

**A.I.D. EVALUATION SUMMARY - PART I** PD-ABG-399  
83326

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-015/93</u> )	<b>B. Was Evaluation Scheduled In Current FY Annual Evaluation Plan?</b> Yes <input checked="" 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	Strengthening Financial Markets (SFM)  - Securities Exchange Component	1988	12/96*	\$6,200	\$6,200
* PACD was extended to 12/96 to primarily accommodate PROCAF; activities under the Securities Exchange Component ended October 1992.					

**ACTIONS**

<b>E. Action Decisions Approved By Mission or AID/W Office Director</b> Action(s) Required  Recommend that the following actions be taken by the Government of Bolivia (GOB), to further develop the securities exchange system in Bolivia and as an additional means to implement its monetary policy:  - To develop and expand the role of the securities market and specifically of the CNV, in the policy formulation process for the financial sector as a whole.  - To enact the Securities Market Law.  - To adequately fund the CNV to effectively carry out its supervisory functions.  - To update and review the present regulatory framework of the securities market as new developments take place.	Name of Officer Responsible for Action  R. Rosenberg	Date Action to be Completed  July 1993
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(Attach extra sheet if necessary)

**APPROVALS**

**F. Date Of Mission Or AID/W Office Review Of Evaluation:** (Month) JUNE (Day) 21 (Year) 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				
Date	6/24/93		6/25/93	6/25/93

**ABSTRACT**

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

The primary objectives of the securities market component of the SFM project, which was implemented by Nathan Associates, Inc., as institutional contractor, were to establish a functioning market for stocks and bonds, and to increase investment in these and other financial instruments. The purpose of this final evaluation is to measure the progress of the Bolivian Securities Exchange (Bolsa Boliviana de Valores, or BBV) and the National Securities Commission (Comisión Nacional de Valores, or CNV) toward the achievement of project objectives under the Strengthening Financial Markets Project (SFM). The main areas addressed by this evaluation include: progress toward achievement of End-of-Project Status (EOPS) indicators; effectiveness of the technical assistance provided in strengthening the securities exchange institutions; continuing constraints to securities market development; and principal recommendations and lessons learned. Field research for this evaluation was conducted in La Paz, Bolivia, March 9 to 19. The methodology consisted of a series of interviews with key securities market participants, and in a review of primary and secondary documents related to the project and securities market development.

The EOPS indicators for the securities market component were met and exceeded.

- Establishment of a fully operational stock exchange and regulatory commission;
- total amount traded of US\$1.16 billion during the LOP;
- development of seven capital market instruments;
- successful placement of US\$29 million in private sector debt issues;
- creation of seventeen active brokerage houses; and
- completion of a draft Securities Market Law for consideration by the GOB.

Constraints to the development of securities markets in Bolivia include:

- lack of a securities market law;
- high dependence on a single financial instrument (Central Bank certificates of deposits);
- reluctance on the part of most Bolivian companies to disclose financial data or produce financial statements adequate for issuing securities;
- weaknesses in the level of technical proficiency of key securities market actors (e.g., the financial skills of brokers);
- limited awareness and understanding of the role of securities markets on the part of issuers and investors.

The principal lessons learned include:

- Early and sustained attention needs to be devoted to the development and enactment of a securities market law;
- Priority attention needs to be devoted to training personnel in securities market operations;
- In an embryonic securities market environment, attention should concentrate on creating debt instruments for trading, with equities deferred until the market is firmly established;
- The involvement of commercial banks in the securities market -how, under what conditions, and to what extent- should be addressed early in the development of a securities market project.

**C O S T S**

**I. Evaluation Costs**

1. Evaluation Team		Contract Number Off TDY Person Days	Contract Cost OR TDY Cost (U.S. \$)	Source of Funds
Name	Affiliation			
Robert D. Bond	AG International Consulting Corporation	511-0598-0-00- 3068	11,284.74	511-0598
2. Mission/Office Professional Staff Person-Days (Estimate) <u>3</u>		3. Borrower/Grantee Professional Staff Person-Days (Estimate) _____		

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

SUMMARY				
<p><b>J. Summary of Evaluation Findings, Conclusions and Recommendations (Try not to exceed the three (3) pages provided)</b>  <b>Address the following items:</b></p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%; border: none;"> <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> </td> <td style="width: 50%; border: none;"> <ul style="list-style-type: none"> <li>• Principal recommendations</li> <li>• Lessons learned</li> </ul> </td> </tr> </table>			<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>
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<p><b>Mission or Office:</b> USAID/Bolivia</p>	<p><b>Date This Summary Prepared:</b> 06/08/93</p>	<p><b>Title And Date of Full Evaluation Report:</b> Progress of the BBV and CNV toward Achievement of the Objectives of SFM Project 4/12/93</p>		
<p>The purpose of this report is to present the findings of an evaluation of the securities market component of USAID/Bolivia's Strengthening Financial Markets (SFM) Project (Project No. 511-0598). The overall goal of the SFM Project was to strengthen the Bolivian private sector as a means to foster economic reactivation, with special emphasis on improving the performance of the private financial sector. The securities market component of the project focused on establishing a functioning securities exchange through technical assistance to the Bolivian Stock Exchange, the National Securities Commission, brokerage houses, and private companies seeking to sell securities via the exchange. The institutional contractor for project implementation was Nathan Associates, which provided services from July, 1989 through November, 1992. The main areas addressed by this evaluation include: progress toward achievement of End-of-Project Status (EOPS) indicators effectiveness of the technical assistance provided in strengthening the securities exchange institutions; continuing constraints to securities market development; and principal recommendations and lessons learned.</p> <p>Field research for this evaluation was conducted in La Paz, Bolivia during the March 9-19 period. The methodology consisted of a series of interviews with key securities market participants, and a review of primary and secondary documents related to the project and securities market development. Approximately 20 interviews were conducted with the directors of the CNV and the BBV, securities brokers, finance officers of private companies listing securities, government officials, representatives of Nathan Associates, and AID and World Bank Officials. Approximately 25 documents (institutional contractor reports, AID documents and evaluations, CNV and BBV source Materials) were reviewed.</p> <p>The original objective of the securities market component was to establish a functioning securities exchange, and to trade a limited number of new financial instruments. Given the fact that Bolivia's securities exchange institutions were legally authorized but dormant organizations, and that formidable obstacles existed to their activation, getting them up and running was viewed as a significant achievement. Accordingly, EOPS were established for the Bolsa Boliviana de Valores (BBV) and the Comisión Nacional de Valores (CNV) which emphasized: the establishment, functioning and training of personnel of these two institutions; the trading of at least five capital market instruments on the exchange; the establishment and training of the personnel of at least eight brokerages; assistance to at least 10 companies in issuing securities for sale on the exchange; and the drafting of a set of regulations to govern securities exchange transactions.</p> <p>The EOPS indicators for the securities market component were met and exceeded. Indeed, it is clear that a fully operational securities exchange system would not exist in Bolivia today if it were not for the support provided by USAID/Bolivia and the effective technical assistance supplied by Nathan Associates. The following achievements of the project should be emphasized: establishment of a fully operational stock exchange and regulatory commission; a total amount traded of US\$1.16 billion during the LOP; the development of seven capital market instruments, and the successful placement of US\$29 million in private sector debt issues; the creation of seventeen active brokerage houses; and the completion of a draft Securities Market Law for consideration by the GOB. Clearly, this component of the SFM project succeeded in putting in place a securities exchange infrastructure, developing new financial instruments for trading, and providing a potential new outlet for mobilizing and channelling savings and investment. This development of a securities exchange could be very important for reform and modernization of Bolivia's financial markets, and it could become very significant should the GOB press forward with pension reform.</p> <p>While this project component was a solid success, it should be recognized that the securities exchange and capital markets in Bolivia are still at a fledgling stage of development. Constraints to the development of securities markets in Bolivia include:</p>				

