

1. BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS.  
 2. USE LETTER QUALITY TYPE, NOT "DOT MATRIX" TYPE.

IDENTIFICATION DATA

<b>A. Reporting A.I.D. Unit:</b> Mission or AID/W Office <u>USAID/Bolivia</u> (ES# <u>DP-016/93</u> )		<b>B. Was Evaluation Scheduled in Current FY Annual Evaluation Plan?</b> Yes <input type="checkbox"/> Slipped <input type="checkbox"/> Ad Hoc <input type="checkbox"/> Evaluation Plan Submission Date: FY <u>93</u> Q <u>4</u>		<b>C. Evaluation Timing</b> Interim <input type="checkbox"/> Final <input checked="" type="checkbox"/> Ex Post <input type="checkbox"/> Other <input type="checkbox"/>	
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D. Activity or Activities Evaluated (List the following information for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report.)					
Project No.	Project /Program Title	First PROAG or Equivalent (FY)	Most Recent PACD (Mo/Yr)	Planned LOP Cost (000)	Amount Obligated to Date (000)
511-0598	Strongngthening Financial Markets (SFM) ASOBAN Component	1988	2/96*	\$6,200	\$6,200
* PACD was extended to 12/96 to primarily accommodate PROCAF; activities under the Securities Exchange Component ended October 1992.					

ACTIONS

E. Action Decisions Approved By Mission or AID/W Office Director	Name of Officer Responsible for Action	Date Action to be Completed
Action(s) Required  Continue the technical assistance service to ASOBAN member banks on a shared cost basis until the trust fund is exhausted.	ASOBAN	12/93

(Attach extra sheet if necessary)

APPROVALS

<b>F. Date Of Mission Or AID/W Office Review Of Evaluation:</b>			(Month)	(Day)	(Year)
			JUNE	21	1993

G. Approvals of Evaluation Summary And Action Decisions:				
	Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
Name (Typed)	Liza Valenzuela		Héctor Díez de Medina	Carl H. Leonard
Signature	<i>Liza Valenzuela</i>		<i>Héctor Díez de Medina</i>	<i>Carl H. Leonard</i>
Date	6/24/93		6/29/93	6/29/93

**A B S T R A C T**

**H. Evaluation Abstract (Do not exceed the space provided)**

This report is a final evaluation of activities carried by the Asociación de Bancos e Instituciones Financieras de Bolivia (ASOBAN) and their contribution towards the achievement of the Strengthening Financial Markets Project. The major objective under this project related to ASOBAN was for this institution to provide increased services to its member banks. This report evaluates services in four areas. The first is technical assistance consultancies offered to banks under a shared payment plan. Consultants were paid in full by Nathan Associates, Inc., the institutional contractor, and banks were billed fifty percent of the cost which was paid into a trust fund in ASOBAN so that the service could continue once the Nathan contract ended. The second area focuses on ASOBAN's economic and legal analysis services. The third area addressed is the functioning of a check-clearing facility operated by ASOBAN, and the fourth area is the need for a computerized central information system. The evaluation recommends that ASOBAN continue to offer the consultancies under the shared payment plan as there is a demand by the banks for this service. ASOBAN should develop a data base of consultants, draw up guidelines for continuing the program, and market this service at its regular board meetings. Information provided by the ASOBAN economic unit is used by banks in their decision making process. ASOBAN legal analysis contributed significantly to the development of Bolivia's new banking law. In December 1992 ASOBAN took over from the Central Bank the operation of most of the country's check-clearing system. The system is operating smoothly and all banks in the country participate. The central information for ASOBAN was developed, installed, tested, but never became operational. It was ready to operate seven months after the Superintendency of Banks had installed a system in its risk facility which provided the same information as the ASOBAN system. Nevertheless, 90% of the bankers interviewed in this evaluation did see a need for a private credit referral system which would offer supplementary information to that offered by the Superintendency and be more timely. One private firm has begun to offer these services and ASOBAN should watch its progress and allow market demand to determine whether a more sophisticated system is necessary. The evaluation was carried out over an eighteen day period in May and June 1993, and consisted of reviewing project documentation, and conducting some forty interviews in La Paz and Santa Cruz with managers from eleven banks, ASOBAN staff, and managers in firms which provide information or consultancy services to banks.

**C O S T S**

**I. Evaluation Costs**

1. Evaluation Team		Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (U.S. \$)	Source of Funds
Name	Affiliation			
Anne Beasley		511-0598-0-00-3097	4,303	511-0598

2. Mission/Office Professional Staff  
Person-Days (Estimate) 1

3. Borrower/Grantee Professional  
Staff Person-Days (Estimate) \_\_\_\_\_

## A.I.D. EVALUATION SUMMARY - PART II

### SUMMARY

**J. Summary of Evaluation Findings, Conclusions and Recommendations (Try not to exceed the three (3) pages provided)**

**Address the following items:**

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>• Purpose of evaluation and methodology used</li> <li>• Purpose of activity(ies) evaluated</li> <li>• Findings and conclusions (relate to questions)</li> </ul> | <ul style="list-style-type: none"> <li>• Principal recommendations</li> <li>• Lessons learned</li> </ul> |
|--|--|

**Mission or Office:**

USAID/Bolivia

**Date This Summary Prepared:**

June 21, 1993

**Title And Date Of Full Evaluation Report:**

Evaluation of Activities carried out by ASOBAN - June 8, 1993

This report is a final evaluation of activities carried out by the Asociación de Bancos e Instituciones Financieras de Bolivia (Association of Commercial Banks, ASOBAN) and their contribution towards the achievement of the objectives of the Strengthening Financial Markets Project. This project's purpose is to improve the effectiveness of Bolivia's private sector financial institutions and to increase private sector participation in financial sector policy formulation. One major objective for ASOBAN under the project was for ASOBAN to provide increased services to its member banks under a shared payment plan. Consultancies were paid in full by Nathan Associates, Inc., the institutional contractor, and banks were billed for fifty percent of the cost. The banks's payments went into a trust fund in ASOBAN so that the service could continue to be provided once the Nathan contract ended. The second area of focus is the performance of ASOBAN's economic and legal analysis services, whether or not they respond to the needs of member banks and their contribution to bank legislation and regulations in Bolivia. The third area addressed in the report is the functioning of a check-clearing facility operated by ASOBAN, and the fourth area is the need for a computerized central information system.

The evaluation was carried out over an eighteen day period from May 13 to June 8, 1993. The methodology consisted of 1) reviewing project documentation; 2) conducting some forty interviews in La Paz and Santa Cruz with managers from eleven commercial banks, ASOBAN staff, and managers in firms which provide information or consultancy services to banks.

The evaluation found that twelve consultancies were carried out at eight commercial banks. Bankers reported that eight of these were satisfactory and they were billed and paid. A total of U.S.\$ 22,226.49 remains in the ASOBAN trust fund. Four consultancies, all in marketing, were considered inadequate by managers in four banks where they were carried out. Nathan Associates, Inc. concurred with these assessments, and accordingly, these consultancies were not paid. ASOBAN has not marketed the technical assistance service to its members in 1993 because its staff was involved in assisting the development of the new banking law. ASOBAN staff should draw up guidelines for continuing this service and announce them at board meetings so that bankers can access assistance.

ASOBAN is providing economic and legal analyses to its members. Economic analysis is generated from an in-house unit that is staffed with two professionals. Reports are produced both weekly and monthly in print-outs and on diskettes. The economic unit made technical contributions to drafts of the new banking legislation. Legal analyses are primarily provided by an outside lawyer who is paid a retainer to do regular work for ASOBAN. The legal analysis addresses issues pertaining to the banking sector and includes analyses of circulars and regulations from the Central Bank and Superintendency. ASOBAN represents commercial banks in the negotiation of nationwide contracts for the sector. ASOBAN professionals spent two years analyzing the proposed banking law and submitted its analyses to appropriate government entities. The executive secretary reports that from 80-90% of its requests were incorporated into the new law passed on April 14, 1993.

The ASOBAN operated check-clearing facility began functioning in December 1992. It operates in seven cities throughout the country and all commercial banks participate in it. In rural areas or towns with fewer than three banks, bank representatives do their own clearing. The meetings at the check-clearing facilities are somewhat shorter and more efficient than previously due to the introduction of computerized spreadsheets which simplifies the consolidation process. The clearing is still primarily a manual system because, since the

number of checks cleared each day in Bolivia is less than 6,000, a more automated system would not be cost effective.

The ASOBAN Centralized Information System was developed, installed, and tested with information from two banks in November 1991, seven months after the Superintendency of Banks installed a system with the same information in its risk facility. Furthermore, the data base developed for ASOBAN only has the capacity for the number of active clients at the beginning of 1991 and was obsolete when it was installed. Developers of new services or products would be well advised to coordinate their development with others who may be working on a similar service. If there had been better communication between ASOBAN and the Superintendency, they may have been able to develop a system which would have complemented rather than duplicated information on the other system. Nevertheless, it is now appropriate to view the expenditure for the ASOBAN system as a "sunk cost," and write it off rather than spending more money to resurrect an obsolete system. There is a demand for a central information system with supplementary information to that supplied by the Superintendency. At least one private firm has an expanding business to fill this demand.

