.

Data for September 1985-June 1986 show that the official exchange rate rose by 76 percent (the unofficial by 79 percent) while the general consumer price index rose by 85 percent, nearly a 10 percentage point spread.[28] The Central Bank seems to share this inflationary expectation for pesos as it charges on nonagriculture loans 50 percent more for peso denominated loans then those made in dollars (18 percent-20 percent vs. 24 percent-30 percent annual in January 1987, subject to change).

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[27]For more on the status of Bolivian banks, see Programa PL 480 Titulo III, "Programa Ampliado de Credito a Pequenas Algicultores," Informe de Evaluation, June 1985, pp. 6-11.

[28]Instituto Nacional de Estadistica, "Estadisticas Monetorieas y Financieras." And Banco Central, "Estadisticas Monetorias y Financieras."

C. Evaluation of Concerns

The available data suggest to the author some decline in the purchasing value of the "Trust Fund" account will be experienced over time if present policies on maintaining the value of the Bolivian peso are followed. This assessment is based, in part, on the reported consumer price index, which is always an uncertain measure of actual buying power in different product markets. Yet it seems likely the real peso value of the loans is declining, albeit slowly.

Information on the stability of private banks is even more sketchy, but if present conditions persist, a bank failure is not out of the range of possibility for the intermediate future. The position of PL 480 funds in this process is a sensitive one as any expression of general lack of confidence in a bank by the USAID/Bolivia Mission would undoubtedly weaken its position seriously, and possibly unfairly. Thus, until more specific information becomes available, the administrators of the "Trust Fund" accounts can do little but remain informed and ready to act in the case of impending problems.

VII. IMPACTS ON RECIPIENTS

As impressive as the "Trust Fund" Program is in disbursing credits, it is the productive use of those funds which is the real basis of the success of the project. The objective of the Small Farmer Agricultural and Livestock Production and Marketing Credit Program is to "permit an expanded number of rural producers to increase their production, productivity and incomes through better access to production and marketing credits." The Agroindustrial and Artisanry Assistance for Small and Medium Sized Enterprises strives indirectly for the same objectives by increasing "rural

and low-income urban employment opportunities, productivity and incomes through the creation or strengthening of private business activities."[29]

In this section an evaluation is made of the credit uses of the "Trust Fund" beneficiaries in three classifications, 1) small and medium-sized agroindustrial and artisanal enterprises, 2) medium-sized farmers, and 3) small (campesino) farmers. When, due to data limitations and shortness of the field evaluation, the evaluation is perfunctory, an attempt will be made to indicate how a more careful assessment could be carried out. The analysis is based on credits extended during 1986, the first full year of the regular "Trust Fund" Program. We begin by detailing the recipients of the credits.

A. Allocation of Credits by Recipient Groups

There are several ways of grouping program recipients, the most basic of which is agriculture, artisanal or agroindustry (Table 4). As shown, the greatest number of projects is in agriculture, as specified in the PL 480 Title III fund allocations. This broad accounting, however, does not give a good indication of the actual type of recipients, especially between small and medium-sized farmers. For the purpose of this allocation, the definition of a small farmer is one who receives up to US$15,000 in credits.

Figures from the Executive Secretariat show that the participating banks had a total of about 147 agricultural projects, of which almost three-quarters were for small farmers (Table 5). The number of small farmer recipients was far greater as a number of the loans were group loans for small farmers. In total, 589 small farmers received assistance through bank-channeled loans in 1986.

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[29]"Project Paper Index for the PL 480 Title III Food and Development Program" Fall 1985, pp. 66, 61.

TABLE 4

"Trust Fund" Credits Allocated by Major Sectors, 1986

-Numbers of Projects-

INSTITUTION	RECIPIENTS		
	Agriculture	Artisanal	Agroindustry
Banks	583	108	38
Cooperatives	8	—	—
Total	591	108	38

Source: Records of the Executive Secretary

TABLE 5

Allocation of "Trust Fund" Credits Between Small and Large Farmers

December, 1986

Credit Intermediary	Beneficiary	
	Small Farmers	Large Farmers
Banks	127 Projects	20 Projects
	589 Beneficiaries	20 Beneficiaries
Cooperatives	8 Projects	———
	Beneficiaries*	———

*Varies by project. For example, 120 at Sorata Cooperative and 540 at Santa Cruz Norte.

Note: These figures are updates of those presented in Table 4.

Source: Records of the Executive Secretary

During 1986 the existing cooperative credit program was included under the "Trust Fund" project. (The actual date was mid-year, but all cooperative loans made in 1986 were subsequently included under the "Trust Fund" Program.) For 1986 a total of eight cooperative projects were granted funds for a total of US$3.6 million. As of the time of writing, data on only two projects were available and indicated a total of 660 members were to benefit, about a third of the active membership of the two coops. All cooperative members may be considered campesinos, although the amount of land each owns varies from small in the Altiplano to about 50 hectares in Santa Cruz.