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- lack of a securities market law to establish a consolidated framework, and weak government support to spur market development (e.g., fiscal and tax incentives, issuance of Treasury notes);
- high dependence on a single financial instrument (Central Bank certificate of deposits) to maintain trading volume, and limited potential for the expansion of private sector debt offerings or the development of new instruments, such as equities;
- heavy involvement on the securities exchange by commercial banks, which appear to be at best lukewarm towards an institution which injects new competition into their control of the financial markets;
- reluctance on the part of most Bolivian companies to disclose financial data or produce financial statements adequate for issuing securities;
- continuing weaknesses in the level of technical proficiency of key securities market actors (e.g., the financial skills of brokers); and
- limited awareness and understanding of the role of securities markets on the part of issuers and investors.

Both the BBV and the CNV need to focus on a few priority areas to continue to develop the securities market and its role in the financial system. The recommended priority items include:

1. Maintain and expand the trading volume on the exchange in order to provide a secure revenue base for the BBV and the brokerage houses. Possible activities to expand volume include: increasing the flow of GOB debt issuances, and expand these to Treasury obligations of various maturities; develop with the commercial banks a program to issue asset-backed securities; redouble efforts to bring private sector debt offerings to market; and develop with international donors a program of security issuances with a partial guarantee of interest, principal, or liquidity.
2. Expand the role of the CNV, both in terms of its leadership among the securities market participants and within GOB financial policymaking circles. The CNV must receive greater attention by the GOB, especially in terms of leadership continuity, budget, staffing, and participation in policymaking. The development of securities markets has gained momentum as a result of USAID/Bolivia's project intervention, but support from the GOB has been lacking and there is a danger that securities market development could stall in the absence of vigorous leadership.
3. Continue to support efforts to enact the Securities Market Law. The experience of other developing countries suggests that a strong securities market law is critical to the development of the market because it defines roles, responsibilities sanctions, and instills confidence in the integrity of market participants. In the case of Bolivia, the current legal framework is inadequate, with existing "rules" dispersed among various juridical codes and orders.
4. Continue to monitor the participation of the commercial banks in the securities market. While the essential functions of capital markets can be performed by a wide variety of different types of financial institutions (e.g., in Germany and Japan, banks play the major role), in the case of Bolivia the position of the banks in the financial system merits concern. For example, it is widely believed that bank-affiliated brokerages enjoy significant competitive advantages and may engage in predatory practices, thereby thwarting the growth of independent brokerages and innovations in the financial system.
5. Continue efforts to increase awareness of securities markets among investors, potential issuers, government officials, and the public at large. A modest program to assist the Bolivian Securities Brokers Association, both in terms of public relations and training of brokers, might be considered.
6. Be prepared to support World Bank efforts to strengthen the securities market, as part of a proposed overhaul and privatization of the GOB's pension system. This development potentially could expand significantly the scope of the Bolivian capital markets by adding pension funds to the list of participants, and result in a substantial increase in demand for financial assets and the amount traded on the stock exchange.

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**S U M M A R Y (Continued)**

**The principal lessons learned from the securities market component include:**

- **Early and sustained attention needs to be devoted to the development and enactment of a securities market law. This is vital to establish a legal and regulatory framework for securities market activities, ensure transparency, and underline government support for the capital markets function.**
- **Priority attention needs to be devoted to training personnel in securities market operations, particularly brokers in financial analysis and preparation of prospectuses. This is critical to the long-term impact of the project.**
- **In an embryonic securities market environment, attention should concentrate on creating debt instruments for trading, with equities deferred until the market is firmly established. Attempts to involve a fledgling securities market in privatization transactions should be avoided.**
- **The issue of the involvement of commercial banks in the securities market -how, under what conditions, and to what extent- should be addressed early in the development of a securities market project.**

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 Mr. Bond, and consider that the evaluation is good.

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83327



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Washington, D.C. 20006, U.S.A.