Five recommendations are outlined in this evaluation:

1. ASOBAN should acquire names of consultants and set up a data base. Bankers would be able to request names and curriculums of consultants with expertise in specific areas, but should be responsible for checking consultant references.
2. ASOBAN should draw up parameters identifying cost guidelines and procedures for accessing services. The availability of technical assistance services should be announced at ASOBAN meetings both in La Paz and in cities where it has affiliates.
3. The ASOBAN Economics Unit should send a blank diskette quarterly to the USAID Economics Office and request a copy of its macro-economic model. It should request a copy of the bank ranking model from the Trade and Investment Office.
4. ASOBAN should be receptive to recommendations of banks participating in its check-clearing house and implement those that are cost effective and would improve the system.
5. ASOBAN should follow the progress of private credit referral firms. It should allow market demand to determine whether or not a more sophisticated service is necessary.

Lessons learned indicate that banks do want technical assistance in the form of short term management consultancies and are willing to participate in a shared payment plan and to pay on time when the consultancies meet their needs. It is important in this type of program that consultants understand that the bank is their client and payment for services will depend on the client's satisfaction. It is also essential that the client banks check out the references of proposed consultants.

Banking associations can have substantive impact on the legal and regulatory environment in which banks operate as is evidenced by ASOBAN's input into the new Bolivian banking law. It is critical that the association have well-qualified professionals who can make qualitative contributions to this process.

The failure to successfully operationalize ASOBAN's central information system was the result of poor communication between the developers, the Superintendency and ASOBAN member banks. Nevertheless, many bankers would like to see a private centralized information system developed to provide timely and supplementary information. Some private firms are trying to fill this need. ASOBAN should follow their progress before trying to introduce a more sophisticated system into the country.

**ATTACHMENTS**

**K. Attachments** (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier; attach studies, surveys, etc., from "on-going" evaluation, if relevant to the evaluation report.)

Evaluation Report

**COMMENTS**

**L. Comments By Mission, AID/W Office and Borrower/Grantee On Full Report**

Comments by Mission

We agree with the findings, conclusions and recommendations of Ms. Beasley, and consider that the evaluation is good.

83324

**EVALUATION OF ACTIVITIES CARRIED OUT BY  
THE ASOCIACION DE BANCOS E INSTITUCIONES  
FINANCIERAS DE BOLIVIA (ASOBAN)  
AND THEIR CONTRIBUTION  
TOWARDS THE ACHIEVEMENT OF OBJECTIVES  
OF THE STRENGTHENING FINANCIAL MARKETS PROJECT**

**BY ANNE BEASLEY  
PURCHASE ORDER #511-0598-0-00-3097  
JUNE 8, 1993**

## ACRONYMS AND ABBREVIATIONS

<b>ASOBAN</b>	Asociación de Bancos e Instituciones Financieras de Bolivia
<b>BBA</b>	Banco Boliviano Americano
<b>BHN</b>	BHN Multibanco, S.A.
<b>BIG BENI</b>	Banco Industrial y Ganadero del Beni
<b>BISA</b>	Banco Industrial, S.A.
<b>CIS</b>	Centralized Information System
<b>GOB</b>	Government of Bolivia
<b>NAI</b>	Nathan Associates, Inc.
<b>T &amp; I</b>	Office of Trade and Investment
<b>USAID</b>	United States Agency for International Development

## EXECUTIVE SUMMARY

This report is a final evaluation of activities carried out by the Asociacion de Bancos e Instituciones Financieras de Bolivia (ASOBAN) and their contribution towards the achievement of the objectives of the Strengthening Financial Markets Project. One major objective under the project was for ASOBAN to provide increased services to its member banks. This report evaluates four categories of these activities or services. The first is technical assistance in the form of management consultancies which were offered to banks under a shared payment plan. Consultancies were paid in full by Nathan Associates, Inc., and banks were billed for fifty percent of the cost. The banks' payments went into a trust fund in ASOBAN so that the service could continue to be provided once the Nathan contract ended. The second area of focus is the performance of ASOBAN's economic and legal analysis services, whether or not they respond to the needs of member banks and their contribution to bank legislation and regulations in Bolivia. The third area addressed in the report is the functioning of a check-clearing facility operated by ASOBAN, and the fourth area is the need for a computerized central information system.

The evaluation found that twelve consultancies were carried out at eight commercial banks. Bankers reported that eight of these were satisfactory and they were billed and paid. A total of US \$22,226.49 remains in the ASOBAN trust fund. Four consultancies, all in marketing, were considered inadequate by managers in four banks where they were carried out. Nathan Associates, Inc. concurred with these assessments, and accordingly these consultancies were not paid by the banks. ASOBAN has not marketed the technical assistance service to its members in 1993 because its staff was involved in assisting the development of the new banking law. ASOBAN staff should draw up guidelines for continuing this service and announce them at board meetings so that bankers can access assistance.

ASOBAN is providing economic and legal analyses to its members. Economic analysis is generated from an in-house unit that is staffed with two professionals. Reports are produced both weekly and monthly in print-outs and on diskettes. The economic unit made technical contributions to drafts of the new banking legislation. Legal analyses are primarily provided by an outside lawyer who is paid a retainer to do regular work for ASOBAN. The legal analysis addresses issues pertaining to the banking sector and includes analyses of circulars and regulations from the Central Bank and Superintendency. ASOBAN represents commercial banks in the negotiation of nationwide contracts for the sector. ASOBAN professionals spent two years analyzing the proposed banking law and submitted its analyses to appropriate government entities. The executive secretary reports that from 80-90% of its requests were incorporated into the new law passed on April 14, 1993.

The ASOBAN operated check-clearing facility began functioning

in December 1992. It operates in seven cities throughout the country and all commercial banks participate in it. In rural areas or towns with fewer than three banks, bank representatives do their own clearing. The meetings at the check-clearing facilities are somewhat shorter and more efficient than previously due to the introduction of computerized spread sheets which simplifies the consolidation process. The clearing is still primarily a manual system because since the number of checks cleared each day in Bolivia is less than 6,000, a more automated system would not be cost effective.

The ASOBAN Centralized Information System was developed, installed, and tested with information from two banks in November 1991, seven months after the Superintendency of Banks installed a system with the same information in its risk facility. Furthermore, the data base developed for ASOBAN only has the capacity for the number of active clients at the beginning of 1991 and was obsolete when it was installed. Developers of new services or products would be well advised to coordinate their development with others who may be working on a similar service. If there had been better communication between ASOBAN and the Superintendency, they may have been able to develop a system which would have complemented rather than duplicated information on the other system. Nevertheless, it is now appropriate to view the expenditure for the ASOBAN system as a "sunk cost," and write it off rather than spending more money to resurrect an obsolete system. There is a demand for a central information system with supplementary information to that supplied by the Superintendency. At least one private firm has an expanding business to fill this demand.

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6. BANK PERCEPTIONS OF PRIVATE CREDIT REFERRAL SYSTEM

## SECTION ONE

### PRINCIPAL FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This report is the final evaluation of activities aimed at strengthening Bolivian financial sector institutions, specifically the Asociación de Bancos e Instituciones Financieras (ASOBAN) carried out under the Strengthening Financial Markets Project. The project was authorized on December 1, 1987, although later amendments delayed implementation until 1989. A Letter of Understanding between USAID and ASOBAN was signed on March 17, 1989. The institutional contractor was Nathan Associates, Inc. (NAI) who provided consultants and project implementation began on September 1, 1989.

The objective of this evaluation is to measure the progress of ASOBAN, as a specific financial sector institution, toward the achievement of project objectives set forth in the Project Paper and amendments, the Letter of Understanding, and subsequent objectives established by USAID and Nathan Associates, Inc. Areas assessed in the first section of the evaluation include the following: a) the effectiveness of technical assistance to ASOBAN member banks on a 50-50 shared cost basis; b) the performance of the economic and legal analysis by ASOBAN for its members and the contribution of ASOBAN to the new banking law; c) the effectiveness of the check-clearing system operated by ASOBAN; d) the computerized Central Information System (CIS) developed for ASOBAN, and the perceived need by bankers for a private credit referral system. Section Two discusses lessons learned in the project. The annexes include charts which describe consultancies provided to banks under the project, opinions of managers in eleven banks as to how the ASOBAN check clearing system is functioning, and their reactions to the suggestion of a private credit referral system.

#### TECHNICAL ASSISTANCE TO ASOBAN MEMBER BANKS

The original Letter of Understanding (3/17/89) provided for three years of technical assistance directly to ASOBAN. Its purpose was to strengthen existing ASOBAN services and to assist it in developing new services for its members. A new letter dated July 18, 1991 modified the original letter by phasing out regular technical assistance as of July 31, 1991 and establishing a program of technical assistance directly to member banks on a 50/50 shared cost basis. This new direct assistance program was administered directly by Nathan Associates, Inc. who provided the curriculums of management consultants for selection to banks at their request for specific assignments. These consultants were paid by Nathan with funds provided by USAID. Banks were billed for fifty per cent of

the cost of these consultancies and these payments were channeled to ASOBAN where they were placed in a trust fund (Fondos en Fideicomiso) so that banks could have continued access to shared cost consultancies arranged by ASOBAN once the Nathan contract had ended. The Nathan contract supporting the project did end in November of 1992 and as of the date of this evaluation, (May 17, 1993) \$22,226.49 remains in this fund.