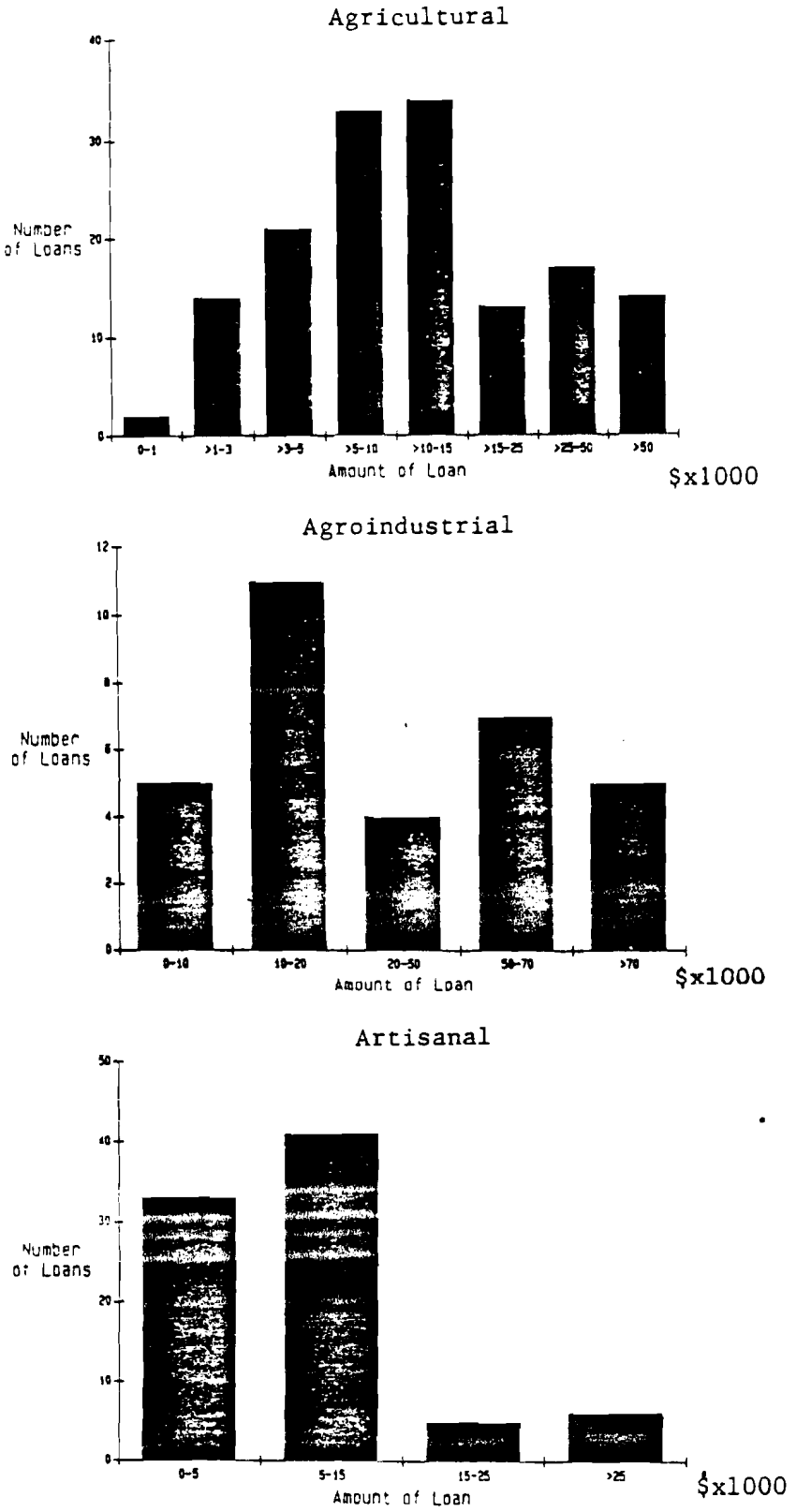
Average group bank loans varied between US$1,000-2,000 per individual, in most cases, and were about US$1,000 per member for the cooperative projects. Many of the individual agricultural bank loans were at the maximum US$15,000 and only six were below US$3,000. Thus the smallest loans (ostensively to the smallest producers) are made on some form of group basis (see also VII-D below). Artisanal loans were typically in the range of US$5,000-15,000 with but four at US$50,000 and above. Agroindustrial loans, the smallest category in terms of numbers, ran from less than US$20,000 to US$500,000. Figure 3 details the loan grants by amount and recipient group.

B. Location of Recipients

The vast bulk of recipients (70 percent) are concentrated in La Paz Department, a not surprising situation since La Paz combines the major industrial base, numerous campesino farms in the Altiplano, and the bank headquarters (Table 6). Other important departments are Cochabamba (18 percent) and Santa Cruz (eight percent), as contrasted with four percent for the remaining six departments. This distribution indicates the importance of the location of bank branch offices to the distribution of loans. One

FIGURE 3

"Trust Fund" Bank Loans
Classified by Amount & Recipient Group, 1986



Note: Excludes loans to cooperatives
Source: Records of the Executive Secretariat

banker said that cost considerations restrict loans from his bank to a 150 kilometer radius. The funded cooperatives also tend to be in the same three departments which receive bank loans.

TABLE 6

Location of "Trust Fund" Recipients by Department, 1986

Department	Projects Number	Projects Percentage
La Paz	188	70
Cochabamba	49	18
Santa Cruz	22	8
All Others	11	4

Source: Executive Secretariat

C. Impacts on Agroindustrial and Artisanal Enterprises

As the sole source of medium term loans through formalized channels, there is little doubt but that the "Trust Fund" Program is a major assist to recipient firms characterized as artisanal and agroindustrial. These firms, like much of Bolivian industry, appear to be in constant need of capital. The "Trust Fund" satisfies at least a small part of this need at rates far below prevailing commercial levels. Funds are used for both investment and working capital.

The kinds of projects funded include, under the agroindustrial heading, meat slaughtering and processing facilities, coffee processors and ice cream manufacturers. Artisanal enterprises are even broader in scope, including the manufacture of traditional sweaters and the production of hand-formed candies.

Quarterly activity summaries provided to the Executive Secretariat by the participating banks are not sufficiently detailed to determine how the credits are actually being used. A thorough evaluation would require a review of the project proposals filed with the banks. That activity exceeded what could be done during the period of field study preceding this report but could be carried out at some subsequent date in a relatively straightforward manner. Such an analysis would help explain the credit uses by the recipient enterprises and could lead to a determination of what employment effects the credits have had.

Two key questions would nonetheless remain unanswered, 1) whether the loans made achieved the greatest employment effects per dollar compared to potential alternative recipients, and 2) whether, in the case of agroindustrial loans, there was a beneficial impact on the agricultural sector. Agroindustrial loans can raise farm prices if marketing constraints are eased through such measures as opening alternative market outlets, providing additional storage or improving the efficiency of the processing and marketing systems. Determining both the employment and price impacts of agroindustrial loans, in particular, requires more information on the processing sector than is now available. In the absence of that information, the allocation of the scarce "Trust Fund" credits is a somewhat random process.

The credit situation with artisanal enterprises is somewhat different. Here there is no apparent determination over what the credits are intended to accomplish beyond supporting "artisanal" enterprises as a general concept. The lack of specificity about the purposes of the credit precludes an evaluation of their effectiveness. It also makes the process of distributing the credits uncertain. What, one must ask, is an artisanal

enterprise? In the past a number of traditional sweater manufacturers have been funded. These products supply the tourist trade and use some domestically-produced alpaca wool, but the knitting process is often semi-mechanized. In another case, a wallet manufacturer was rejected even though the fabrication process is predominantly manual and the raw material, leather, is produced and processed in Bolivia. What is artisanal about the first product that is lacking in the second?

The purpose of raising this issue is not to call for a definition of "artisanal." That would be a largely pointless exercise in semantics. Rather, the intent is to focus greater attention on the purpose of including artisanal projects under what is essentially an agriculturally-based credit program. One can distinguish a number of relationships between agriculture and some activities which might be described as artisanal. For example, the enterprises can be classified as "alternative sources of rural employment." Or they may be grouped as activities which add value to nonfood agricultural products, hence sweaters and leather, or even wood carving. Such a focus would assist in the allocation of credits and in the determination of impacts on selected groups. Presently, the artisanal credit program exists virtually without guidelines meaning that some more specific opportunities possibly are being bypassed.

D. Impacts on Medium Sized Farmers

Under the "Trust Fund" Program guidelines, medium sized farms are those borrowing between US$15,000 and US$70,000. This group includes larger farms as well as producers of eggs, broilers, hogs and other protein products. In many respects, this group is the most credit restricted of any in Bolivia. Farm operations of this scale require considerable investments, while the sector is seldom sufficiently profitable to repay loans borrowed at

commercial rates. Thus the "Trust Fund" serves a distinct need when channeling credits to this size class of agricultural producers.