**FINAL EVALUATION**

**Progress of the Bolsa Boliviana de Valores and the  
Comisión Nacional de Valores toward Achievement  
of the Objectives of USAID/Bolivia's  
Strengthening Financial Markets Project**

**Project Nº 511-0598**

**Prepared for:**

**USAID/Bolivia**

**Prepared by:**

**AG International Consulting Corporation**  
Washington, D.C.  
April 12, 1993

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**International Consulting Corporation**  
910 Seventeenth Street, N.W., Suite 200  
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## EXECUTIVE SUMMARY

The purpose of this report is to present an evaluation of the securities market component of USAID/Bolivia's Strengthening Financial Markets (SFM) Project (Project N° 511-0598). The overall goal of the SFM Project was to strengthen the Bolivian private sector as a means to foster economic reactivation, with special emphasis on improving the performance of the private financial sector. The securities market component of the project focused on establishing a functioning securities exchange through technical assistance to the Bolivian Stock Exchange, the National Securities Commission, brokerage houses, and private companies seeking to sell securities via the exchange. The institutional contractor for project implementation was Nathan Associates, which provided services from July, 1989 through November, 1992. The main areas addressed by this evaluation include: progress toward achievement of End-of-Project Status (EOPS) indicators; effectiveness of the technical assistance provided in strengthening the securities exchange institutions; continuing constraints to securities market development; and principal recommendations and lessons learned. Field research for this evaluation was conducted in La Paz, Bolivia during the March 9-19 period. The methodology consisted of a series of interviews with key securities market participants, and a review of primary and secondary documents related to the project and securities market development.

The original objective of the securities market component was to establish a functioning securities exchange, and to trade a limited number of new financial instruments. Given the fact that Bolivia's securities exchange institutions were legally authorized but dormant organizations, and that formidable obstacles existed to their activation, getting them up and running was viewed as a significant achievement. Accordingly, EOPS were established for the *Bolsa Boliviano de Valores* (BBV) and the *Comisión Nacional de Valores* (CNV) which emphasized: a) the establishment, functioning and training of personnel of these two institutions; b) the trading of at least five capital market instruments on the exchange; c) the establishment and training of the personnel of at least eight brokerages; d) assistance to at least 10 companies in issuing securities for sale on the exchange; and e) the drafting of a set of regulations to govern securities exchange transactions.

The EOPS indicators for the securities market component were met and exceeded. Indeed, it is clear that a fully operational securities exchange system would not exist in Bolivia today if it were not for the support provided by USAID/Bolivia and the effective technical assistance supplied by Nathan Associates. The following achievements of the project should be emphasized: establishment of a fully operational stock exchange and regulatory commission; a total amount traded of US\$1.16 billion during the life-of-project; the development of seven capital market instruments, and the successful placement of US\$29 million in private sector debt issues; the creation of seventeen active brokerage houses; and the completion of a draft Securities Market Law for consideration by the Government of Bolivia (GOB). Clearly, this component of the SFM project succeeded in putting in place a securities exchange infrastructure, developing new financial instruments for trading, and providing a potential new outlet for mobilizing and channeling savings and investment. This development of a securities exchange could be very

important for reform and modernization of Bolivia's financial markets, and it could become very significant should the GOB press forward with pension reform.

While this project component was a solid success, it should be recognized that the securities exchange and markets in Bolivia are still at a fledgling stage of development. Constraints to the development of securities markets in Bolivia include:

- lack of a securities market law to establish a consolidated framework, and weak government support to spur market development ( e.g., fiscal and tax incentives, issuance of Treasury notes);
- high dependence on a single financial instrument (Central Bank certificate of deposits) to maintain trading volume, and limited potential for the expansion of private sector debt offerings or the development of new instruments, such as equities;
- significant participation in the securities exchange by commercial banks, although they are, at best, lukewarm towards promoting the development of the securities markets;
- reluctance on the part of most Bolivian companies to disclose financial data or produce financial statements adequate for issuing securities;
- continuing weaknesses in the level of technical proficiency of key securities market actors (e.g., the financial skills of brokers); and
- limited awareness and understanding of the role of securities markets on the part of issuers and investors.

Both the BBV and the CNV need to focus on a few priority areas to continue to develop the securities market and its role in the financial system. The recommended priority items include:

1. Maintain and expand the trading volume on the exchange in order to provide a secure revenue base for the BBV and the brokerage houses. Possible activities to expand volume include: increasing the flow of GOB debt issuances, and expand these to Treasury obligations of various maturities; develop with the commercial banks a program to issue asset-backed securities; redouble efforts to bring private sector debt offerings to market; and develop with international donors a program of security issuances with a partial guarantee of interest, principal, or liquidity.

2. Expand the role of the CNV, both in terms of its leadership among the securities market participants and within GOB financial policymaking circles. The CNV must receive greater attention by the GOB, especially in terms of leadership continuity, budget, staffing, and

participation in policymaking. The development of securities markets has gained momentum as a result of USAID/Bolivia's project intervention, but support from the GOB has been lacking and there is a danger that securities market development could stall in the absence of vigorous leadership.

3. Continue to support efforts to enact the Securities Market Law. The experience of other developing countries suggests that a strong securities market law is critical to the development of the market because it defines roles, responsibilities, sanctions, and instills confidence in the integrity of market participants. In the case of Bolivia, the current legal framework is inadequate, with existing "rules" dispersed among various juridical codes and orders.

4. Continue to monitor the participation of the commercial banks in the securities market. While the essential functions of capital markets can be performed by a wide variety of different types of financial institutions (e.g., in Germany and Japan, banks play the major role), in the case of Bolivia the position of the banks in the financial system merits concern. For example, it is widely believed that bank-affiliated brokerages enjoy significant competitive advantages and may engage in predatory practices, thereby thwarting the growth of independent brokerages and innovations in the financial system.

5. Continue efforts to increase awareness of securities markets among investors, potential issuers, government officials, and the public at large. A modest program to assist the Bolivian Securities Brokers Association, both in terms of public relations and training of brokers, might be considered.

6. Be prepared to support World Bank efforts to strengthen the securities market, as part of a proposed overhaul and privatization of the GOB's pension system. This development potentially could expand significantly the scope of the Bolivian capital markets by adding pension funds to the list of participants, and result in a substantial increase in demand for financial assets and the amount traded on the stock exchange.

This project component succeeded admirably within the objectives originally established, and within the context of the Bolivian business and financial environment. An embryonic securities market has been created and is operational, and has the potential for future growth provided it can overcome certain constraints. The technical assistance provided by Nathan Associates contributed importantly to this outcome.