### **Marketing the Service**

The marketing of these consultancy services was primarily carried out by Nathan Associates, specifically by Mr. Camilo Arenas, the NAI team leader. A formal letter was sent out by Nathan on October 30, 1991 to twelve commercial banks<sup>1</sup> advising them of the availability of this service and the terms of payment. Mr. Arenas made subsequent visits to banks, or informally contacted bank managers to ascertain their needs and desires for consultancy services. The target banks were fourteen Bolivian commercial banks, and the marketing thrust was during the last four months of 1991. Consultancies were provided on a first-come first-serve basis while funds were available. At least one bank reported having requested a consultancy after having been contacted by Nathan, but being denied. Its management interpreted this denial as due to its relatively good performance vis-a-vis other banks, and hence its lesser need for assistance. Some managers of both the central offices of banks and major branches in Santa Cruz responded in interviews that they had not been contacted by Mr. Arenas, were unaware of the existence of this service, and had they known, they would have requested a consultancy. Three of the commercial banks which received consultancy services under the program were not members of ASOBAN.

The consultancies which were billed to the banks took place from January 1992 to February 1993. The Nathan contract terminated in November 1992 and at that time it was assumed that ASOBAN would continue to market this service to its members. However, the new Bolivian banking law was in its final stage of formulation, and accordingly, the ASOBAN Executive Secretary and his staff were heavily involved in that strategic process, and so did not focus on marketing consultancies. No consultancies financed by the trust fund have been carried out since February 1993. Managers in a number of the banks visited during this evaluation did not know that the service was still available.

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<sup>1</sup> Two commercial banks not included in this mailing were Banco Union and Banco Cochabamba.

## Effectiveness of the Technical Assistance and Participation of Member Banks

Eight out of the fourteen target banks<sup>2</sup> received twelve consultancies under the program. Eight of these consultancies were billed to seven banks and were collected on a timely basis. Four consultancies were deemed inadequate by the banks with Nathan concurrence and were not billed.

The consultancies can be grouped in five functional areas: 1) systems for controlling costs; 2) international business and trade; 3) strategic planning and computer systems; 4) credit policies and procedures; 5) marketing. The time required for each consultancy ranged from one to four weeks, and all the consultants were brought in from outside of Bolivia.

Consultancies which focused on systems for controlling costs consisted of such tasks as developing a formula for calculating a break-even point and which included the highest rate that could be paid on savings instruments while still maintaining equilibrium. This is important in a market where real rates paid on savings deposit accounts are about three times rates paid in other countries, i.e. Chile or the U.S. Other consultancies in this category involved studies of the costs of specific bank divisions, with the objective of establishing profit centers, an innovative concept for Bolivian banks. Three banks received consultancies in this area and all were satisfied, and are following recommendations laid out in the reports.

Consultancies in international business and trade recommended new bank policies in these areas. Operations centers for international activities were assessed and recommendations included restructuring for better coordination of international operations in bank branches. Two banks received consultancies in international operations and have adopted recommendations of the consultants. One bank had a subsequent major reorganization and reports that its operations are more efficient and better coordinated as a result.

The third category of assistance involved assessment of a bank's existing or proposed purchase of a new computer system in view of its strategic plan for growth and services. Two banks received assessments of their computer systems and both were satisfied with the reports. A consultancy in strategic planning for one bank consisted of an evaluation of its credit procedures and internal auditing system so that it could develop new products

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<sup>2</sup> Banco Sol is not included as its market and activities are distinct and it already receives technical assistance from other sources.

as part of its strategic plan. The management of the second bank asked the consultant for help in designing a five year strategic plan, and the systems manager reports that most of the recommendations have been carried out.

One bank employed a consultant to review its credit policies and procedures. The manager reports that the consultant visited divisions dealing with credit both at the home office and at the Santa Cruz branch. He analyzed current credit policies and made recommendations for improving them. This assistance focused in part on financial statement analysis of clients applying for loans. The consultancy was described by the bank manager as very good and as having contributed to the bank's strategic plan.

Four banks requested assistance in developing marketing plans. In all four cases the consultancies were considered inadequate by the bank managers, assessments which they reported were supported by NAI. The banks were not billed for these consultancies<sup>3</sup>. The accounts of what occurred are very similar. Bank management was contacted by Camilo Arenas of Nathan and advised of the availability of services. Managers requested specialists who could design a marketing plan and recommend new products. Three curriculums were forwarded by Nathan who recommended one specialist from a Big Eight<sup>4</sup> accounting/management consulting firm who had had extensive experience in Mexico. In three cases the consultant who arrived was young and inexperienced. The bank managers referred to him as a "junior". In one case this person explained that he was doing ground work for the "expert" who would arrive later<sup>5</sup>. In two cases he billed himself as the "expert". In the fourth bank an experienced consultant did arrive with a junior assistant. However, the "expert" was called away after a few days and left the "junior" to carry out the consultancy and write the report. Reports which were delivered did not meet the specifications of the scopes of work. In one case after the bank's manager of marketing showed Mr. Camilo Arenas the report, Arenas requested that the NAI Director for Latin America come and prepare a new report. The marketing manager reported that this second report was satisfactory. In other cases NAI called the banks to apologize for the poor quality of the work, but no one came to redo it. In all

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<sup>3</sup> The consultancies were, however, paid by NAI which billed the USAID project. In the case of the bank which requested that the inadequate consultancy be redone, both consultancies were paid and billed to USAID.

<sup>4</sup> Bankers did not wish to identify the firm or consultant.

<sup>5</sup> In this case, the banks received a call from the NAI vice president who reported that he was preparing to forward the report. Bank managers asked how the report could have been prepared by an expert who never arrived, and refused to accept it.

of the above cases, bank management relied on NAI recommendations and did not themselves check the references of the proposed consultants.

#### **Future Consultancy Needs Identified by Banks**

Managers in eleven commercial banks<sup>6</sup> were consulted during this evaluation and asked if their banks would access future assistance under a 50/50 shared payment plan operated by ASOBAN. All expressed interest in the program and were able to list specific areas for which they would need outside consultants during the next two years. Managers in six banks mentioned the need for assistance in international trade financing. They were particularly interested in futures and options trading, and merchant banking. They reported that there is currently little "know-how" in this area in Bolivia. Some suggested the need for advanced seminars on these themes with subsequent follow-up consultancies in their banks.

Other areas for consultancies identified by bank managers included the selection of computer systems (mentioned by three banks), cost control (five banks), strategic planning (two banks), marketing and the development of new products (three banks), management information systems (two banks), personal banking, and human resource development. A number of banks had hired outside consultants during the past two years to work on projects such as a market study in preparation for introducing credit cards<sup>7</sup> and international trading. In all cases the consultants were from outside the country, frequently from Chile or Argentina and usually accessed through contacts from correspondent banks or because they were acquaintances of upper level banking executives.

Nevertheless, although most bankers interviewed believe that foreign consultants have more expertise in the proposed areas of consultancies, there are firms in Bolivia with in-house capabilities. During the course of this evaluation two management

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<sup>6</sup> These were Banco Boliviano Americano, Banco Económico S.A., BHN Multibanco S.A., Banco Industrial y Ganadero del Beni, Banco Internacional de Desarrollo, Banco Industrial S.A., Banco de La Paz, Banco Mercantil, Banco Nacional de Bolivia, Banco de Santa Cruz de la Sierra, Banco de la Union.

<sup>7</sup> This group of banks in Santa Cruz had used a foreign consultant supplied by one of the Big Eight firms and had found the study so unacceptable, that they had redone it themselves.

consulting firms<sup>8</sup> were contacted. Both reported that they had local staff to carry out contracts in management information systems analysis and internal controls. They said that for more specialized assignments such as the design of a bank marketing plan or new products, they would draw on personnel from their other offices. Given the experience of local banks with marketing consultancies, it is recommended that the references of any consultant in this area be thoroughly checked.

#### **Role of ASOBAN in Providing Technical Assistance**

Bankers were asked about the future role of ASOBAN in providing technical assistance consultancies on a shared cost basis. All agreed that there was a need for this program and that ASOBAN should, at a minimum, maintain a data bank of consultants by area of specialty. The executive secretary of ASOBAN agreed with this assessment, and reported that he would be willing to contact associations of commercial banks in other countries and ask them to provide lists of consultants with known reputations. The ASOBAN service would be to provide names and curriculums to its members, but it would be the responsibility of the contracting bank to check out references.