At the same time it is possible to conclude with a high degree of confidence that the credits lead to increased production. The connection can be made most easily for livestock producers like the broiler and hog operations visited in Santa Cruz. For these firms, the loan proposals specified the uses of the funds for capital projects and working capital. Capital projects included expansions of facilities to augment capacity. Working capital permitted the purchase of feed components to raise those added animals to slaughter weights. The projects are relatively easily monitored from new construction to purchases of inputs to increased output. Fungibility remains an issue but less so for these firms which rely on formal credit sources as opposed to personal resources and informal channels. During the field study no attempt was made to document the production impact of the credits, but comments from bankers and field observation both suggested that output had indeed increased as a direct result of the credits. Farm labor requirements also rose.

For field crops, much the same conclusions can be drawn. Credits are used to prepare additional acreage and to plant that acreage, activities which are relatively easily monitored. One medium sized farm visited in Cochabamba proposed to use the "Trust Fund" credits to raise potato plantings to 60 hectares from 28 hectares.

Based on these observations, it appears that the "Trust Fund" medium sized farmer program is indeed enhancing output and contributing to the welfare of the borrowers. Documenting the amount of increase would be a relatively straightforward process of reviewing bank applications and interviewing bank employees who supervise these projects. The equilibrium

impact of these projects on national output and prices would not be known, but the understanding of second-round effects (production on price on the competitive position of other farms and hence on production) of the "Trust Fund" Program probably exceeds its intent.

E. Impacts on Small Producers

Assessing the impacts of "Trust Fund" credits on small (particularly campesino) producers is hampered by the paucity of information on the agronomic and financial practices of this group. As a result, the use of "Trust Fund" loans is not known in detail, and their effects only partially understood. Nonetheless, it seems reasonable to assume that most small farmers cannot finance planting and related costs totally out of family capital. At the same time, the Bank for Agriculture provides limited funding to this sector while credit cooperatives represent but a small part of total farmers and lend to but a quarter of their membership. Hence, it appears that some form of informal source is channeling credits to this sector. The most likely alternatives are dealers and/or input suppliers.

The substantiation for assuming the existence of informal credit sources is admittedly limited. Cost-of-production studies do provide for less than half of variable costs to be financed from personal savings.[30] Studies of wheat production have identified dealers as sources of credit for small producers.[31] Further substantiation of this point is, however, required.

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[30]FENACRE, "Perfil Para Financiamiento de Cultivos Anuales Cooperativa Integral de Servicios 'Cochabamba' Ltd.," Punata, Cochabamba, July 1986, Table 3 and "Perfil de Financiamiento Para Cultivo de Papa," Sorata, La Paz, August 1986, Table 1, and unpublished data from PROMASOR (Corn and Sorghum Growers' Association, Santa Cruz).

[31]Ministerio de Asunto Campesinos y Agropecuarios, Oficinia de Planificacion Sectorial, "Priorizacion y Zonificacion de la Produccion Agricola," and "Incremento a la Produccion Triguero-Diagnostico" 1978.

If indeed small producers have alternative credit sources, even if those sources are "informal," then it becomes an important issue if the "Trust Fund" credits substitute for or augment those other credits (substitution vs. additionality). If the role is simply one of substitution, then the recipients will benefit by the reduced cost of the "Trust Fund" credits compared to those from other sources. But that is simply a direct subsidy to a small number of individuals, not one which will necessarily foster development through expanded output, increased employment and possibly lower product prices.

It was, during the field interviews with campesinos and cooperative employees, not possible to make a distinct determination of how the "Trust Fund" credits were used. Detailed questioning failed to identify any instances in which "Trust Fund" credit recipients were described as farming any differently from nonrecipients. In particular, there was no evidence that the number of inputs described in the FENACRE proposals were actually used.[32]

In another line of questioning, farmers and cooperative employees were asked about the expected yield impact of halting fertilizer use and of doubling it, of increasing and decreasing planting density, etc. The intent was to understand how these groups perceived of the marginal production response to key inputs. Seed varieties are widely recognized as affecting both average yields and the variability of yields under different climatic conditions. For the remaining inputs there was no apparent awareness of variable response. Production rather seemed to be a matter of fixed inputs with little experimentation over varying input levels.

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[32]FENACRE, op cit.

These inferences are drawn with the benefit of limited field observation. A longer and more detailed study involving observation, interviews and a review of records is required before any firm conclusion can be reached. But what was observed is certainly consistent with traditional practices among uneducated farmers. Farming is learned through experience. Limited resources restrict the amount of experimentation which can be done. And little schooling not only restricts the distribution of information through written sources, it can also hamper the development of an analytical capacity to perceive of the complex agricultural production function. Technical advice from other sources is equally restricted. The cooperative service of the Ministry of Agriculture is widely recognized as having little impact, due to understaffing and restricted travel funds.[33] Cooperatives typically have extension agents, but again this service is understaffed. At the Integrated Cooperative "Cochabamba," for example, there are two agents to service 4,000 members. This for a cooperative which is better funded and organized than most. And much of the agronomists' time seems to be spent in evaluating the credit worthiness of member/borrowers.

Viewed from another perspective, how might a campesino be expected to invest an additional US$500, about one third of the estimated cost of potato production.[34] Increasing input levels would be risky if the response function was not known. With less risk, input purchases can be held unchanged while the amount borrowed at higher cost from informal sources is reduced. Thus the prudent beneficiaries of the "Trust Fund" Program, faced with uncertainty about increasing variable inputs, would be led to credit

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[33]See the discussion in "Project Paper Index for the PL 480 Title III Food and Development Program," Fall 1985, pp. 28-29.

[34]See FENACRE, op cit.

substitution.[35] The same conclusion can be derived if the amount of credits, and the amount borrowed, are both less than the reported amounts.

These tentative conclusions parallel experiences with small farm credit programs in a wide range of countries. Emphasizing the effects of substitution, additivity and diversion, Von Pischke and Adams recognize "the type of information needed to document [] liquidity flows for a representative sample of farm households is very time-consuming and costly to collect." For them, "At the farm level it is very costly, if not impossible, to determine the impact of credit."[36]

The above is presented to substantiate the position that credits will foster development only when they are delivered with appropriate technical information. Members of the ICI Development Departments recognize this relationship and employ agronomists, in part, to serve that need. Cooperative managers also identify the need for technical inputs but typically lack the resources to provide them at the necessary level.

Coupling the "Trust Fund" Program with a sizeable national extension program is a daunting, if not altogether impossible, task. Yet a foundation exists and alternatives are possible. The foundation consists of the Departmental experiment stations which do make recommendations on seed varieties, fertilizer use, and the selection of other inputs. The quality and applicability of these recommendations need to be investigated, but the

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[35]This tentative conclusion applies only to production costs and not to such long run investments as land clearing and habilitation. Land preparation cost is a major impediment to expanding production in the agricultural frontiers, most notably Santa Cruz. The Cooperative "Santa Cruz Norte," for example, included the clearing of 200 hectares in the "Trust Fund"-supported projects. FENACRE op cit., p. 31.