## **I. INTRODUCTION**

The purpose of this Final Evaluation Report is to measure the progress of the Bolivian Securities Exchange (*Bolsa Boliviana de Valores*, or BBV) and the National Securities Commission (*Comisión Nacional de Valores*, or CNV) toward the achievement of project objectives under USAID/Bolivia's Strengthening Financial Markets (SFM) Project. The goal of the SFM project was to strengthen the Bolivian private sector as a means to foster economic reactivation, with special emphasis on improving the performance of the private financial sector. In the securities market area, the SFM project (which was implemented by Nathan Associates, Inc. from July 1989 through November 1992) focused its attention on establishing a functioning market for stocks and bonds, and on increasing investment in these and other financial instruments.

The Bolivian securities market, which consists of the CNV, the BBV, and brokerage firms and certified brokers, is now functioning. Although the CNV and the BBV were legally created in 1979, neither was functioning at the outset of the project in July 1989, and it is clear that neither could have initiated operations in November 1989 without the support of USAID/Bolivia and the technical assistance provided by Nathan Associates. In addition to providing technical assistance and training to the CNV and the BBV, the securities market component called for assistance in developing new capital market instruments, in training brokers, and in assisting private companies to sell securities via the securities market.

Nathan Associates adopted a technical assistance strategy for the start-up of the securities exchange system which emphasized the following:

- Identification of organizations interested in and willing to establish brokerage operations. This led to a heavy participation of commercial banks in brokerage operations, primarily through bank investment departments rather than through independent subsidiaries.
- Identification of financial instruments with immediate market potential. The basic assumption was that a financial instrument was needed which (1) would have immediate credibility among potential investors and, (2) could be issued on a large scale. This led to the development of Negotiable Certificates of Deposit of the Central Bank, which have dominated the BBV (i.e., accounting for over 97 percent of all transactions) but have not generated commissions/revenues to support BBV operations.
- Development of the basic regulatory framework and system of the CNV and the BBV, including trading procedures.
- Provision of basic training to all participants in the securities exchange system.
- Implementation of a promotion and information dissemination program aimed at

stimulating interest in using the BBV by both private companies and the investing public.

Toward the end of the project, Nathan Associates turned its attention to equities, and specifically the privatization of state-owned enterprises via the BBV.

The main purposes of this consultancy, as indicated in the attached scope-of-work in Annex 1, was to evaluate the performance of the BBV and the CNV from project inception to the completion date on November 30, 1992.

The specific issues to be evaluated include:

- Progress of the BBV and the CNV towards completing the EOPS indicators.
- Effectiveness of the technical assistance provided by Nathan Associates in developing and strengthening the BBV and the CNV.
- Assessment of the legal and regulatory constraints to the further development of Bolivia's capital markets, including the role of the CNV vis-a-vis the Superintendency of Banks.
- Evaluation of the control of the commercial banks over the securities markets, and implications of this apparent lack of competition for the financial system.
- Assessment of additional technical and training needs by the BBV, CNV, and brokerage firms.
- Recommendations for strengthening the BBV and the CNV.

Field research for this Final Evaluation was conducted in La Paz, Bolivia from March 9th to March 19th, 1993. The methodology employed consisted of a review of relevant project documents and a series of interviews with the BBV, CNV, USAID, and selected banks, brokerage firms, and private companies. The lists of documents reviewed and individuals interviewed are found in Annex 2.

## **II. ASSESSMENT OF BOLSA BOLIVIANA DE VALORES**

In thinking about securities markets and securities exchanges, one must think of functions. In developing countries, securities exchanges are often misconstrued, cherished more for their symbolic value than their direct role in capital formation. Securities markets as a whole (e.g., investment banks, mutual funds, venture capitalists, initial public offerings, commercial paper issuance, and capital pools such as pension funds) raise and allocate funds and generate assets. Securities exchanges, narrowly defined, trade existing assets and provide a liquid forum for an investor to sell a security, and thus be more willing to buy one. In evaluating the BBV, it should be noted that it is being considered as part of the larger role securities markets play in raising funds and forming capital for economic development.

Securities markets are important to economic growth and development because they perform the following functions:

- Increase internal savings
- Attract investment capital
- Channel internal savings to productive investments efficiently.

In the case of Bolivia, two other functions should be noted: (1) an efficient securities exchange could provide much-needed competition to the commercial banks; and (2) effective use of securities markets by the government could provide an additional tool to manage monetary policy. The successful development of securities markets in Bolivia could help to transform the financial sector into a more modern system capable of actually mobilizing and allocating resources in the amounts and with the efficiency to reactivate the economy. The development of more competitive financial markets in Bolivia is essential to structural transformation of the economy, and it is important that securities market development should become an integral part of financial sector policy-making.

### **A. Progress Towards Achieving End-of-Project Status**

The original purpose of the securities markets component of the SFM project was modest. Given the fact that the BEV and the CNV were legally authorized but dormant institutions, and that no formal mechanisms existed to trade debt and equity instruments in Bolivia, the purpose of this activity was to assist with the start-up of both institutions and to develop financial instruments to mobilize domestic



savings<sup>1</sup>. The existing constraints to the successful establishment of securities markets (e.g., perceived opposition from commercial banks, lack of interest from privately held economic groups, lack of familiarity with securities markets, etc.) were seen as formidable, and just getting a functioning securities market up and running and trading a few financial instruments would be a major accomplishment.

Table 1 provides a summary of the EOPS indicators for the BBV, together with some comments on the results obtained. Without question, the BBV component of the SFM project produced results far in excess of the objectives originally established. The highlights of the BBV component include:

- The successful establishment and functioning of the BBV, including training of key personnel.
- The development of seven capital market instruments for trading, and the successful placement of private sector debt instruments totaling almost US\$29 million.
- A total amount traded of US\$1.16 billion through end 1992.
- The establishment of seventeen active brokerages (11 bank, 6 independent) authorized to operate on the BBV.
- The establishment of a Bolivian Securities Brokers Association (ABAB).
- Training of over 100 individuals in stock market operations.
- The registration of 14 private companies with listed securities on the BBV.
- The BBV achieved almost break-even status in its financial operations in 1992.
- Some Bolivian companies have reduced interest cost on short-term debt via the BBV.
- The creation of three mutual funds, with a combined total of about 200 investors and US\$11 million in funds under management.