Opinions differ as to the arbitration role of ASOBAN. The banker who had had a negative experience with the marketing consultant and then requested that NAI redo the assignment, feels strongly that ASOBAN or whoever administers the program, must be an arbitrator when necessary. He feels that the issue is not only payment, but satisfactorily completing the assignment. What he liked about NAI, was that the firm sent a new consultant so that the bank finally received a useful report. Other bankers feel it is not appropriate for ASOBAN to arbitrate because this would necessarily mean that they would come into possession of at least the inadequate reports, and this could compromise confidentiality<sup>9</sup>. Some suggest using an international firm for this role, however, this would have a cost. The ASOBAN executive secretary does not want the association to assume the role of arbitrator because he agrees with bankers who feel that confidential information might be compromised. Consultancy contracts should contain an arbitration clause naming an outside arbitrator acceptable to both the

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<sup>8</sup> Peat Marwick Ruiz Ballivian and Moreño Munoz (Price Waterhouse)

<sup>9</sup> Their point was that even inadequate reports could contain confidential information that they would not want their competition to see. Accordingly, using the association of commercial banks, an association representing many banks, as an arbitrator would be risky.

contractor and the bank.

Another concern of the bankers is that a specific consultant should not do certain assignments for more than one bank. For example, they believe that a consultant who designs a marketing plan which includes new products for one bank should not assist another bank in that area. When confronted with this issue, the management consulting firms, replied that their consultants do not design plans, but assist clients in designing their own plans. For example, a strategic plan results from interviews with all divisions in the organization who lay out their goals and objectives in given time frames. The role of the consultant is a facilitator who helps the client prioritize objectives. However, marketing is a particularly sensitive area, and bankers don't want their strategies known to others.

The ASOBAN executive secretary does believe that the association can successfully carry out the technical assistance consultancy program until all funds are expended. Due to the limited funds available, parameters would have to be drawn up, i.e. guidance on the total amount that could be spent on a consultancy to any one bank. A list of consultants by specialty would be acquired by ASOBAN. Bank management would send a scope of work to ASOBAN which would in turn supply curriculums. To avoid problems from the past, bankers would be advised to do reference checks. The executive secretary is sensitive to the issue of confidentiality and accordingly, prefers that banks pay the consultants directly, and then present receipts to ASOBAN for reimbursement of fifty percent of the cost. He does not want ASOBAN to intermediate directly between banks and consultants once the contract has been drawn up, and under no circumstances should ASOBAN see or possess reports. He would also provide seminars on topics of interest to several banks such as international trading. These would be provided on a fee to cover cost basis.

### **Conclusions and Recommendations**

Marketing of consultancy services was carried out by NAI. Management of all eight participating banks said they learned of these services from Mr. Camilo Arenas, the NAI team leader. It is not clear how systematically the marketing was conducted because two bankers reported they learned of the services during chance encounters rather than formal visits, and some bankers said they had no knowledge of the service, and had they known, they would have tried to access consultants. There has been no marketing of these services in 1993 and bankers interviewed in this evaluation were unaware that technical assistance continued to be available on a shared cost plan.

Twelve consultancies were provided to eight banks. Eight of

these were satisfactory and banks were billed and paid their shares on a timely basis. Four consultancies carried out in marketing were unsatisfactory and were not billed to the banks, although they were paid with USAID funds. A total of \$22,226.49 remains in the fund.

Managers in all eleven banks contacted would like ASOBAN to continue the program. They said that they would access assistance and were able to list specific areas in which they would like consultancies.

The following are recommendations which would facilitate the continuation of the program:

1. ASOBAN should acquire names of consultants from associations of commercial banks in other countries, from management consulting firms in Bolivia, and from its member banks and should set up a data base. Bankers would be able to request names and curriculums with expertise in specific areas, but would be responsible for checking consultant references.

2. ASOBAN should draw up parameters identifying cost guidelines and procedures for accessing services. The availability of this service should be announced at its meetings both in La Paz and in the cities where it has affiliate offices.

#### PERFORMANCE OF ASOBAN'S ECONOMIC AND LEGAL ANALYSIS UNITS

ASOBAN provides economic information to its member banks through its economic analysis unit which is staffed by two full time professionals<sup>10</sup>. The end of project status indicators (EOPS) as outlined in the Letter of Understanding specify two full-time economists working in ASOBAN, a monthly bulletin containing economic analyses, regular discussions between ASOBAN, the Superintendency of Banks and the Central Bank, and the economic unit as self-financing and continuing. The salaries of both economists are covered by annual fees paid by ASOBAN member banks.

Information is provided both weekly and monthly in print-outs and on diskettes depending on the preference of the banks. Banks

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<sup>10</sup> Currently the head of the unit is a professional who spent twelve years in the Ministry of Finance where she was director of the Department of Monetary, Credit and Banking Policy. She also took the macro-economic course offered by the IMF in Washington in 1992. The position of assistant in the unit was vacated when that person became head of the ASOBAN operated check clearing facility. Curriculums have been received so that it can soon be filled.

send raw data to the ASOBAN economic unit which analyzes and consolidates and prepares reports of useful information to the banks. These reports include information on deposits, funds availability, portfolio, legal reserves, delinquency, net worth, profit and loss. Although much of this information is also provided by the Superintendency of Banks, the ASOBAN information is useful for the following reasons:

1. It is more timely than that provided by the Superintendency<sup>11</sup>. It is prepared weekly and returned on diskettes which allows it to be used immediately for decision making.
2. The information is more disaggregated than that provided by the Superintendency because it is broken down by individual bank and branch. This allows a bank to know where it stands vis-a-vis the competition.
3. The information addresses specific issues which the banks are facing at a given time. For example, private banks have taken over some of the fiscal functions formerly carried out by the Banco del Estado which closed in December 1992. ASOBAN breaks out fiscal or government deposits from private deposits and this facilitates knowledge on the amount of legal reserves required.

Other information provided by the ASOBAN economic unit includes an annual report on macro-economic and financial indicators. The unit reviewed and submitted proposed drafts on technical aspects of the new banking law including limitations on indebtedness, leveraging, determination of legal reserves. Bankers interviewed during this evaluation indicated that information provided by ASOBAN is discussed at their meetings and used in their decision-making processes.

There is no functioning legal analysis unit as such in ASOBAN, although legal information is generated regularly by a lawyer who is paid a retainer by the association. This arrangement has been in effect for approximately two years. Prior to that the executive secretary of ASOBAN was a lawyer. When the current executive secretary came on board, he retained the former executive secretary as ASOBAN's lawyer on a half-time basis on the payroll. Other lawyers with relevant areas of expertise such as social security are contracted on an as-needed basis.

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<sup>11</sup> Most of the bulletins prepared by the Superintendency are not received by banks for about two months until after they are prepared. Since the data used for preparation are from the previous month, most of the information is three months old by the time the bulletin is received.

ASOBAN does produce on-going legal analyses for its members as specified in the Letter of Understanding. For example, its lawyer analyzes regulations and circulars from the Central Bank and the Superintendency of Banks as well as decrees and laws which impact the banking sector. The ASOBAN director describes its interaction with the GOB as an on-going dialogue. Its lawyers also review contracts which affect the banking sector as a whole, such as those that pertain to bank security<sup>12</sup> or labor laws.

The 1926 banking law specified certain social security clauses which applied to the banking sector. Certain clauses of the social security law of 1958 also apply to the banking sector. For example, there is a specific health insurance plan which covers all employees in the banking sector. Similar to an HMO, this plan provides for out and in-patient services, pharmaceutical products, and private doctors who are contracted to provide services under the plan. ASOBAN is one of the directors of this plan. Other services related to social security include pensions for retired employees, widows, and orphans. ASOBAN staff maintains an awareness of problems which may arise in one bank over specific issues, but could have effects on other banks, and calls its legal experts to meetings of its members to deal with these issues. The principal ASOBAN lawyer is frequently at meetings of its directorate so that representatives from member banks may ask him legal questions on issues.

The retaining fee for legal services is paid from regular ASOBAN member fees. During the period when the banking law was being developed, members of ASOBAN La Paz were assessed an extra fee to cover the legal services which the organization had contracted. ASOBAN's lawyer, Dr. Carlos Gerke, worked daily with the executive secretary on legal analysis of the law. Dr. Gerke estimates that over the last twelve months he has spent an average of ten hours a week working on the ASOBAN account.

ASOBAN legal analysis of the new banking law<sup>13</sup> began in 1991 when it hired two prominent lawyers and Dr. Ramon Madriñan, the former Superintendent of Banks of Colombia, to begin a review of proposed legislation<sup>14</sup> and to make recommendations. In 1992 ASOBAN

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<sup>12</sup> All banks, for example, are required to have police security protection and one contract is drawn up to provide this service. ASOBAN acts as an intermediary for the banks with the police so that only one contract will have to be drawn up.

<sup>13</sup> This Law No. 1488 was passed on April 14, 1993 and the corresponding Decree No. 22203 was issued.

<sup>14</sup> This proposed legislation had been prepared by the Superintendency of Banks of Bolivia with the assistance of the World Bank.

prepared an analysis of a subsequent proposed draft of the laws<sup>15</sup>. These analyses consisted of the laws proposed by congress in the left hand columns, and corresponding ASOBAN observations and suggestions in the right hand columns. ASOBAN presented these analyses to the GOB so the government would have a point of reference for subsequent drafts.