[36]J.D. Von Pischke and D.W. Adams, "Fungibility and the Design and Evaluation of Agricultural Credit Programs." Amer. J. Agr. Econ. 62:719-26 (1980), pp. 721 and 724.

stations do provide a source of technical information which appears to be underutilized due to inadequate disbursement.

Rather than using a publicly-supported extension program, it appears more viable to utilize existing input suppliers and dealers. These groups are in regular contact with producers and, in general, prosper when agriculture prospers. Thus it is imaginable to channel credits through these groups which can provide in kind loans of the agronomically suitable inputs. One program of this general nature is presently supported by the "Trust Fund." The project is with PROMASOR, the Santa Cruz association of corn and sorghum producers. Under the "Trust Fund" agreement, PROMASOR purchases F-1 hybrid seed which is provided to members with payment due at harvest time. More such projects will be seen in the future as the program to strengthen producers' associations becomes operative. That Program is intended to ". . . provide both loans and grants to producers' associations . . . for the purpose of purchasing, selling or distributing inputs or products or other types of productive, profitable undertakings."[37] Grants in kind should not of course be viewed as a panacea as the option exists for the borrower to sell the inputs and invest the proceeds in different ways.

The point being stated here is that similar efforts can be made by channeling funds through private agents rather than associations. Careful planning and supervision will be required to see that only appropriate inputs in the recommended amounts are distributed through these channels. Alternatively, production association loans can be channeled through banks on the condition that branch offices be established in rural areas. This

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[37]Agreement between the Government of the USA and the Government of Bolivia for the Sale of Agricultural Commodities, April 9, 1987, p. 7.

approach gives the associations access to the technical resources of the bank along with providing a means for residents to increase savings.

Other possible approaches are the establishment of numerous demonstration plots, or the paying of individual farmers to follow certain nontraditional agronomic practices. Practical demonstrations, especially if they use local farmers, can be an especially valuable teaching approach among people with limited formal education.

Costs of Loans

A significant deterrent to participation in the "Trust Fund" Program by small farmers may be the noninterest costs of borrowing. Studies have shown that interest can be but 20 percent or less of total loan costs, often equating formal with informal loan costs from the perspective of small creditors. Other borrowers' costs associated with formal loans are time, transportation, bribes and legal fees. Shifting these costs to the lender through such expedients as rural bank branch offices may be efficient, but not feasible given the current spread allocated to ICIs. Increasing spreads by raising interest rates would not be expected to have a major impact on small loan demand as interest costs are a small portion of total loan costs. For this class of borrowers, the timeliness of the loan disbursement, the flexibility of loan repayment procedures, and the availability of additional loans are far more significant factors than the formal interest charge.[38]

VIII. CONCLUSIONS AND RECOMMENDATIONS

The conclusions and recommendations are made in regard to three distinct components of the "Trust Fund" Program, its institutional success, its fiduciary security and its impacts on beneficiaries.

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[38]Adams and Graham, op cit., pp. 350, 353-54.

A. Institutional Success

Conclusions

The "Trust Fund" Program has achieved a very substantial success in using the Bolivian private sector institutions (ICIs), including banks, cooperatives and other producer groups to distribute credits across the Bolivian agricultural sector. These institutions give every indication of distributing the funds efficiently, equitably and in accordance with the stipulations of the "Trust Fund" Program. In the process, these institutions are being strengthened. Because of the difficulty of measuring the impact of credits on individual recipients, the efficiency and flexibility of the ICIs is considered the most significant measure of the success of the "Trust Fund" Program. An efficient credit market is expected to identify the highest value use of funds at the lowest cost and hence be most beneficial to the agricultural sector.

Recommendations

The distribution of "Trust Fund" credits can be made more efficient and equitable by applying the following practices:

1) Improve the information analysis by the Secretariat of the periodic "Trust Fund" reports by increasing data processing capability. Efforts in this direction are presently underway.

2) Increase the field supervisory staff of the Executive Secretary. Presently one individual has principal responsibility for supervising over 700 projects, many of which have multiple beneficiaries. Adequate supervision under these circumstances, and especially considering the difficult travel arrangements throughout much of Bolivia, is clearly not possible. Yet regular field visits are essential to seeing that the development objectives of the Program are accomplished. Thus more staff is

required. One means of organizing this staff which provides some efficiency of location and knowledge is to have field staff in the major centers of beneficiaries, that is, in La Paz, Cochabamba and Santa Cruz.

3) The USAID/Bolivia Mission appears to have relinquished almost complete responsibility for the "Trust Fund" Program to the Secretariat. It is appropriate that the Secretariat as planned carry out the administrative functions, but the Mission retains a need to establish policy in conjunction with the responsible representatives of the Government of Bolivia. At this point it is not clear the Mission staff is sufficiently familiar with the details of the Program operation to formulate optimal strategies. The Mission does retain and utilize the authority to release funds to the Secretariat and to approve loans above the maximum amount. Further involvement with the Program, most particularly with beneficiaries as part of field visits, is required.

4) While all participating ICIs appear to be meeting or exceeding minimum Program requirements, some clearly operate more within the spirit of the "Trust Fund" Program than others. This is evident among the participating banks in such ways as the size and professional credentials of the Development Department staffs and the forms of collateral which are acceptable from small producers. The most cooperative banks should be identified and rewarded for their efforts as a stimulus to them and competing banks. Appropriate rewards would include allocating greater credit portfolios to these banks and raising their margins. Selection may be made through a ranking based on a set of criteria prepared by the Secretariat and the Mission, or from a bid procedure in which the banks specify the services to be provided for distributing, say, US$500,000 or US$1 million in credits.

5) The unpredictable availability of PL 480 funds by the Treasurer General makes the planning process for the Secretariat, the ICIs and, especially, the recipients extremely difficult. USAID should make every effort to establish a schedule for the release of funds to the account of the Secretariat. Depending on what is acceptable within the Bolivian political environment, this may be accomplished by legislation mandating release of specified period or by accumulating funds in a PL 480-managed account from which ordered disbursals can be made.

6) The procedure for assuring the prompt disbursement of "Trust Fund" credits from the participating banks requires streamlining. Presently, funds are transferred to banks where they begin earning 13 percent interest. As this is only half of the then prevailing rate for dollar-denominated commercial loans, the banks have a strong incentive to delay disbursement. The Secretariat must then supervise the banks to see that funds are indeed disbursed within the stipulated 30-day period. This matter will become more significant as loans are repaid to the banks and held for relending.

It is proposed that the Secretariat maintain a regular passbook account in each participating bank earning commercial interest rates. Funds would then be released to, and paid into, this account. Such an approach would differ from present practice in the level of interest paid and the reporting practices for the balance. With a smaller spread between interest paid and received, banks would have less incentive to delay disbursement, easing the enforcement issue. Funds could be transferred out of the passbook accounts by using the regular withdrawal process. The banks would be responsible for monitoring deposits and interest payments, as with any savings account.