The strategy implemented by Nathan Associates (see page 4, above) was critical to the achievement of the EOPS. Several founding participants of the BBV

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<sup>1</sup> See page 28 of the Project Paper Amendment No. 1 for a discussion of the purpose of the securities market component.

Table 1

Bolsa Boliviana de Valores (BBV)  
End-of-Project Status Indicators

Established Indicators	Status / Results	Comments
(1) Bolivian Stock Exchange established and operating	<ul style="list-style-type: none"> <li>· La Paz Securities Exchange inaugurated on November 16, 1989.</li> <li>· Basic set of trading and operational regulations was approved by the CNV and adopted.</li> <li>· Basic listing and registration fees were established by BBV Board and approved by CNA.</li> <li>· Training in Mexico was provided to three BBV staff members.</li> <li>· BBV operating at close to break-even point.</li> </ul>	<ul style="list-style-type: none"> <li>· The BBV could not have begun operations without the active support of USAID/Bolivia, and the technical assistance provided by Martha Galicia of Nathan Associates.</li> <li>· The BBV has only traded debt instruments not equities, and is properly called a securities exchange.</li> <li>· The BBV is operating at a financial equilibrium, primarily due to cost-cutting, and is probably under staffed.</li> </ul>
(2) By the second evaluation, the Bolivian Stock Exchange in conjunction with the CNV will have developed and traded between one and five capital market instruments.	<ul style="list-style-type: none"> <li>· Seven capital markets instruments were developed:</li> <li>1. Negotiable Certificates of Deposit of the Central Bank.</li> <li>2. CENOCREN, a negotiable tax return instrument for exporters.</li> <li>3. Commercial bank mandatory convertible debentures.</li> <li>4. Promissory notes.</li> <li>5. Debentures.</li> <li>6. Commercial Bank Certificates of deposit.</li> <li>7. Participation Certificates.</li> <li>· At year-end 1992, the cumulative amount traded was US\$1.16 billion.</li> </ul>	<ul style="list-style-type: none"> <li>· CDs of the Central Bank have accounted for over 97% of all transactions.</li> <li>· Total transactions have decreased from a high of US\$519 million in 1990, to US\$ 370 million in 1991 and US\$ 236 million in 1992.</li> <li>· An effort to privatize a state-owned enterprise (FAMVPLAN, a flat glass plant) via the BBV failed.</li> </ul>
(3) At least eight brokers will have been trained and authorized to operate on the Bolsa.	<ul style="list-style-type: none"> <li>· 21 representatives of brokerage firms were trained locally and in Mexico.</li> <li>· 17 brokerage firms, banks, and individuals are currently active on the Bolsa.</li> <li>· Over 100 individuals received training from Nathan Associates in securities markets operations.</li> <li>· Bolivian Securities Brokers Association (ABAB) was organized to promote market development and regulate activity.</li> <li>· Involvement of women in the stock exchange was promoted and achieved.</li> </ul>	<ul style="list-style-type: none"> <li>· 11 of the 17 brokers are commercial banks, and operate as departments rather than as subsidiaries or independent profit centers.</li> <li>· The ABAB is a new organization and is not playing a vigorous role in promoting use of the BBV.</li> </ul>
(4) At least 10 companies will have been assessed and authorized to sell security instruments through the Bolsa.	<ul style="list-style-type: none"> <li>· At year-end 1992, 14 private companies (6 commercial banks and 8 others) were registered with listed securities.</li> <li>· The total amount placed was US\$29.75 million, of a total amount issued of US\$35.88 million.</li> </ul>	<ul style="list-style-type: none"> <li>· It appears that the convertible bond issues of the commercial banks were placed almost exclusively with existing shareholders.</li> <li>· Private companies have reduced interest costs by about 2 percentage points (14% on the BBV versus 16% at commercial banks for short term financing).</li> </ul>

identify Martha Galicia of Nathan Associates as a catalyst in developing the institutional framework and trading procedures of the BBV, and in identifying and developing the Certificate of Deposit of the Central Bank as a negotiable instrument capable of providing impetus to the securities market. Likewise, Nathan Associates was instrumental in inviting the commercial banks to organize brokerages and participate on the BBV. The relatively short time horizon of the project (3½ years) and the magnitude of the challenge resulted in Nathan Associates implementing a project aimed at starting-up a securities exchange in the most efficacious way possible.

Although the BBV component of the securities market activity is clearly a success when measured by the EOPS, (i.e., successful start-up and trading, training) several caveats need to be mentioned. First, as documented in Table 2, the market is highly dependent on a single financial instrument (certificates of deposit of the Central Bank), and the amount traded has dropped significantly over the past two years. In 1990, Central Bank certificates of deposit accounted for US\$519 million, while the corresponding figure for 1992 was US\$218.5 million, a drop of almost 60 percent<sup>2</sup>. Second, while an effort has been made to diversify into private financial debt instruments, in 1992 these instruments (convertible bonds, debentures, promissory notes) totaled less than US\$30 million, and accounted for only 14 percent of the primary market. Third, the institutional framework of the BBV is not yet consolidated (e.g., the market is still waiting for a Securities Market Law to be transmitted from the Ministry of Finance to Congress), and its financial health depends on further development of the market and the active support of the GOB and the Brokers. Fourth, the BBV lacks general acceptance as a serious, transparent, and efficient financial intermediary by some key elements within the business community, the GOB, the commercial banks, and the general public. It is a noteworthy achievement that the BBV has avoided any hint of financial scandal since its inception. Nevertheless, the BBV overstepped its abilities and damaged its image of competence (not to mention its relations with the government), when it attempted unsuccessfully to privatize the state-owned glass plant, the first equity transaction proposed on the market. Fifth, the BBV is understaffed and needs to hire additional staff to carry out routine activities to maintain organizational

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<sup>2</sup> Three reasons are given to explain the drop in trading of Central Bank Certificates of Deposit on the BBV: (a) a reduction by the Central Bank in the amount of negotiable certificates of deposits (CDs) offered; (b) a substantial reduction in the rate of return of Central Bank CDs, especially in comparison to rates of return on time deposits at commercial banks; and (c) an increased pace of devaluation has made savings in local currency less attractive.