Both the ASOBAN executive secretary and its lawyer worked closely with the Commission of Economic Planning in the Chamber of Deputies as work progressed on the banking legislation. Dr. Gerke was invited to work on the final revision of the law. They reviewed the proposal for consistency with other legislation and codes as well as the constitution. They also advised on technical issues such as leverage parameters found in Article 47. The executive secretary believes that from 80 to 90% of ASOBAN's requests were incorporated into the final law. He feels that the major success of the law as passed is its conceptual approach as to why a banking law is necessary, that is that the role of the Central Bank and Superintendency of Banks is to protect the quality of assets and the stability of the currency. Another success was to preserve the role of the free market in setting interest rates, rather than having them dictated by the Central Bank.

Bankers interviewed in this evaluation stated that they had received approximately ten drafts of the law for comments. These drafts had already been analyzed by ASOBAN. In addition many of the issues were discussed at ASOBAN meetings. Managers in five banks were specifically questioned about whether the new law reflected their views. Management in four out of the five gave generally positive responses. They said it was a definitive improvement over the previous law of 1926. Two mentioned that they liked the impetus given to multi-banking and that the law provided needed fiscal regulation. All agreed that it was the result of compromise and accordingly contained some flaws. Some criticized it for assigning too much power to the Superintendent. Others criticized Article 34 which prohibits bank directors from serving on the boards of other corporations. Management in one bank criticized it for the stiff penalties for overdrawn checking accounts<sup>16</sup>. However, managers of three other banks said these penalties were necessary to increase the acceptance of checks.

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<sup>15</sup> "Ley organica de la Superintendencia de bancos y entidades financieras," and "Proyecto de ley general de entidades financieras."

<sup>16</sup> The fine for an overdrawn account is US \$50, and then the account is closed for 30 days at which time it can undergo *rehabilitación*.

## Conclusions and Recommendations

In conclusion, ASOBAN is providing economic and legal analysis services to its members. Economic analysis is provided in weekly and monthly reports supplied to member banks on diskettes or in print-outs. Data are analyzed by two professionals in the in-house economic analysis unit. On the other hand, legal analysis is performed primarily by an external lawyer who is paid a retainer by ASOBAN. Other expert legal analysis is contracted on an as-needed basis by the association. Both analysis services are self-financing because costs are covered by ASOBAN's members.

One recommendation which would strengthen the economic analysis unit would be for USAID to share more information with the unit. For example, the USAID Economics Office has a model of macro-economic indicators drawn from several sources. This report could be sent on diskette periodically to ASOBAN. The USAID Office of Trade and Investment with assistance from the Economics Office developed a model for ranking banks based on information in bulletins published by the superintendency. The ranking is based on four criteria: capitalization and leverage (30%), profitability and efficiency (30%), liquidity (10%), and quality of assets (30%). It is recommended that a diskette with this model made available to the economics unit at ASOBAN.

## ASOBAN'S CHECK-CLEARING SYSTEM

In September 1992 a report prepared by NAI<sup>17</sup> concluded that it was feasible to establish a check-clearing system in ASOBAN. At that time the check-clearing system was operated by the Central Bank in La Paz and by the Banco del Estado in department capitals in the interior. In December the Banco del Estado definitively closed and on December 21, 1992 ASOBAN began operating the check-clearing system in La Paz and in six cities in the interior<sup>18</sup>.

Although it remains essentially a manual operation, some automation has been introduced as was recommended in the Nathan report. Representatives from banks in a specific area or city meet daily at 4 p.m.<sup>19</sup> in a room provided by ASOBAN<sup>20</sup> and exchange

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<sup>17</sup> "Estudio de Prefactibilidad para Establecer la Cámara de Compensación en ASOBAN" by Hector Mora Suarez.

<sup>18</sup> Santa Cruz, Cochabamba, Sucre, Tarija, Oruro, and Potosi

<sup>19</sup> 4:30 p.m. in La Paz

checks. Representatives pass checks received that day to the bank issuing the checks. Each representative totals debits and credits by bank on a sheet and columns are added to obtain the totals. Totals are then reported to the ASOBAN chief of the operation who enters them on a lotus spreadsheet beside the bank's name. ASOBAN offices in the interior send this information by fax to the ASOBAN office in La Paz where information is consolidated nationwide by bank and sent to the Central Bank so that current accounts of the commercial banks can be credited or debited as appropriate. One set of forms is filled out for bolivianos and another set for dollars. The legal reserve requirement for current accounts is twenty percent. Banks authorize this movement from their reserve accounts to current accounts by telephone, followed by written confirmation. The first clearing round lasts about forty-five minutes from 4 or 4:30 p.m. to 5:15 p.m. at which time the representatives return to their banks to clear their checks. Bank representatives return for the second clearing round which begins at 6:30 p.m. and lasts about thirty minutes. Its purpose is to adjust the balance sheets for checks which have been rejected. All checks deposited before 3 p.m. are cleared on the same day they are deposited. Those written after 3 p.m. are cleared the following day. All banks participate in the system. Each clearing center has a supervisor supplied by one of the banks to resolve any problems which arise. The supervisor holds that position for three months, and his or her bank assumes the role of clearing house sponsor for that corresponding period.

When ASOBAN took over the operation of the check-clearing operation, a decision was made to operate the facility only in cities where there are three or more banks. In other towns or rural areas the banks clear checks among themselves. If a check from one region is deposited into a bank in another region, it is cleared by one of several processes. The manager of the bank where the check is deposited may clear the check by phone or fax (for which the client assumes the expense). The bank receiving the deposit may send the check by courier with other documents to La Paz for clearance. The ASOBAN executive secretary reports that most checks written on in-country banks are usually cleared within 48 hours, and that this period has not changed since ASOBAN began operating the facility.

The commission charged to the banks for this facility has not changed under the new system. In La Paz it is 1/16 for each one thousand of the amount of the documents<sup>21</sup>. The report prepared by NAI stated that the monthly value of checks in 1992 was about Bs 1

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<sup>20</sup> In cities in the interior they may meet in a room provided by a specific bank for a given time period and then alternate to another bank.

<sup>21</sup> In Santa Cruz it is .001 the value of the documents.

billion and in U.S. dollars was about \$50 million. Estimates indicate that even with expected growth, the approximate average of checks to be cleared daily in 1996 would not reach 7,000. The total 1992 commission paid by all banks for the service was estimated at U.S.\$ 213,000 per year and this is expected to rise to about U.S. \$ 288,000. Although the NAI estimate for checks processed showed an increase of eighty percent by the year 1996 to a total of 1.8 million a year, the report still recommended the manual clearing system due to the relatively small number of checks<sup>22</sup>.

Some automation has occurred under the ASOBAN clearing system to increase efficiency. Under the Central Bank system the manager of the clearing house filled out the consolidated credit and debit forms using a manual calculator. Accordingly, when the he did not balance, significant time was spent with bank representatives looking for errors. Under the new system, the PCs with the lotus spreadsheets and automatic calculation have eliminated much of the possibility for error. As a result, the system is more efficient timewise and bank representatives spend less time at the daily clearing house meetings.

Nine bankers were questioned about how they perceived the efficiency of the check clearing system operated by ASOBAN. Opinions were mixed. Four bankers responded that they felt the system was more efficient because the clearing meetings were shorter. Two said that ASOBAN would be more responsive to suggestions and recommendations and that could improve efficiency for banks and whereas a government organization would be less receptive to ideas for improvement. Three stated that even the current system is antiquated and they would prefer to have a totally automated computerized processing system. Several bankers mentioned additional responsibilities for their banks now that the Banco del Estado no longer operates<sup>23</sup>, and some complained about the system used to transfer cash from legal reserve accounts to current accounts at the Central Bank.

### Conclusions and Recommendations

ASOBAN began operating the check-clearing house in December 1992 in both La Paz and in six other cities in the country. Recommendations in the NAI feasibility study were implemented.

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<sup>22</sup> The ASOBAN executive secretary compared the 6,000 checks cleared daily in Bolivia to Chile's 400,000 checks per day.

<sup>23</sup> For example, commercial banks are now responsible for transporting their own cash from La Paz to cities in the interior, a function which used to be carried out by the Banco del Estado.

Efficiency has improved somewhat with the use of a computerized spreadsheet by the manager of each facility. The time required to clear checks is the same as when processing was operated by the Central Bank and the Banco del Estado and the commission has not changed. Some bankers would like a totally automated system, but the NAI study concludes that this would not significantly cut down on the time needed to clear checks, given the low number of checks written in Bolivia.

This evaluation recommends that ASOBAN be receptive to recommendations of participating banks, and implement those that are cost effective and would improve the system.