7) The enormous spread between "Trust Fund" and commercial interest rates--presently (January 1987) around 100 percent--increases the allocation

problem for the Secretariat. At a 13 percent (plus one percent) annual rate, "Trust Fund" loans are a bargain sought by every possible sector in the Bolivian economy although this could change as commercial interest rates fluctuate. Raising the annual interest rate would permit market forces to assist in the allocation process. The higher rates could be used in several ways to strengthen the "Trust Fund" Program, ways including raising the spread earned by banks for certain classes of loans.

8) Offering a straight four percent spread to the ICIs actually discourages small loans. Small loans of, say, US$1,000-3,000 require nearly as much supervision as a far larger loan, yet return the bank a modest gross spread of US$40 to US$120. The spread should be made greater for small loans in recognition of the proportionally higher administrative costs and possibly greater risk associated with unsecured campesino borrowers.

B. Fiduciary Success

Conclusions

The integrity of the "Trust Fund" accounts was largely assured when in 1985 the loans were denominated in real dollar terms. Two possibilities nonetheless exist for losses in the real value of the fund over time. First, a bank failure would likely lead to a complete write-off of the loans to that bank. This possibility exists but is difficult to predict. Second, the peso-based CPI may be increasing faster than the official exchange rate, which is used to measure the decline of the purchasing power of the US dollar. Present indications, in the judgment of the author, are that the difference between the two rates is ten percentage points so that some decline in the real peso value of the "Trust Fund" should be expected over time.

Recommendations

1) Plans already underway for a thorough audit of private Bolivian banks should be given a high priority.

2) Funds should be disbursed among the private banks (the present policy) so as to minimize any possible loss due to a bank failure.

3) Interest rates should be raised as a means of compensating for the apparent decline in the real peso value of the "Trust Fund."

C. Productivity Success

The "Trust Funds" loans are granted to three distinct groups, agroindustrial and artisanal enterprises, medium-sized farms and small farms. The effects of the loans on each group are distinct and must be discussed separately.

Conclusions Pertaining to Agroindustrial and Artisanal Enterprises

The present shortage of loan capital, especially medium-term capital, in Bolivia means that the "Trust Fund" is performing an invaluable service by lending to these groups. Indications are that the loans are put to productive use, but a more detailed study is required to substantiate that point. There is a lack of research to guide loan officers in determining the most critical aspects of agroindustry to support, as an indirect means of enhancing, the well being of producers and/or consumers. The lack of direction on the definition of "artisanal" or the purposes of loans to that sector make those credits difficult to manage effectively.

Recommendations

1) A detailed study of the agricultural input, processing and marketing/distribution sectors in Bolivia is desirable as a basis for directing loans to the activities most crucial for the development of the food and fiber systems.

2) The productivity effects of past loans should be determined through a study of individual loan applications and periodic reports, supplemented by field visits. The results of this analysis may be used to enhance the allocation of loans to the sector.

3) A clarification of the purposes of artisanal loans is required before their impact can be assessed. Possibilities include the provision of nonagricultural rural employment, the preservation of traditional crafts, or enhancement of the value of nonfood agricultural products like wool, alpaca and leather. A clearer description of the purposes of these loans would assist in their administration.

Conclusions for Medium-Sized Farms

"Trust Fund" loans supply a very evident need for reasonably-priced credit for medium-scale farms. While no effort was made to document the aggregate productive impact of the loans to this sector, the records reviewed and recipients visited suggest strongly that there is a very significant production impact attributable to the "Trust Fund."

Recommendations

1) A review of loan applications and periodic reports should be undertaken to document the aggregate production impact of these loans.

2) A review of the Bolivian agricultural sector will assist in the prioritization of the sectors for receiving these loans. Criteria for establishing the priorities could include such factors as availability and price of foodstuffs, efficient use of domestically-produced animal feeds, import substitution, etc.

Conclusions for Small Sized Farms

The small (largely campesino) size farm sector in Bolivia is the largest in terms of numbers, and in aggregate supplies the greatest share of

food for domestic consumption. Yet the agronomic practices and financial arrangements of these farmers is but poorly documented, making an assessment of the productive use of "Trust Fund" credits extremely difficult. Implications however are that the "Trust Fund" credits largely substitute for funds from other informal sources.

The high cost of administering small, individual loans combined with the riskiness of lending to largely unsecured borrowers means that small farmer loans must be made on some form of group basis such as through a cooperative or production association. Loans must be accompanied by technical assistance if borrowers are to gain the greatest benefit from these loans.

Recommendations

1) A detailed study of campesino farming practices and financial arrangements with suppliers and dealers is critically needed as a means of understanding the role of credit to this large group.

2) Alternative means of extending technical information must be identified and tested. Possibilities include suppliers and/or dealers, demonstration plots utilizing local farmers, and rural bank branch offices.

3) The spread for loans to this sized producer should be increased in recognition of the high administrative costs and risks involved.

4) Noninterest loan costs to small borrowers need to be reduced and the lending system allowed flexibility to meet the diverse and variable needs of small farmers.

D. Issues of Major Significance

Elements of Success

The Program is judged successful due to the following factors:

1) Acute credit needs in Bolivia following rampant inflation and near decapitalization in 1984.

2) Minimal control over the ICIs by government and minimal regulation directing the disbursement of funds.

3) Maximum flexibility allowed ICIs for establishing repayment conditions for borrowers.

4) Careful administration by a quasi-independent agency, the Executive Secretariat, which has been properly structured to carry out that task.

Principal Limitations

The effectiveness of the "Trust Fund" Program is limited by the following factors which should be given priority for rectification:

1) Disbursements from the Treasury must be predictable for the funds to be most valuable to borrowers.

2) Disbursements by ICI to recipients must function with less oversight by the Executive Secretariat. The allocation schedule recently adopted further increases the oversight burden.

3) The interest rate levels for the "Trust Fund" Program are (as of January 1987) so far below market rates as to create great competition for the loans and resultant allocation problems as well as precluding the use of local savings to augment the fund. Interest rates in the private sector will, of course, fluctuate over time.

4) Spreads for the ICIs do not reflect the higher costs of making small loans and hence discourage that activity.

5) Loans to small borrowers can be made more effective by a) reducing noninterest borrowing costs, b) emphasizing the flexibility of loan terms and c) providing for technical services to assist in the efficient use of credits.

APPENDIX

Letters-of-Understanding for 1984-85 and 1985-86

between private banks and the Executive Secretariat

P.L.-480 TITULO III
SECRETARIA EJECUTIVA

EDIFICIO BARROSQUIRA
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Casilla postal 7953
Telf. 372200 - 372201
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CARTA DE ENTENDIMIENTO

FONDO ROTATIVO DE CREDITOS EN EL BANCO

1. PARTES INTERVINIENTES

1.1. La Secretaría Ejecutiva del Programa P.L.-480 Título III, que para fines de la presente Carta de Entendimiento se denomina la SECRETARIA, representada por su Secretario Ejecutivo Sr. Fadrique Muñoz Reyes.

