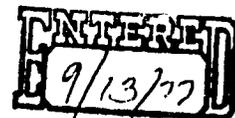


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PROJECT EVALUATION SUMMARY
(Submit to MO/PAV after each project evaluation.)

Final

1. <u>Mission or AID/W Office Name</u> Development Resources Division (Bolivia)			2. <u>Project Number</u> 511-L-043		
3. <u>Project Title</u> Industrial Refinancing Fund (FRI)					
4. <u>Key project dates (fiscal years)</u>				5. <u>Total U.S. funding-life of project</u>	
a. <u>Project Agreement Signed</u> 9/15/72		b. <u>Final Obligation</u> 8/31/75		c. <u>Final input delivered</u> 2/29/76	
6. <u>Evaluation number as listed in Evaluation Schedule</u> 77-2		7. <u>Period covered by this evaluation</u> From: Nov. 73 To: May 77 Month/Year Month/Year		8. <u>Date of this Evaluation Review</u> 6 / 24 / 77 Month/ Day / Year	
9. <u>Action Decision Reached at Evaluation Review including items needing further study</u>			10. <u>Officer or Unit Responsible for follow-up</u>		11. <u>Action by end Date to be completed</u>
a) The Banco Central (BC) should review the project feasibility only upon request by an ICI or for initial subloan applications submitted by a newly participating credit institution. Other than this the BC should be more concerned with the "eligibility" of this project within the rules and regulations of the A.I.D. loan documents and the BC's directives. It is also recommended that the Banco Central grant approval authority up to a specific limit to its Regional Technical Offices for FRI projects.			USAID/DR		B: - 12/31/77
b) The documentation and other requirements of the FRI program should be closely examined and unnecessary documents should be eliminated. The remaining requirements should be widely publicized by the BC so that intermediate credit institutions (ICIs) and prospective sub-borrowers will be familiar with					
12. Signatures:					
Signature				Signature Mission or AID/W Office Director	
Project Officer					
Typed Name		Ernesto Garcia		Typed Name Frank B. Kimball	
Date		8/12/77		Date 8/18/77	

9. Action Decisions Reached at Evaluation Review including items needing further study	10. Officer of Unit Responsible for follow-up	11. Action by and Date to be completed
the exact requirements for loan refinancing requests.	USAID/DR	BC/USAID - 9/30/77
c) The BC and USAID should consider ways to increase FRI promotion and to implement a new promotional campaign as soon as possible	USAID/DR	BC/USAID - 9/30/77
c) An investigation of FRI loans made in Cochabamba should be undertaken to see if ICIs there have in fact made their required contribution.	USAID/DR	BC - 8/31/77
e) The BC should make at least one inspection visit a year to the on-going FRI sub-projects.	USAID/DR	BC - ongoing
f) The BC should encourage ICIs to be more flexible in their collateral requirements and to reduce them wherever possible without overlocking the security of the sub-loan.	USAID/DR	BC - on going
g) The BC and USAID should take the necessary steps to induce ICIs that do not have technical staffs to review and evaluate feasibility studies to arrange for assistance that could be paid for by the ICIs in the different cities.	USAID/DR	BC/USAID - 12/31/77
h) The BC should ensure that the FRI is maintained as a permanent revolving fund.	USAID/DR	BC - ongoing

E V A L U A T I O N R E P O R T

Loan 511-L-043 - Industrial Refinancing Fund (FRI)

The \$8,000,000 FRI project (\$7,000,000 A.I.D. loan and \$1,000,000 GOB contribution) was to facilitate the creation, expansion and modernization of private production enterprises in Bolivia. The loan was fully disbursed on February 29, 1976.

Since the beginning of the implementation of the loan in January, 1973, the FRI has refinanced loans to Bolivian private enterprises totalling \$11,598,850. Of the 195 loans approved to date, 97 have been to finance the expansion of existing industries, 37 for modernizing enterprises and 61 for the creation of industries.

The purpose of the loan was to stimulate an increase in private industrial investment. As a measure of attainment of project purpose, following tables present the amount of loans refinanced by the FRI fund, by ICI and by distribution by departments:

	N° of Loans	(\$000) Total Dis- bursed to 4/30/77	(\$000) Total Committed to 4/30/77	Per Cent
Banco del Estado	57	3,565	3,851	33.2
First National City Bank	2	560	560	4.8
Bank of America	5	471	471	4.0
Banco Hipotecario Nacional	24	807	1,135	9.8
Banco Boliviano Americano	6	63	63	.5
Banco Industrial	20	1,351	1,451	12.5
Banco Mercantil	18	81	781	6.7
Banco Nacional	17	377	384	3.3
Banco Popular del Perú	10	756	894	7.7
Banco Potosí	2	152	152	1.3
Banco Santa Cruz de la Sierra	17	516	616	5.3
Banco de Crédito Oruro	9	594	594	5.1
Banco de Financiamiento Industrial	1	33	33	.3
Banco La Paz	1	13	13	.1
Banco de Cochabamba	4	376	527	4.5
Banco Industrial Comercial Beni	2	61	74	.6
T o t a l	195	10,476	11,599	100.0