#### COMPUTERIZED CENTRAL INFORMATION SYSTEM

The Letter of Understanding between USAID and ASOBAN specified the development of a Central Information System (CIS) in which at least ten banks would participate by sending client information to ASOBAN. Such a system was developed for ASOBAN in La Paz using Unified as the software data base. Two banks, the Banco Nacional de Bolivia and the Banco de Inversion Boliviano provided client information so that the system could be tested. The system was installed, tested, and ready for use in November 1991, seven months after the risk facility (*Central de Riesgos*) at the Superintendency of Banks had become operational with essentially the same information. The information supplied by both systems included the current debt situation of the client applying for credit, the type of guarantee, whether or not current loans are delinquent, and whether the loan is under legal litigation. The Superintendency requires that all banks report this information monthly.

ASOBAN La Paz staff reports that bankers did not wish to use its system for two principal reasons. First, the information provided by the ASOBAN system duplicates that already provided by the Superintendency. Second, banks do not want to share information on their good clients because they are afraid the competition will try to lure them away with better offers. Finally, they pointed out that the Unified data base was designed with the 1991 clientele in mind and the system is not large enough to accommodate the number of credit clients in 1993. The executive secretary of ASOBAN refers to the money spent on the design and installation of the system as a "sunk cost," and reports that even if ASOBAN were to provide a credit referrals in the future, a new system with a larger capacity would be necessary<sup>24</sup>.

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<sup>24</sup> Officials at the risk facility in the Superintendency of Banks report that they considered the Unified system in 1990, but found it inadequate and opted for another system.

## **The Risk Facility at the Superintendency and How It Works**

A client applying for a loan at any commercial bank in Bolivia signs an authorization for the bank to request a confidential report on the client's current indebtedness from the Superintendency of Banks. This entity receives about two hundred requests a week and these reports are sent directly to the bank manager. Turn-around time for banks in La Paz is 24 hours. Banks are required to send information monthly on diskettes on all new loans including the name of the client, number of carnet, type of loan<sup>25</sup>, repayment period, monthly payments, and whether or not payments are current. The Superintendency uses this information to track the bank's portfolio and to rank it in one of five categories<sup>26</sup>. The ranking of the portfolio determines the amount of reserves which a bank must maintain and which cannot be included in its net worth.

The risk facility is staffed by three people, two of whom are responsible for supplying information in the confidential reports. They estimate that they spend approximately two hours a day at this task. These reports do not include a historical credit record on the client. Some of this latter information is supplied by the Superintendency in a monthly report sent to banks on diskettes. Banks are not supposed to extend credit to clients who have loans under litigation. The monthly report, "black list," includes information on clients whose loans have been classified in category 3 or above. The Superintendency reports that information received by the 10th of the month is included in its report generated on the 20th of the month<sup>27</sup>. In the future the Superintendency would like to install computer modems with each bank to provide for immediate turn-around on information. During the last month additional information has become available to banks which includes rejected checks current to the day, accounts closed because they were overdrawn, and overdrawn accounts which have been reopened. This information is sent to banks on diskettes for easy updating.

### **Private Organizations Providing Credit Information**

The research for this evaluation identified two private

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<sup>25</sup> consumer, housing or commercial

<sup>26</sup> Category 1 is normal; category 2 is potential problem; category 3 is deficient; category 4 is delinquent; and category 5 is uncollectible and to be included in write-offs.

<sup>27</sup> Some bankers disagreed with this and their main complaint was that information provided by the Superintendency was not sufficiently timely.

organizations which currently offer client information to banks and some businesses for a fee. One is operated in Santa Cruz and one is located in La Paz although it provides nationwide information. Both charge for their information and were mentioned by bankers who use their services.

The service in Santa Cruz has been operated for eight years by an individual who gathers regional information on persons whose accounts are under litigation or who are facing charges for writing bad checks. She also collects information on rejected checks which she forwards to the Superintendency. She collects this information from the courts and lawyers and enters it into her home computer. She charges a fixed monthly fee for her lists and reports that seven banks in the Santa Cruz area are subscribers. In the past her information has supplemented that provided by the Superintendency<sup>28</sup> and banks have used her reports because they are timely. She stated that demand for her lists has not grown because banks that subscribe share the lists with banks that do not.

The second service, Datos SRL, was mentioned by bankers both in La Paz and Santa Cruz. It began in October 1992 because its founders recognized that the market was lacking a private credit bureau to assist in the evaluation of credit worthiness. The company currently has a data base with 112,000 names of people with both good and poor credit histories in banks, financial institutions, stores, savings and loans, cooperatives, and with the government<sup>29</sup>. The only critical information missing from the system is loan delinquency under 90 days. Validity of information is an important basis of the company, and all information is backed up with documentation. The manager would not divulge how they collect their information as that is their "know-how". They maintain this information for five years. The business is operated with three full-time employees and a number of people who work on contract nationwide. Clients are charged U.S.\$2.50 for each request<sup>30</sup> and information is sent by fax. Currently seventeen banks, a number of cooperatives and some commercial establishments subscribe to the service. The manager reports that there is little demand from savings and loans, cooperatives, or stores for this information because they claim their volume of business is not sufficient to justify the cost. Recently, the business has expanded into pre-qualifying credit card applicants. Datos has a contract with American Express to carry out this service. If an

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<sup>28</sup> It is not known how the new information provided by the Superintendency on rejected checks will impact her business.

<sup>29</sup> Infractions against the government would include not paying taxes.

<sup>30</sup> A minimum monthly fee allows up to one a certain number of requests.

applicant has no negative antecedents, this is also reported. The pre-qualification service requires checking out information on applications and then reporting it to the company. Datos also maintains a data base on companies which dates back to 1980. These data include the name and participation of each shareholder and his/her relation to the company. Datos SRL plans to continue expanding its information base and is in the process of installing a computer system with gigabit capacity.

ASOBAN affiliates in Santa Cruz and Cochabamba also operate data bases with credit information useful to banks. This service has been operated in Santa Cruz since 1986. These systems operate with information which local banks send monthly. It takes the Santa Cruz office about two days to generate a list once information is received and send it back to the banks. The list includes the name of the borrower and the bank, the type of guarantee, date the credit was extended, expiration date of the loan and the amount, as well as the date that any litigation began. Nevertheless, the current president of the ASOBAN affiliate in Santa Cruz, Lic. Ludwig Toledo, states that the database is very out of date and that the organization has contracted a person to update it.

#### **Perceived Needs of Bankers for a Central Information System**

Bankers in eleven financial institution were asked whether the information supplied by the Superintendency was sufficient for making loan decisions and whether or not they felt a central information system operated by ASOBAN or another private sector organization was needed. Only one out of the eleven thought that the Superintendency information was sufficient. Five said the information was good, but untimely because it is only updated monthly and a lot can happen in a month. The dates of the most recent antecedents are already over a month old by the time the list arrives. Several of these bankers believed a private credit referral system would provide easier access.

A number of the bankers thought the information was incomplete. One said it would be useful to have information on the indirect indebtedness<sup>31</sup> of clients as well as current debts. Other bankers believed that bank reports to the Superintendency are incomplete because bankers "use cosmetics" to cover up the real

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<sup>31</sup> He defined indirect indebtedness as when a person guarantees or uses his assets to guarantee another loan.

status of their portfolios<sup>32</sup>. This same banker stated that more liability and solvency information is needed on clients.

Other bankers stated that a weakness of the current system is that the Superintendency information service is only available to banks. The advantage of a private credit referral system is that its information would be available to other organizations, such as cooperatives and commercial establishments. One banker said she had been meeting with fifteen NGOs which were trying to set up their own risk facility. Another banker mentioned that a private system should include information about people in the informal market. One manager said he would like a credit rating system which would evaluate risk and assign applicants a rating according to their risk. All bankers interviewed said that their institutions use the current information supplied by the risk facility at the Superintendency for making credit decisions. Most agreed that it is an improvement over the prior system under which each bank had to find its own information, usually by calling other banks. Only one banker specifically mentioned that he is not willing to share his bank's information because of the confidentiality issue.

The executive secretary of ASOBAN, Mr. Guido Antezana, expressed his opinion that a credit worthiness referral system, such as that operated by Dunn & Bradstreet in the U.S., could have a very positive impact on the overall Bolivian economy. Information in such a system is collected on firms and individuals, including small entrepreneurs operating in the informal system. A credit worthiness system includes information for companies such as the identity of the major shareholders, the source of the capital base, the source of raw materials or inventory, the volume of sales, the profits over time, highlights from the financial statements, and a list of suppliers of credit. Under such a system, small entrepreneurs are allowed to register for a fee. Their references are checked and used when they wish to receive small amounts of credit either from a bank or commercial establishment<sup>33</sup>. Mr. Antezana believes that this system would assist entrepreneurs to move from the informal to the formal economy. His preference would be to buy the "know-how" and

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<sup>32</sup> He gave the example of a delinquent client who goes to a bank and makes an interest payment so his loan will be current and explains to the banker that he intends to take out another loan at another institution to pay off the principal. The bank is interested in having the loan paid off, and so reports the loan account as up to date.