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Volume of Transactions - BBV  
November, 1989 - December, 1992  
(Millions of U.S. Dollars)

Table 2

INSTRUMENT	1989		1990		1991		1992		TOTAL	%
	Buy / Sell	%	Buy / Sell	%	Buy / Sell	%	Buy / Sell	%		
Central Bank Certificates of Deposit	29.7	100	517.4	99.86	178.4	97.2	89.3	85.4	814.8	97.5
Short-Term Bonds					0.1	0.05	6.1	5.8	6.2	0.74
Bonds							6.2	5.9	6.2	0.74
Convertible Bank Bonds					5.0	2.74	2.0	1.9	7.0	0.84
CENOCREN			.72	0.14			0.9	0.8	1.6	0.2
Promissory Notes					0.025	0.01	0.2	0.2	0.22	0.03
Sub-Total Buy / Sell	29.7	100	518.1	100	183.6	100	104.6	100	836	100
Secondary Market										
Central Bank Certificates of Deposit			.91	100	187	100	129.2	98.4	317	99.3
Short-Term Bonds							1.2	0.9	1.2	0.4
Bonds							0.94	0.7	0.94	0.3
Sub-Total	29.7		591	100	187	100	131.3	100	319.2	100
TOTAL	29.7		591		370.5		235.9		1,155	
Percentage by year (%)	2.6		45.0		32.0		20.4			

efficiency<sup>3</sup>.

In spite of the above comments, it should be emphasized that this component of the SFM project was an outstanding success when measured by the original EOPS. The contractor — Nathan Associates — successfully implemented a strategy to achieve project objectives, and it is no small accomplishment to have initiated and left behind a functioning securities exchange in the time allotted.

#### **B. Effectiveness of Technical Assistance and Training**

Nathan Associates receives high marks for the technical assistance and training it provided to the BBV. Chief-of-Party, Camilo Arenas, and Long-Term Adviser, Martha Galicia, are generally praised by the BBV board and staff, as well as by brokers, and they played a key role in developing the Bolsa. Nathan Associates prepared and disseminated over 30 technical studies related to the securities markets and, judging from a representative sample, these are of good quality. In addition, the contractor conducted over 50 seminars and workshops directly related to securities markets, and trained about 25 BBV staff-members and brokers in market operations.

Two weaknesses in the technical assistance and training provided by Nathan Associates can be identified. First, more intensive training needs to be provided to the brokers in the areas of finance and accounting, preparation of prospectuses, the development of new products, and sales and marketing. While many of the brokers are young, talented, and aggressive, they are also generally inexperienced in financial engineering and the requirements of developing prospectuses to launch new issues. A review of several of the private company prospectuses issued over the last year confirms this. Second, in the last year of the project Nathan Associates devoted a significant amount of time to an effort to privatize state-owned-enterprises via the BBV (e.g., see Martha Galicia's four technical studies on various aspects of this issue). This effort culminated in the failed attempt to sell shares in FANVIPLAN, the state-owned glass plant, on the BBV. While there is more than enough blame to go around to account for this failure (e.g., the GOB's price expectations were unrealistic, the consulting company should have recognized that FANVIPLAN was a poor candidate for privatization via a public

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<sup>3</sup> Nathan Associates offered four recommendations with regard to the BBV's institutional strengthening: (a) hire additional staff to carry out routine tasks to maintain operating systems; (b) establish an information systems department to monitor exchange transactions as they become more diverse and sophisticated; (c) adapt the BBV's computerized accounting and budgeting system to take account of new CNV regulations; and (d) approval by the Board of Directors of the Internal Regulation proposed in July 1992. This self-regulatory document is intended to ensure transparency in all transactions and establish sanctions for brokers' infractions.

stock offering on technical grounds, etc.), it is nevertheless true that Nathan Associates pushed hard for the opportunity to become involved with the GOB's privatization program as a way of promoting equities on the BBV. Nathan Associates bears responsibility for not recognizing that the market was not ready for equity issues, that FANVIPLAN was a poor choice to start the process on market grounds, and that the brokers were not yet sufficiently experienced and motivated to promote this issue.

### **C. Constraints to the development of the Bolsa Boliviana de Valores**

The *Bolsa Boliviana de Valores* has made significant progress in the three years since its inauguration. A regulatory system and trading procedures are in place, 17 brokerage houses are active, more than US\$1 billion has been traded on the primary and secondary markets, and private companies are turning to the BBV as a means to lower borrowing costs (2 percent on average) or as an alternative to collateral or reporting requirements of the commercial banks. And in spite of adverse signs of a drop-off in volume and a heavy reliance on a single financial trading instrument, the BBV has moved to cut costs and raise fees to achieve a near financial equilibrium in its operations.

Several constraints will continue to impede the development of the BBV, and of the entire securities market, over the near-term<sup>4</sup>. These include:

#### **Institutional Constraints**

- According to Nathan Associates, the BBV is understaffed and needs to hire additional personnel to maintain the efficiency of the organization. There is also a need to develop an information systems department with enhanced system analysis and programming capabilities.
- The General Manager of BBV feels there is a pressing need to publicize the existence and advantages of the Bolsa, expanding the market through a publicity campaign and additional training for brokers.

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<sup>4</sup> Nathan Associates cited six constraints to successful securities market development: 1) lack of familiarity of both potential issuers and investors with the benefits of the market; 2) the existence of closed, family-owned entrepreneurial groups concerned with losing control in the administration of the company; 3) many Bolivian companies lack complete and adequate financial information and therefore, they are not in a position to present accurate financial statements that permit an adequate analysis of their ability to issue securities; 4) in the past, the support granted by the Bolivian government in developing securities market had been extremely limited; 5) Bolivian authorities have yet to consider granting fiscal incentives to promote the market; and 6) Bolivian legislation on the securities market is inadequate and does little to promote development of the market.

The Association of Brokers, (ABAB) is a new and weak organization, and exhibits few signs of interest in expanding the market, deepening the professional training of brokers, or expanding public understanding of the securities market. Since the ABAB is dominated by the commercial banks, this apathy may reflect the believe prevalent among many commercial banks that brokerages operations are at best marginally profitable, that the market competes with commercial banks for both deposits (e.g., mutual funds) and customers (e.g., private company placements), and that they need to control its development.