<u>Department</u>	<u>N° of loans</u>	<u>(\$000) Total Dis- bursed to 4/30/77</u>	<u>(\$000) Total Committed to 4/30/77</u>	<u>Per Cent</u>
La Paz	57	5,091	5,744	49.5
Cochabamba	48	2,596	2,924	25.2
Santa Cruz	47	2,076	2,176	18.8
Chuquisaca	19	365	372	3.2
Tarija	4	17	17	.1
Potosí	4	162	162	1.4
Oruro	5	64	64	.6
Beni	11	105	140	1.2
T o t a l	195	10,476	11,599	100.0

Of 19 ICI's (not counting branches) which could participate in the FRI program, 3 have not participated and the participation of others has been limited due to the following reasons:

- 1) Foreign banks have their own funds for development loans and prefer to use them (The 3 non participating banks)
- 2) Some banks lack technical personnel to review and evaluate subloan feasibility studies, thus limiting their participation in the FRI program. The Banco del Estado and Banco Industrial have developed the institutional capability to review and evaluate industrial credit proposals. Other banks have an economist on their staffs to perform the evaluation but most of the banks face the problem of lack of technical staff.

Evaluation Methodology

During the period of April 18-29, 1977, visits were made to Tarija, Potosí, Cochabamba and Santa Cruz to conduct an evaluation of the FRI program. As part of this evaluation, interviews were held with the managers and other personnel of private and public banks and FRI-financed industries in these cities in order to discuss their experience with the FRI program and obtain suggestions for improving the operation of the program. Similar interviews were held with bank and industry managers in La Paz during the week of May 9-13. In addition, detailed discussions were undertaken with the managers and staffs of the Central

Bank Regional Technical Offices (OTRs) in Tarija, Potosí, and Santa Cruz and The Central Bank agency in Cochabamba. A total of 37 bank offices were visited - 5 in Potosí, 6 in Tarija and Santa Cruz, 9 in Cochabamba and 11 in La Paz. These included all of the national bank agencies in Tarija, Potosí and Cochabamba, and most of the national banks in Santa Cruz and La Paz. The Banco Popular del Perú was also visited in La Paz and Santa Cruz, as was the First National City Bank in La Paz. Because participation in FRI has been limited in Tarija and Potosí, discussions with banks there generally dealt with reasons for their limited involvement and future prospects for use of FRI resources in these areas.

Twenty-two industries of different activities were visited in the same cities. The twenty-two industries consisted of 5 food producers, 2 tanneries, 1 pharmaceutical firm, 4 building materials producers, 1 wood processor, 2 plastic products manufacturers, 5 metal mechanics shops, 1 stocking and socks factory, and 1 producer of batteries for vehicles. 72% of the visited industries have received loans for enlargement and modernization and 28% for the establishment of new offices. The average increase in production of the enlarged and modernized industries is 118%. 36% of these industries use national raw materials, 21% imported and 43% mixed. 84% used loan funds for investment capital and 16% for working capital. 68% of the industries visited require additional capital to enlarge their activities. One industry was visited in Tarija, 3 in Potosí, 6 in Cochabamba, 6 in Santa Cruz and 6 in La Paz.

Observations and Recommendations

The following observations and recommendations emerged from the discussions with the banking and industry community:

1) Loan Approval Process

Discussion: Almost every bank outside of La Paz that had participated in FRI had major complaints about the delay in loan approval by the Central

Bank. The BC regional offices have no approval authority for FRI projects; therefore all refinancing request must be sent to the División de Desarrollo in La Paz for approval. Nevertheless, OTR personnel usually evaluate the projects before sending them on to La Paz with their recommendations. According to the banks interviewed and to the OTR staffs, the BC in La Paz again evaluates the project, for a total of three evaluations per project (the first one being that of the lending bank). This process takes a minimum of one month, usually longer, and is a substantial disincentive for possible borrowers and lenders. The situation is somewhat better in La Paz, where lenders send refinancing requests directly to the División de Desarrollo. The process still frequently takes one month, however. Unfortunately, this is not a new observation. The evaluation of the FRI program undertaken in late 1973 pointed out the same delays. Apparently, little has been done to resolve this problem in the intervening 3 1/2 years, despite BC regulations stating that it should only review loan applications for eligibility in the program and that this process should take a maximum of 5 work days.