<sup>33</sup> Mr. Antezana gave the example of a taxi driver who owns his car, but may, from time to time, have to buy spare parts such as a tire. A credit worthiness referral system could give this person access to credit which he would not otherwise have.

technology for such a system from a well-established firm such as Dunn & Bradstreet, and suggested that A.I.D. might want to provide the seed capital for such a venture. Bankers would be shareholders of the Bolivian company which would charge fees to assure eventual self-sufficiency.

### **Conclusions and Recommendations**

The CIS system for ASOBAN was developed, installed, and tested, but never became operational and is not providing services for any member banks. There was no coordination between technicians developing the ASOBAN CIS, member banks, and the Superintendency of Banks to ascertain that both systems were needed. The CIS in the Superintendency was installed seven months before the system in ASOBAN. This time lag, the duplication of information, and the limited capacity of the Unified system installed in ASOBAN, made the ASOBAN system obsolete by the time it was installed. ASOBAN staff view it as a "sunk cost" and believe if a CIS were to be resurrected in ASOBAN, a new system would be necessary.

Most bankers interviewed believe there is a need for a private credit worthiness referral system. All but one said they would be willing to provide information to such a system. The success and expansion of the private firm, Datos SRL, in only eight months suggests that banks are willing to pay for this information. However, the low demand for information from other organizations offering credit such as stores, cooperatives, and savings and loans, suggests that the establishment of a sophisticated operation such as that run by Dunn & Bradstreet may be premature.

This evaluation recommends that ASOBAN follow the experience of private credit referral firms such as Datos SRL, and perhaps invite its management to a board meeting to explain its services and to ask bankers to recommend how they could be improved. Market demand should determine whether or not a more sophisticated service is necessary. This demand should be generated from all organizations offering credit, not merely commercial banks.

## SECTION TWO

### LESSONS LEARNED

Banks do want technical assistance in the form of short term management consultancies and are willing to participate in a shared payment plan and to pay on time when the consultancies meet their needs. Twelve banks received the letter from Nathan offering these services in 1991 and nine out of the twelve requested consultancies. Eight banks received twelve consultancies. Adequate marketing remains fundamental to the success of such a program, and the reason given by bankers interviewed during this evaluation for not accessing assistance in 1993 was that they did not know the service was available. It is important in this type of program that consultants understand that the bank is their client and payment for services will depend on the client's satisfaction. It is also essential that the client banks check out the references of proposed consultants.

Banking associations can have substantive impact on the legal and regulatory environment in which banks operate as is evidenced by ASOBAN's input into the new Bolivian banking law. It is critical that the association have well-qualified professionals who can make qualitative contributions to this process.

When developing a new service or product, the developers should be aware of other organizations which may be working on the same product, and understand how this will affect demand. If the developers of the CIS for ASOBAN had been in communication with the Superintendency of Banks, they may have been able to develop a system which would have complemented rather than duplicated the information on the other system. Nevertheless, it is now appropriate to view the expenditure for the ASOBAN system as a "sunk cost," and write it off rather than spending more money to resurrect an obsolete system.

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1.

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**ANNEX A**  
**CHARTS**

## 1. ASSISTANCE TO BANKS AND ITS IMPACT

Bank <sup>1</sup>	Area of Assistance	Adequate	Comments	Ranking <sup>2</sup> Before Assistance	Ranking as of 9/92
A	Systems for controlling costs	yes	Computerizing cost control formulas	8	13
B	Systems for controlling costs	yes	Bank has operationalized equilibrium formula left by consultant	10	10
B	Marketing	no	Study presented no new information. Not useful.	10	10
C	Systems for controlling costs	yes	Used as preliminary study for setting up cost centers.	6	3

<sup>1</sup> Banks are identified by letter rather than name since they requested confidentiality as to the assistance they received or need in the future. The same letter in two blocks indicates that the a bank received more than one consultancy.

<sup>2</sup> Ranking system was developed by USAID T & I office with Econ and is used to rank banks from 1 (best) to 15 (worst). Criteria are 1) capitalization and leverage (30%); 2) profitability and efficiency (30%); 3) liquidity (10%); 4) quality of assets (30%).

## 2. ASSISTANCE TO BANKS AND ITS IMPACT

Bank <sup>1</sup>	Area of Assistance	Adequate	Comments	Ranking <sup>2</sup> Before Assistance	Ranking as of 9/92
D	International Trade / Operations	yes	Recommendations being implemented for increased efficiency	3	4
E	Credit Policies and Procedures	yes	Consultant from Citibank; excellent recommendations incorporated into strategic plan.	11	11
E	International Operations	yes	Recommendations resulted in major reorganization to improve coordination of international operations.	11	11
E	Marketing	no	Plan developed was very academic and not at all practical.	. 11	11

<sup>1</sup> Banks are identified by letter rather than name since they requested confidentiality as to the assistance they received or need in the future. The same letter in two blocks indicates that the a bank received more than one consultancy.

<sup>2</sup> Ranking system was developed by USAID T & I office with Econ and is used to rank banks from 1 (best) to 15 (worst). Criteria are 1) capitalization and leverage (30%); 2) profitability and efficiency (30%); 3) liquidity (10%); 4) quality of assets (30%).

### 3. ASSISTANCE TO BANKS AND ITS IMPACT

Bank <sup>1</sup>	Area of Assistance	Adequate	Comments	Ranking <sup>2</sup> Before Assistance	Ranking as of 9/92
F	Strategic Planning and Computer Systems	yes	Timely recommendation on new computer system. Strategic plan being implemented.	1	1
G	Strategic Planning and Computer Systems	yes	Good recommendation advising bank on computer system	7	<sup>3</sup>
G	Marketing	no	Senior consultant never arrived, and report not accepted.	7	see above
H	Marketing	no/yes	First consultancy inadequate and report not accepted; consultancy redone by NAI and recommendation being implemented.		

<sup>1</sup> Banks are identified by letter rather than name since they requested confidentiality as to the assistance they received or need in the future. The same letter in two blocks indicates that the a bank received more than one consultancy.

<sup>2</sup> Ranking system was developed by USAID T & I office with Econ and is used to rank banks from 1 (best) to 15 (worst). Criteria are 1) capitalization and leverage (30%); 2) profitability and efficiency (30%); 3) liquidity (10%); 4) quality of assets (30%).

<sup>3</sup> Technical assistance took place after 9/92, the final date of USAID's ranking model update.

#### 4. FUTURE ASSISTANCE NEEDS OF BANKS

Bank	THEMES FOR FUTURE CONSULTANCIES IDENTIFIED BY BANKERS
A	International trading
B	International trading; selection of computer systems; MIS; Personal banking
C	Complete cost analysis of bank's operations
D	Strategic planning; cost control; marketing
E	Futures; international trading; leasing
F	Management information systems
G	Marketing; human resource development
H	Sales force training; cost reduction in asset administration
I	International banking & trading; marketing; strategic planning
J	International banking, trading and financing
K	Cost control; selection of computer systems

## 5. BANK PERCEPTIONS OF ASOBAN CHECK-CLEARING FACILITY

Bank	OPINIONS OF BANKERS <sup>1</sup>
Nacional La Paz	Believes ASOBAN will be more responsive to needs of banks, and receptive to changes which will improve system.
Nacional Sta Cruz	New system is more efficient. Need to resolve issue of cash transport from Central Bank in La Paz to Santa Cruz.
BHN	Less bureaucracy; more direct communication among banks; clearing meetings are more efficient with computers.
Union	More modernization needed; more financial intermediation needed among banks and better system for transferring funds from legal reserve accts.
Big Beni	Need a fully automated, electronic process.
Economico	Need a more agile system.
Mercantil Sta Cruz	No major changes under new system.
BBA	Works better because meetings are faster.
BISA	System is still antiquated; automation should be a priority.

<sup>1</sup> Opinions do not necessarily reflect the official positions of banks.

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## 6. BANK PERCEPTIONS OF PRIVATE CREDIT REFERRAL SYSTEM

BANK	OPINIONS OF BANKERS <sup>1</sup>
Nacional La Paz	Information from Superintendency is untimely and only focuses on current debt situation of client; need confidential credit bureau and banks would be willing to share information.
Nacional Sta Cruz	Need access to immediate information which would also be available to commercial establishments.
BHN	Need a privately operated credit referral system which would evaluate risk and rank clients accordingly.
Union	Need a private system which could provide immediate information. Information from Superintendency is already formatted and bank must ask for information within that format.
BIDESAS	Need more timely information on a base which includes all people not only bank clients. Need more liability and solvency information.
Big Beni	Need information on direct and indirect indebtedness; more information on bad checks. Bank disposed to share information with private credit bureau.
Economico	Need private credit information system, but it shouldn't be run by ASOBAN.
BBA	No need for private credit information system which might sell confidential information to another bank.
Sta. Cruz	Need more timely information.
BISA	Need risk facility which would provide information to other lending organizations apart from banks.

<sup>1</sup> Opinions do not necessarily reflect the official positions of banks.