### **Characteristics of the Bolivian Private Sector**

- While the economy is expanding and private investment is increasing, the Bolivian private sector remains risk averse. This is also true of the small investor, who vividly recalls the days of hyperinflation, de-dollarization of the economy, and the failure of mortgage securities.
- There is a continuing low level of familiarity with and understanding of securities markets among potential issuers and potential investors alike.
- Most Bolivian companies are closely held by family groups that are reluctant to disclose financial data (for fear of competitive disadvantage, political misuse, or higher taxes) and/or to cede operating control through equity issues.
- Many Bolivian companies are closely intertwined with commercial banks through interlocking ownership relations, thereby affording them preferential access to credit and other financial services.
- Few equity issues are anticipated for 1993-94, and the breadth and depth of equity transactions on the BBV will be limited for years to come. Private companies which have placed short-term paper on the market do not expect to offer common shares in their firms, with the possible exception of seeking financing of a new project through a subsidiary operation.
- Some of the most modern Bolivian companies have access to external financing at rates below what can be obtained via the BBV, thus limiting the potential for issues of debt and equity. The mining concern, COMSUR, for example, was authorized to issue US\$1.5 million in notes but issued only US\$1 million because the interest rate was higher than they anticipated (13 percent versus 10 percent). COMSUR also has access to International Finance Corporation financing.

### **Legal, Regulatory, and Tax Constraints**

- Commercial and financial legislation is needed to modernize the system. A new banking law is under consideration (and has been for several years) and a securities market law has been prepared with project assistance and presented to the Finance Ministry.
- A key issue is the importance attached to securities markets, and in particular the independence of the CNV, by the GOB. Under the proposed banking law, which is under advanced consideration by the Bolivian Congress, the CNV will be a unit under the Superintendency of Banks rather than an independent regulatory body. Some analysts, especially those concerned about both the participation of banks in the securities markets and the lack of vigorous support of the securities markets by the GOB, argue that this development would seriously impede the development of securities markets.
- Companies are presently taxed on net worth, discouraging growth and favoring debt over equity financing. Tax incentives, or the removal of existing disincentives, are required to develop an equities market.

### **Government Support**

- It is widely believed among market participants that the role, importance, and value of securities markets to financial and monetary policy is poorly understood by high-level government officials. This assertion is repeatedly made by BBV officials and brokers, but is hard to believe given the excellent educational and professional backgrounds of GOB finance officials. It is more likely that GOB officials are very skeptical of the benefits of a securities market, dominated by the banks, in an economy the size of Bolivia's.
- The GOB has not funded adequately the CNV to enable it to carry out its duties, and has failed to appoint an agency head for considerable periods of time, resulting in delays of approval of new issues. For example, Plasmar, which place two offerings in 1992, has been delayed in offering a third tranche for over two months because of bureaucratic delays.

### **D. Commercial Banks and the Bolsa Boliviana de Valores**

As previously stated, a conscious decision was made early on in the project to involve the commercial banks directly in the securities market. The commercial banks were already represented as shareholders, they had the financial resources to invest and a willingness to participate, and it was believed that bank involvement would enhance the credibility of the embryonic institution among investors and the public at large. However, the bank were not required to establish subsidiaries or



independent profit/loss centers to participate in the market, but were allowed to add these operations to existing investment departments. Some market participants, especially independent brokerages, believe this was a mistake.

Although the participation of the banks on the BBV no doubt enhanced the institution's credibility and contributed to a rapid start-up of activities, it also has resulted in a series of problems. First, most of the banks view securities markets business as at best complementary to other bank financial services, and attach a low priority to its development. Second, most banks view the securities exchange as somewhat of a threat to their existing deposit and client bases, particularly since the BBV is overwhelmingly devoted to short-term debt instruments. Third, there are at least three reported instances in which banks lowered interest rates and fees on commercial loans to keep companies from issuing commercial paper or notes on the BBV. Fourth, the independent brokers believe that they are competing unfairly with the banks with their superior financial and human resources and their client bases. Finally, given the numerical advantage of bank-related brokerages and their control of the ABAB, there is considerable skepticism that the association will lobby aggressively for the Securities Market Law, which requires banks to separate their banking and securities market operations and establishes an independent CNV, and instead support the Banking Law which has neither provision.

The commercial banks have been important to the development of the BBV. The banks have placed excess funds in short-term notes traded on the market, have placed convertible bond issues on the market, and have been participating actively in the bringing to market of private company issues. Nevertheless, this heavy bank involvement in the BBV can serve to retard market development.

Nathan Associates, in its final report, acknowledges the problem. The report makes two noteworthy comments: (1) brokerage operations linked to commercial banks are not managing their operations on a profit basis (in contrast to independent brokerages), and may be lacking in motivation in expanding the market; and, (2) some brokerages are operating under the legal umbrella of private commercial banks and this is unhealthy for the securities markets.

### III. ASSESSMENT OF COMISION NACIONAL DE VALORES

#### A. Progress Towards Achieving End-of-Project Status

As was the case with the BBV, the Comisión was legally authorized but not functioning at the beginning of the SFM project. The *Comisión Nacional de Valores* is now functioning, has a well-defined organizational structure, and has a technical staff capable of evaluating potential market issues and seeing to it that market regulations are observed.

Table 3 provides a summary of the EOPS indicators for the CNV. Since several of the indicators were the same for the BBV and CNV components, the discussion of results will be limited to CNV specific results. Among the highlights of the CNV component are:

- A fully operational CNV, with established procedures for evaluating prospective issues and regulating the market.
- A capable staff, many of whom received training under the project, locally, in Mexico, and in the U.S.
- The authorization of 28 securities exchange issues totaling over US\$61 million in the past two years from private companies (see table).
- Regulations in place for securities, exchange issuers, brokers, advisers, accounting firms and banks. In one case (Valores Excel), a brokerage house was recommended for sanction by the CNV.
- The development of a draft law for the securities market which was submitted to the Finance Ministry. Work on the law began in 1991, and was submitted to the Finance Ministry in June 1992, where it remains.
- The supervisory system to monitor the market is 80 percent computerized.