1.2. El Banco que para fines de la presente Carta se denomina el BANCO, representado por su Gerente y Gerente adjunto de la Sucursal La Paz, Lic. Juan Cariaga Osorio y Lic. Grover Gutierrez Espinoza, respectivamente.

2. OBJETO DE LA CARTA

La presente Carta tiene por objeto normar el establecimiento de un Fondo de Crédito Rotativo para el desarrollo de los sectores agropecuario, agroindustrial y artesanal, con recursos del Programa P.L.-480 Título III y el aporte de recursos propios del BANCO. Para este efecto la SECRETARIA otorga al BANCO, fondos en calidad de fideicomiso.

3. FINANCIAMIENTO DEL FONDO DE CREDITO ROTATIVO

3.1. Para el establecimiento del fondo de Crédito Rotativo (FONDO), inicialmente la SECRETARIA asigna al BANCO en calidad de fideicomiso, la suma de $b.3.000.000.000.-- (Tres mil millones 00/100 Pesos bolivianos) y el BANCO se compromete al aporte de hasta $b.600.000.000.-- (Seiscientos millones 00/100 Pesos bolivianos), montos que podrán ser incrementados en función al ritmo de colocación de los créditos y a la disponibilidad de fondos en el Título III.

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Telf. 372200 - 372201
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4. CARACTERISTICAS DEL FONDO

4.1. Los recursos del FONDO, se destinarán exclusivamente al financiamiento de actividades de producción agropecuaria, agroindustrial y artesanal, en los montos, condiciones financieras y procedimientos establecidos en el numeral 6. de la presente Carta de Entendimiento.

4.2. El plazo de devolución de los fondos otorgados por la SECRETARIA en calidad de fideicomiso, será establecido a los seis meses de la vigencia de la presente Carta; previa evaluación de los resultados en la colocación de los recursos.

4.3. Los recursos desembolsados por la SECRETARIA deben ser colocados en calidad de crédito, en un plazo no mayor a los tres (3) meses de efectuado el desembolso. Los recursos financieros no colocados en dicho periodo serán revertidos inmediatamente a la SECRETARIA.

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4.4. Los recursos desembolsados por la SECRETARIA, mientras no sean utilizados para fines de crédito, devengarán un interés anual igual a la tasa de interés pasiva en cuentas de ahorro del sistema bancario comercial. Actualmente dicha tasa es del ciento diez por ciento anual (110%). Estos recursos generados adicionalmente, serán capitalizados trimestralmente y también serán utilizados para fines de crédito, por medio del FONDO.

4.5. Las recuperaciones de los créditos otorgados con recursos del FONDO serán reutilizados , en un plazo no mayor a tres (3) meses, para créditos, conforme a las normas establecidas en el numeral 6. de la presente Carta de Entendimiento. Las recuperaciones no colocadas en el periodo de tres (3) meses serán revertidas inmediata-

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Telf. 372200 - 372201
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4.6. Las recuperaciones de los créditos ,otorgados con recursos del FONDO, correspondientes a recursos del Título III, mientras no sean reutilizados, devengarán un interés igual a la tasa de interés anual pasiva en cuentas de ahorro del sistema bancario comercial.

5. REGULACIONES DEL CREDITO

5.1. El BANCO tiene autonomía y responsabilidad en la selección de los beneficiarios y en la aprobación de los créditos , dentro las limitaciones y condiciones de la presente Carta.

5.2. Los beneficiarios del crédito serán constituidos por personas individuales o asociados en agrupaciones jurídicamente constituidas y pequeñas y medianas empresas, dedicadas a la actividad agrícola, pecuaria, agroindustrial o artesanal.

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5.3. Los montos máximos de préstamo individual serán de $b./ /30.000.000.-- (Treinta millones 00/100 Pesos bolivianos) con recursos del Título III y para pequeñas y medianas empresas hasta la suma de $b.400.000.000.-- (Cuatrocientos millones 00/100 Pesos bolivianos). Estos límites podrán ser revisados periódicamente en función del incremento en los costos de producción.

5.4. El BANCO está autorizado a utilizar formularios para las solicitudes de financiamiento.

6. CONDICIONES DEL CREDITO

6.1. Hasta tanto se defina el plazo para la permanencia de los recursos del Título III en fideicomiso, el BANCO está autorizado a otorgar créditos solamente hasta un plazo máximo de un (1) año calendario.

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6.2. Las tasas de interés para los créditos otorgados con recursos del Programa del Título III, serán iguales a las tasas de interés fijadas por el Banco Central de Bolivia para créditos de fomento de los sectores agropecuario, agroindustrial y artesanal, respectivamente. Actualmente, de 84%. anual para pequeños agricultores, 110 por ciento anual para empresas agrícolas y el sector agroindustrial y 100 por ciento para artesanos.

6.3. La tasa de interés, para el componente de recursos propios del BANCO, será igual a la tasa de interés anual fijada por el Banco Central de Bolivia para los créditos con recursos internos y sin cláusula de mantenimiento de valor. Actualmente dicha tasa es del 150 por ciento anual.

6.4. Adicionalmente a las tasas de interés establecidas en los numerales 6.2. y 6.3. de la presente Carta, el BANCO incluirá una comisión del diez por ciento sobre el total del crédito, para establecer un fondo de reserva para créditos incobrables. Esta comisión del 10 por ciento adicional, se cobrará de la siguiente forma: cinco (5) por ciento sobre el total del crédito al inicio y el restante cinco (5) por ciento al final del plazo estipulado en cada crédito.

6.5. El BANCO, para cubrir sus costos de evaluación y supervisión de los créditos está autorizado a cobrar al prestatario una comisión flat del siete (7) por ciento, por una sola vez, sobre el total del crédito.

6.6. En caso de presentarse morosidad en la cancelación de los créditos otorgados, el BANCO aplicará los intereses penales establecidos legalmente. Los recursos generados por este concepto, serán distribuidos proporcionalmente a la estructura de financiamiento del crédito, en favor del BANCO y del Programa P.L.480 Título III.

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6.7. En materia de garantías, el BANCO adoptará una política flexible en función al monto del crédito y la disponibilidad de activos del prestatario. Tratándose de pequeños agricultores las garantías pueden ser prendarias y/o personales.

6.8. Excepcionalmente el BANCO podrá otorgar prórrogas en el plazo de vencimiento, cuando las actividades financiadas hubieren sufrido retrasos por causas debidamente justificadas, y previa autorización de la SECRETARIA.

7. OBLIGACIONES CONTRACTUALES

7.1. El BANCO, con el objeto de proporcionar una atención adecuada y oportuna a los prestatarios del FONDO y mantener mecanismos de control y seguimiento de los créditos, se compromete al fortalecimiento de su División de Desarrollo.

7.2. El BANCO toma a su cargo, sin costo alguno para el prestatario ni para la SECRETARIA, los trámites correspondientes a la suscripción y formalización del crédito, con excepción de gastos notariales, timbres e impuestos de Ley.

7.3. El BANCO se compromete a supervisar la correcta inversión del crédito.

7.4. El BANCO se obliga a la recuperación de los créditos concedidos, en los plazos establecidos, y efectuar los trámites jurídicos en caso de mora o insolvencia.