**ANNEX B**  
**STATUS OF OUTPUTS**

## 1. CENTRAL INFORMATION SYSTEM

INDICATORS	STATUS
Participation by at least 10 banks.	System developed, installed, and tested in 11/91 with information from 2 banks. System in La Paz never became operational. Information produced by system duplicates that provided by the Superintendency.
Participating banks are satisfied with services provided by ASOBAN/CIS.	see above
The Central Information System services provided by ASOBAN are self-financing and continuing.	see above

## 2. ECONOMIC ANALYSIS

INDICATORS	STATUS
A bulletin is published monthly containing ASOBAN economic analyses.	Reports based on ASOBAN economic analyses are provided both weekly and monthly on diskettes or in print-outs.
Two full-time economists are working in ASOBAN.	Two full-time economists have been working. One current position is being filled.
ASOBAN has promoted regular discussions between ASOBAN, the Superintendency of Banks and the Banco Central de Bolivia carried out based on the economic and legal analyses conducted by ASOBAN.	Regular discussions take place between ASOBAN and GOB entities. Economic analysis Unit contributed drafts covering technical aspects of new banking law.
The economic analysis service is self-financing and continuing.	All services paid for out of ASOBAN member fees.

### 3. LEGAL ANALYSIS

INDICATORS	STATUS
Regular responses are being provided to requests of individual banks for legal analysis.	ASOBAN lawyer does not answer responses of specific banks, but does regularly address issues pertaining to banking sector at board meetings. Performs regular legal analyses of circulars and regulations from the Central Bank and Superintendency, and negotiation of nationwide contracts which impact on sector as a whole. Analyses are written and available to member banks.
ASOBAN has prepared a draft of the new banking law and has presented it to the appropriate legal authority.	ASOBAN spent two years analyzing proposed banking law and submitted its analyses to appropriate government entities. New law incorporated from 80-90% of ASOBAN's requests.
ASOBAN made constructive proposals to the GOB on a wide variety of legal issues.	ASOBAN maintains on-going dialogue with GOB entities. Analyzes circulars, regulations, decrees, and laws which impact on sector.
The legal analysis service is self-financing and continuing.	There is no legal unit in ASOBAN. Lawyer is paid a retainer by the association. Legal fees covered by regular member fees, or special assessed cuotas.

#### 4. LIBRARY

INDICATORS	STATUS
Books and periodicals which cover information need of banks have been purchased.	Library is functioning and includes annual reports of banks, annual report of Central Bank, quarterly Central Bank statistics, official legal gazettes, bound copies of ASOBAN reports and circulars, reports and circulars of the Superintendency, books and publications with banking laws of other Latin countries, publications emitted by other bankers' associations, publications of the Latin American Federation of Banks (both of Federation and of specific committees in Federation), reports from the World Bank, IDB, and other international organizations, and the Latin American Bank Guide. Library also has video equipment. Bankers frequently use library facilities.

**ANNEX C**  
**METHODOLOGY**

## METHODOLOGY

This evaluation was conducted over an eighteen day period in May and June 1993. It consisted of reviewing project information in the USAID/Bolivia Mission including the Project Paper and its amendments, the Letter of Understanding dated March 17, 1989, correspondence between the Mission and ASOBAN, reports prepared by the institutional contractor, Nathan Associates, Inc. (NAI), correspondence sent out to banks from ASOBAN or NAI, the new banking law passed on April 14, 1993 and its corresponding decree.

In addition, some forty interviews were conducted both in La Paz and Santa Cruz. Staff members in ASOBAN were interviewed, as were managers from eleven commercial banks, and staff from the Superintendency of Bolivian Banks. Contact was made with all eight banks which received technical assistance to gather opinions as to its effectiveness. A number of bankers in institutions which had not received technical assistance were contacted to ascertain why they had not participated in the program. Interviews were also conducted with professionals in management consulting firms in La Paz to determine local consulting capabilities that might be useful to banks. Research while conducting this evaluation identified two private sector organizations which provide information for a fee to banks to assist in the credit approval process. Managers in both of these organizations were interviewed.

The research phase of this evaluation took approximately thirteen days. The subsequent days were spent writing the report, circulating the draft in the Mission, incorporating suggestions, and polishing the final report. After the draft report had been completed, an oral presentation was made to the Mission.

**ANNEX D**  
**SUMMARY RECOMMENDATIONS**

## SUMMARY RECOMMENDATIONS

1. ASOBAN should acquire names of consultants from associations of commercial banks in other countries, from management consulting firms in Bolivia, and from its member banks and should set up a data base. Bankers would be able to request names and curriculumums with expertise in specific areas, but should be responsible for checking consultant references.
2. ASOBAN should draw up parameters identifying cost guidelines and procedures for accessing services. The availability of technical assistance services should be announced at ASOBAN meetings both in La Paz and in cities where it has affiliates.
3. The ASOBAN Economics Unit should send a blank diskette quarterly to the USAID Economics Office and request a copy of its macro-economic model. It should request a copy of the bank ranking model from the Trade and Investment Office.
4. ASOBAN should be receptive to recommendations of banks participating in its check-clearing house and implement those that are cost effective and would improve the system.
5. ASOBAN should maintain awareness of the experience of private credit referral firms. It should allow market demand to determine whether or not a more sophisticated service is necessary. This demand should be generated from all organizations offering credit, not merely commercial banks.

**ANNEX E**

**LIST OF PERSONS AND INSTITUTIONS CONTACTED**

## **PERSONS AND INSTITUTIONS CONTACTED**

### **USAID/BOLIVIA**

Gabriella Santa Cruz  
Project Coordinator, Trade and Investment Office.

Richard Rosenberg  
Director, Trade and Investment Office.

Oscar Antezana  
Economist, Office of Economics.

### **ASOBAN, La Paz**

Marcelo Romero F.  
Administrative Chief

Lic. Guido Antezana  
Executive Secretary

Gloria Blacud de Gonzalez  
Economic Advisor

Dr. Carlos Gerke  
Legal Advisor

Juan Gonzalez  
Chief of Check-clearing Operation

### **SUPERINTENDENCY OF BANKS OF BOLIVIA**

Felipe Aliaga  
Chief of the Risk Facility

Guillermo Romano  
Supervisor of Analysis of the Risk Facility

### **BANCO MERCANTIL in LA PAZ**

Oscar Ortiz  
Supervisor of the ASOBAN Check-clearing Operation

### **BANCO BOLIVIANO AMERICANO in La Paz**

Leonardo Garcia J.  
Manager of Marketing

**BANCO DE LA PAZ**

Ing. Mauricio Hurtado de Mendoza  
National Chief of Development Systems

**MULTIBANCO BHN in La Paz**

Jaime Mercado Méndez  
Manager of Operations

Mario Lema Rufiz  
Regional Vice President

**BANCO NACIONAL DE BOLIVIA in La Paz**

Eduardo Alvarez  
Manager of La Paz Office

**BANCO INDUSTRIAL, S.A. in La Paz**

Sara Fernandez  
Manager of Operations

**DATOS SRL**

Maria Lourdes Valdivia de Rodriguez  
Manager

**ASOBAN SANTA CRUZ**

Dr. Edgar Terrazas  
Executive Secretary

Alfredo Mendez Queirolo  
Chief of Check-clearing, ASOBAN Sta. Cruz

Ana Maria Herrera de Rojas  
Executive Secretary

**BANCO UNION in Santa Cruz**

Ludwig Toledo Vazquez  
National Manager of Finance

**BANCO NACIONAL DE BOLIVIA in Santa Cruz**

Lic. Javier Gimenez Dominguez  
Manager of Eastern Region

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**BANCO INTERNACIONAL DE DESARROLLO S.A. in Santa Cruz**

Lic. Iver Lopez  
Assistant Manager of National Operations

Ing. Manuel Valvade Cespedes  
Credit Officer

Peter Walxer Justianiano  
Assistant Manager of Credit

Juan Besa  
Economic Advisor

**BANCO INDUSTRIAL Y GANADERO DEL BENI S.A. in Santa Cruz**

Pedro Cossio Arellano  
Assistant Manager for Planning and Studies

**BANCO ECONOMICO S.A. in Santa Cruz**

Justo Yepez Kakuda  
General Manager

**BANCO MERCANTIL in Santa Cruz**

Percy Miguel Añez Rivero  
Manager

**BANCO SANTA CRUZ DE LA SIERRA in Santa Cruz**

Jorge Chahin Justiniano  
Manager

Alfonso Alvarez Nunez  
Assistant Manager

Ismael Serrate  
Manager of Finance

**BANCO BOLIVIANO AMERICANO in Santa Cruz**

Miguel Escobar Caram  
Manager

**TATIANA DE CUELLAR, S.A. in Santa Cruz**

Tatiana de Cuellar  
Client reporting service for banks

**KPMG PEAT MARWICK RUIZ BALLIVIAN**

**Lic. Gonzolo Ruiz Ballivian  
Principal Partner**

**Ing. Sergio Ruiz-Mier  
Partner**

**Lic. Enrique Pozo B.  
Partner in Auditing**

**MORENO MUÑOZ, PRICE WATERHOUSE in La Paz**

**Hector Arduz A.  
Management Consultant**

**Andrew J.A. Page  
Auditing Department**