Recommendations: Repeating the recommendation of the earlier FRI evaluation, it is recommended that the BC review project feasibility only upon the request of an ICI or for initial subloan applications submitted by a newly-participating credit institution. Other than this, the BC should be more concerned with "eligibility" of the loan within the rules and regulations of the A.I.D. documents and its own directives.

In addition, it is recommended that the BC consider giving loan approval authority to its regional offices for the FRI program -- as well as other refinancing programs in addition to FRA-2 -- up to a specified level. As evidenced by the experience on FRA-2, this greatly speeds the process of BC loan approval and facilitates the implementation of the program. We believe the regional offices are capable of assuming this responsibility, and

recommend that the BC consider adding industrial engineers to its offices in Cochabamba and Santa Cruz to assist in this effort.

2) Procedures

Discussion: A substantial amount of the delays in the approval process are due to lender and borrower non-conformance with the documentation requirements of the program. In several of the banks visited there is an apparent lack of familiarity with these requirements and a belief that these requirements are excessive and beyond those needed by the lending institution to make its credit decisions. Also the prospective borrower does not receive the appropriate information.

Recommendation: The evaluation team recommends that the documentation and other requirements of the FRI program be closely examined and that unnecessary documents or requirements be eliminated. Further, it is recommended that the remaining requirements be widely publicized by the BC so that ICIs and potential borrowers will be familiar with the exact requirements for loan refinancing requests.

3) Program Promotion

Discussion: In the early implementation period of the project, substantial promotion was undertaken by the BC. However, promotion of the FRI is presently at a very low level, with the result that the FRI program is largely forgotten and available funds are unused.

Recommendation: It is recommended that the BC and USAID consider ways to increase FRI promotion and to implement a new promotional campaign as soon as possible. Consideration should be given to encouraging and facilitating FRI promotion through individual banks as well as through the BC.

4) ICI Participation

Discussion: A total of 16 banks, out of a possible 19 have participated in the FRI to date. Most banks interviewed have had good experience with the program, have few delinquency problems, and are interested in continuing their participation. The banks in most cases are making their required contributions to the loans made. In all cases, however, they charge the standard 15% interest rate on their contribution rather than the 12% rate applied to the refinanced portion. In addition, it appears that at least some banks in Cochabamba have not made their contributions as required.

Recommendation: It is recommended that an investigation of FRI loans be made in Cochabamba to determine whether ICIs there have in fact not made their required contributions. If this is true, the EC should take appropriate remedial action and insure that this practice is not continued.

5) Inspections

Discussion: 99% of the industries visited have been inspected by the EC and the ICIs, but in La Paz the last visit of the EC personnel took place in January 1976.

Recommendation: The evaluation team recommends that (especially in La Paz) the EC make an inspection visit to each on-going project at least once a year.

6) Collateral

Discussions: Most of the industries visited complained of the exaggerated collateral requirements of the ICIs. Most of the cases are related to mortgage collateral and some to mortgage and personal guaranties. The ratio of collateral to the loan amount is generally 4:1, although in some cases where combined mortgages and personal guaranties were used, requirements reached 10 to 1.

Recommendation: The BC should encourage the ICIs to be more flexible in their collateral requirements and to reduce them to a reasonable ratio wherever possible, without overlooking the security of the sub-loans.

7) Technical Staff

Discussion: The Banco del Estado and the Banco Industrial have developed the technical staff to review and evaluate credit proposals. Other banks have insufficient personnel and the rest do not have personnel capable of reviewing and evaluating feasibility studies.

Recommendation: The evaluation team recommends that the BC and USAID make the necessary efforts to induce the ICIs to organize in the capital city of each Department a small technical unit, (1 economist and 1 industrial engineer) the cost of which could be paid by the regional ICIs.

8) Maintenance of the Fund

Discussion: An ambiguity of the Supreme Decree that establishes the FRI has been interpreted to mean that the FRI has to pay the principal of the A.I.D. loan.

Recommendation: Since the original Project concept was that the FRI should be established as a permanent fund (same as the FRA), the evaluation team recommends that the BC takes the necessary steps to try to maintain the FRI as a permanent rotating fund.

EVALUATION CONCLUSIONS

Since the loan was fully disbursed on February 1976, this will be the final loan evaluation. The evaluation team has concluded that the FRI project has been successful and has attained its objectives and purpose. The results of the visits to the previously mentioned cities indicate that the loans to the private industries reflect increases in production capacity, the establishment of new industries, improvement and enlargement of existing

industries, increases in aggregate value, substitution of imports, and savings of foreign currency (divisas), as well as contributing to the growing climate of confidence in private sector development in Bolivia.

The evaluation committee was composed of: one representative of the Banco Central, Mr. Alex Zagarra; two staff members from the USAID Development Resources Office, Messrs. Scott E. Smith and Ernesto Garcia; and one staff member of the Controller's Office, Mr. Fernando Torres.