7.5. El BANCO, mantendrá registros financieros y contables, relativos al FONDO, en forma separada, a fin de facilitar la identificación de las operaciones y progresos del FONDO.

7.6. El BANCO se obliga a reembolsar a la SECRETARIA mensualmen-

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te informes financieros sobre el movimiento del FONDO y la situación de la Cartera. También presentará trimestralmente informes narrativos respecto al grado de implementación e inversión de los créditos otorgados.

7.8. La SECRETARIA reconoce en favor del BANCO 20 puntos porcentuales de la tasa de interés generada por los recursos del Título III cuando el BANCO aporte un mínimo del 20% de sus recursos propios en el crédito correspondiente y de 12 puntos porcentuales cuando la integridad del crédito se efectúe con recursos del Título III.

7.9. El BANCO asume la responsabilidad total de la recuperación de los créditos, y en caso de que las pérdidas por morosidad o insolvencia supere el fondo de reserva de créditos incobrables (numeral 6.4.) el BANCO cubrirá el excedente con recursos propios.

8. ADMINISTRACION DEL FONDO DE RESERVA PARA CREDITOS INCOBRABLES

Los recursos generados por concepto de la comisión del diez por ciento (10%) para establecer el fondo de reserva para créditos incobrables, establecido en el numeral 6.4. de la presente Carta, serán depositados en el BANCO en una cuenta de ahorro a plazo fijo, a nombre de la "Secretaría Ejecutiva P.L.480 Título III", hasta tanto se defina, de mutuo acuerdo entre el BANCO y la SECRETARIA, una inversión más adecuada a objeto de preservar su poder adquisitivo. Estos recursos principalmente serán destinados a cubrir las pérdidas por insolvencia o morosidad. De existir saldos disponibles al final del periodo de vigencia del FONDO, estos serán de propiedad del Programa del Título III.

9. ENMIENDAS

Cualquier enmienda a la presente Carta en su totalidad o de una

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Calle Colón No. 161 Piso 9º
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cláusula en particular, deberá efectuarse por escrito y tener el acuerdo expreso de las partes intervinientes.

10. ACEPTACION

Sr. Tadrique Muñoz Reyes
SECRETARIO EJECUTIVO
P.L.480 TITULO III

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SEGUNDA ENMIENDA A LA CARTA DE ENTENDIMIENTO

SUSCRITA ENTRE LA SECRETARIA EJECUTIVA DEL PROGRAMA P.L.-480 TITULO III Y EL BANCO PARA LA IMPLEMENTACION DEL FONDO ROTATIVO DE CREDITOS

En conformidad al numeral 9 de la Carta de Entendimiento suscrita con el Banco en fecha cinco de diciembre de 1984, para la implementación del Fondo Rotativo de Créditos, se Enmienda el numeral 5.3. y se incorpora el numeral 3.2. en los siguientes términos:

3.2. En conformidad a la Claúsula 3.1. de la presente Carta, la SECRETARIA incrementa su aporte al Fondo Rotativo de Crédito en $b. 2.000.000.000.-- (Dos mil millones oo/100 pesos bolivianos) y el BANCO se compromete al aporte adicional de hasta $b. 400.000.000.-- (Cuatrocientos millones oo/100 pesos bolivianos). Por lo tanto, los fondos comprometidos por la SECRETARIA ascienden a la fecha a $b. 5.000.000.000.-- (Cinco mil millones oo/100 pesos bolivianos).

El aporte adicional de la SECRETARIA se desembolsará en favor del BANCO en función a su disponibilidad de recursos.

5.3. Los montos máximos de préstamo, con recursos del Título III, serán de $b. 100.000.000.-- (Cien millones oo/100 pesos bolivianos) para préstamos individuales y $b. 500.000.000.-- (Quinientos millones oo/100 pesos bolivianos) para pequeñas y medianas agroempresas.

Estos límites podrán ser revisados periódicamente en función al incremento de los costos de producción.

Nosotros, Lic. Juan Cariaga Osorio y Lic. Grover Gutierrez Espinoza en representación del BANCO y Sr. Fadrique Muñoz Reyes, en representación de la SECRETARIA, aceptamos la presente Enmienda y para constancia firmamos en la ciudad de La Paz, a los trece días del mes de febrero de mil novecientos ochenta y cinco años.

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ENMIENDA A LA CARTA DE ENTENDIMIENTO

SUSCRITA ENTRE LA SECRETARIA EJECUTIVA DEL PROGRAMA P.L.-480 TITULO III Y EL BANCO , PARA LA IMPLEMENTACION DEL FONDO ROTATIVO DE CREDITOS

En conformidad al numeral 9 de la Carta de Entendimiento suscrita con el Banco , en fecha 5 de diciembre de 1984 para la implementación del Fondo Rotativo de Créditos, se enmienda el numeral 7.6. y se incorpora el numeral 7.7. en los siguientes términos:

7.6. El BANCO se obliga a reembolsar a la SECRETARIA la integridad de los fondos otorgados en calidad de fideicomiso, incluyendo los intereses generados por cualquier concepto, al término del plazo estipulado en el numeral 4.2 de la presente Carta.

7.7. El BANCO se compromete a presentar a la SECRETARIA, informes financieros mensuales sobre el movimiento del FONDO y la situación de la Cartera. También presentará trimestralmente informes narrativos respecto al grado de implementación e inversión de los créditos otorgados.

Nosotros Lic. Juan Cariaga Osorio y Lic. Grover Gutierrez Espinoza, en representación del BANCO y Sr. Fadrique Muñoz Reyes, en representación de la SECRETARIA, aceptamos la presente Enmienda y para constancia firmamos en la ciudad de La Paz a los veintisiete días del mes de diciembre de mil novecientos ochenta y cuatro años.

CARTA DE ENTENDIMIENTO

PARA LA ADMINISTRACION DE FONDOS EN FIDEICOMISO
CON EL BANCO

1. PARTES INTERVINIENTES

1.1. La Secretaría Ejecutiva del Programa P.L.-480 Título III, que para fines de la presente Carta se denomina la SECRETARIA, representada por su Secretario Ejecutivo Sr. Fadrique Muñoz Reyes.

1.2. El Banco que para fines de la presente Carta se denomina el BANCO, representado por su Gerente General Lic. Fernando Sanchez de Lozada y su Gerente Oficina La Paz Lic.Ramiro Alvarez R.

2. OBJETO DE LA CARTA.

La presente Carta tiene por objeto establecer las normas y procedimientos para la administración de los recursos del Programa P.L.-480, a ser otorgados por la SECRETARIA al BANCO, en calidad de fideicomiso.

3. ASIGNACION DE FONDOS.

Para fines de asignación de recursos financieros, previamente el BANCO debe desarrollar un plan de mercadeo, consistente, básicamente, en la identificación de los prestatarios, rubros de financiamiento y requerimientos de crédito, información que deberá ser presentada por la SECRETARIA en el formulario No. 1 adjunto, acompañando una propuesta del plan de desembolsos. La SECRETARIA en base al plan de desembolsos propuesto y a su disponibilidad de fondos, efectuará los desembolsos en favor del BANCO.

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4. DURACION DE LOS FONDOS EN FIDEICOMISO.

Cada uno de los desembolsos a ser efectuados por la SECRETARIA, tendrá carácter de fideicomiso por un período de cinco años computables a partir de la fecha del desembolso en favor del BANCO. Al término de dicho plazo el BANCO se compromete a devolver a la SECRETARIA los fondos en fideicomiso incluyendo los intereses correspondientes a la SECRETARIA.

5. REGULACIONES PARA LA ADMINISTRACION DE LOS FONDOS EN FIDEICOMISO.

5.1. Los recursos a ser otorgados al BANCO, en calidad de fideicomiso, deberán ser destinados exclusivamente para financiar inversiones del sector agrícola, pecuario, agroindustrial y artesanal, bajo las condiciones establecidas en el numeral 7. de la presente Carta y sujeto al condicionamiento de colocar al menos el 60% a agricultores y artesanos individuales y el 40% restante para pequeñas y medianas empresas.

5.2. Los recursos a ser desembolsados por la SECRETARIA al BANCO, deberán ser canalizados, en calidad de crédito, en un período no mayor a los treinta días calendario de la fecha del desembolso. Los recursos financieros no colocados en dicho período deberán ser revertidos por el BANCO a simple solicitud de la SECRETARIA.

5.3. Una vez efectuado el primer desembolso, por parte de la SECRETARIA en favor del BANCO, los subsiguientes desembolsos procederán una vez que el BANCO haya colocado, por lo menos el 80% de los recursos previamente recibidos. El informe de colocación de fondos se hará utilizando el formulario No.2 adjunto a la presente Carta.

5.4. Las recuperaciones de los créditos otorgados por plazos menores a cinco años deben ser

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recolocados en un plazo no mayor a los 30 días calendario de su recuperación, a plazos que se ajusten a la fecha de vencimiento del período de fideicomiso. Los recursos financieros no colocados en el período de treinta días calendario serán revertidos por el BANCO a simple requerimiento de la SECRETARIA. El BANCO se obliga a informar trimestralmente sobre la recolocación de fondos, utilizando el formulario No.3 adjunto a la presente Carta.

5.5. Los recursos desembolsados por la SECRETARIA al BANCO, devengarán una tasa de interes anual del 9%, con cláusula de mantenimiento de valor con relación al dólar oficial, capitalizable anualmente, hasta la conclusión del período de vigencia de los fondos en calidad de fideicomiso.

5.6. Los recursos desembolsados a la SECRETARIA con anterioridad a la fecha de la presente Enmienda devengarán una tasa de interés del 8% hasta el 31 de Julio de 1986, a partir del 1o. de Agosto esta tasa se modifica al 9% anual que también se aplicará a los nuevos desembolsos.

5.7. Todos los desembolsos de la SECRETARIA al BANCO, tendrán claúsula de mantenimiento de valor respecto al dólar oficial vigente en las respectivas fechas de desembolso y de recuperación de los fondos en fideicomiso.

6. LIMITES DE APROBACION DE CREDITOS

La aprobación de créditos es responsabilidad exclusiva del BANCO, condicionado a que el tope máximo de crédito para agricultores o artesanos individuales, sea el equivalente a $us. 15.000.-- (QUINCE MIL 00/100 DOLARES AMERICANOS). El tope máximo de crédito para pequeñas y medianas empresas será de $us. 70.000.-- (SETENTA MIL 00/100 DOLARES AMERICANOS)

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7. CONDICIONES DEL CREDITO A NIVEL DE PRESTATARIOS.

7.1. El BANCO otorgará créditos a personas individuales o asociadas en agrupaciones jurídicamente constituidas, así como a pequeñas y medianas empresas dedicadas a la actividad agrícola, pecuaria, agroindustrial y artesanal, para financiar capital de inversiones y operaciones.

7.2. Los plazos máximos de crédito a ser otorgados a los prestatarios serán de cinco años calendario con dos años de gracia, para financiar capital de inversiones y de un año calendario para financiar capital de operaciones.

7.3. La tasa de interés aplicable a nivel de prestatario será del 12% (doce por ciento) anual, hasta el 31 de Julio de 1986 y del 13% anual a partir del 1o. de Agosto de 1986, tanto para capital de inversiones como de operación. Esta tasa podrá ser modificada en función de la política de crédito que disponga la SECRETARIA para sus líneas de financiamiento. Los intereses se cobrarán anualmente sobre saldos.

7.4. Los créditos a nivel de prestatario tendrán claúsula de mantenimiento de valor respecto a la paridad del dólar oficial vigente en las fechas de desembolsos y cancelación de los créditos.

7.5. Adicional a la tasa de interés aplicable a nivel de prestatario, referida en el numeral anterior, el BANCO cobrará una comisión del 1% (Uno por ciento), por una sóla vez, sobre el total del crédito. Estos fondos constituirán propiedad del BANCO desde su generación y servirá para cubrir los riesgos del BANCO ante eventuales pérdidas por irrecuperabilidad de créditos.

7.6. Las garantías a ser exigidas a los prestatarios, serán de responsabilidad exclusiva del BANCO, sin embargo, el BANCO se compromete a establecer

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una política flexible de garantías a objeto de permitir el acceso de los pequeños agricultores a los recursos del fondo, pudiendo ser garantías de tipo prendaria y/o personal.

8. OBLIGACIONES DEL BANCO.

8.1. El BANCO se compromete a fortalecer y mejorar su Departamento de Desarrollo a objeto de establecer un sistema de crédito eficiente y adecuado a los objetivos del presente Programa.

8.2. El BANCO asume la responsabilidad total de la recuperación de los créditos, y en caso de que existan pérdidas por morosidad y/o insolvencia, el BANCO se obliga a cubrir la diferencia con recursos propios.

8.3. El BANCO se compromete a mantener registros financieros y contables del movimiento financiero del presente Programa de fondos en fideicomiso, en forma separada, a fin a facilitar la identificación de las operaciones y desarrollo del Programa.

8.4. El BANCO se compromete a presentar informes trimestrales independientemente de las fechas de desembolsos, sobre el movimiento financiero y el estado de la cartera del Programa utilizando el formulario No. 4, e informes narrativos sobre el grado de implementación de los proyectos financiados.

9. CLAUSULA TRANSITORIA

Los recursos otorgados anteriormente al BANCO en base a la Carta de Entendimiento de fecha 5 de diciembre de 1984, serán liquidados al 31 de diciembre de 1985 y a partir del 1o. de enero de 1986, se incorporarán a las normas de la presente Carta.

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11. ENMIENDAS.

Cualquier enmienda a la presente Carta en su totalidad o de una cláusula en particular deberá efectuarse por escrito y tener el acuerdo expreso de las partes intervinientes.

12. ACEPTACION.

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