It is important to note that the CNV, as the chief rule maker and regulator of the market, is the hub around which the other participants orbit. As such, it must not only be a technically competent body, but also receive strong support from the government. Unfortunately, this has not been forthcoming, as evidenced by (1) long delays in appointing a President of the Commission, who is a key figure in authorizing securities issues, proposing rules, and managing the staff; and (2) the fact that at the end of the project the GOB had disbursed only slightly more than half of the US\$340,000 it had committed to support the CNV. Likewise, the proposed Securities Market Law has languished, resulting in an incomplete legal structure for the securities exchange.

Table 3

Comisión Nacional de Valores (CNV)  
End-of-Project Status Indicators

EOPS Indicators	Status / Results	Comments
(1) CNV established and operating.	<ul style="list-style-type: none"> <li>· CNV is operational</li> <li>· Database was developed to monitor and analyze securities market operations.</li> <li>· 10 staff members trained locally, in Mexico and the U.S.</li> </ul>	<ul style="list-style-type: none"> <li>· GOB has not supported CNV adequately; delays in naming president, lack of funding.</li> <li>· Delays of 4-5 weeks in approving securities issues versus a target of 2 weeks.</li> <li>· Need to improve the computerized supervisory system to monitor developments on the securities exchange.</li> <li>· Need to improve the computerized supervisory system to monitor developments on the securities exchange.</li> <li>· Need to monitor/supervise the financial reporting of firms with issues on the exchange.</li> </ul>
(2) By the time of the second evaluation have developed and traded one to five capital market instruments.	Same indicator as BBV. See previous EOPS chart.	See previous chart.
(3) At least eight brokers will have been trained and authorized to operate on BBV.	Same indicator as BBV. See previous EOPS chart.	See previous chart.
(4) Ten companies will have been assessed and authorized to sell securities through the BBV.	Same indicator as BBV. See previous EOPS chart.	See previous chart.
(5) A set of regulations of the securities exchange transactions will have been developed.	<ul style="list-style-type: none"> <li>· Regulations for securities exchange, issuers, brokers, investment advisers, accounting firms and banks were developed.</li> <li>· CNV presented a draft Securities Market Law to the Finance Ministry.</li> </ul>	<ul style="list-style-type: none"> <li>· Pending legislation (Banking Law) is key to the future of CNV.</li> <li>· Law is needed especially to spell out regulations and sanctions for violations.</li> </ul>

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One important result of the less-than-ideal legal structure is that existing regulations do not contemplate sanctions, financial or other, for infractions. Given the importance of brokers to the system, and the damage to the market that could result from a pattern of irregularities or a financial scandal, it is important that a law encompassing clear and unequivocal sanctions for a series of possible violations of securities regulations be enacted.

The CNV has been criticized for its slowness to approve new issues (up to five weeks). While it is clear that excessive delays in decisions may discourage potential issuers from using the exchange, it is not clear that the fault lies at the CNV. No small part of the problem resides with (1) the private companies, whose reporting of financial data does not satisfy CNV requirements, and (2) with the brokers, who prepare poor quality prospectuses.

This remains a problem for the development of the securities market, but it cannot be solved at the level of the CNV. The brokers and their professional association, ABAB, need to take the lead and seek additional technical assistance and training.

For the securities market to move forward, the CNV needs to be strengthened further. Among the key requirements are:

- Adequate budgetary support from the GOB to attract and retain qualified personnel. It is essential to market development that the CNV provide leadership, especially in the area of efficient market supervision to attract both new issuers and investors.
- With adequate budget, the CNV needs to move to regulate the financial reporting of firms that issue securities. This is particularly important given the fact that no rating agency exists to analyze debt issues.
- Periodic review and updating of regulations to take into account new developments in the marketplace and to maintain safeguards to the integrity of the overall system.
- Further development of its automated supervision system, and an increase in information flows to market participants.

#### **B. Effectiveness of Technical Assistance**

At the outset of the project, the long-term adviser for the securities market had a direct advisory relationship with the CNV, the BBV, and the brokerages. This caused confusion, blurred lines of responsibility, and put the consultant in the middle of potentially conflicting institutional interests. This arrangement was modified in mid-1991, and the long-term adviser was assigned to the CNV, and

through the CNV to the whole range of market participants. In addition, a Bolivian was recruited and trained to provide services aimed at increasing private sector issues. Finally, well qualified short-term consultants were brought into provide specific technical assistance and training to the CNV.

As previously noted, at the outset of the SFM project priority attention was devoted to getting a securities exchange up and running and to developing a financial instrument for trading. Although the CNV was not neglected altogether, it was relatively slower to develop. This, combined with weak GOB support and leadership vacuums, resulted in only partial accomplishment of the CNV workplan developed under the project. This workplan emphasized five main points:

1. Preparation of basic securities market regulations governing the range of participants (issuers, brokers, auditors, etc.) in the system.
2. Preparation of public sector instruments, including treasury, municipal and public enterprise offerings.
3. Development and initiation of policy reforms/incentives to promote securities markets.
4. Development of a communication, public information, and promotional program.
5. Institutional strengthening of the CNV through training and travel, organizational development, and establishing permanent offices.

The technical assistance provided enabled the CNV to become functional and to do a reasonably good job of regulating the market. However, significant work remains to be done to accomplish the above agenda. For example, public sector offerings remain very limited, and the CNV needs to take the lead in discussions with GOB authorities over the flow of Central Bank certificates of deposit to the market and on the possibility of Treasury issues of various maturities. Likewise, a communications and public education effort has not taken place.

### **C. Constraints to Comisión Nacional de Valores Development**

The paramount issue as to the future of the CNV, and the development of securities market in general, is the decision whether the CNV will be an independent agency (as in the Securities Market Law) or will fall under the Superintendency of Banks (as in the Banking Law). It is widely believed by market participants and independent analysts that a decision to place the CNV under the Superintendency of Banks will retard the development of the securities market. The reasoning behind this conclusion is that:

1. A GOB decision to place the CNV under the Superintendency would mainly be justified on budgetary and bureaucratic span of control grounds, thus revealing the low priority in fact accorded to the securities market by GOB officials.
2. Under the Superintendency, the CNV would have very limited access to financial policy deliberations and decisions, thereby negating its possible advocacy role in promoting a more modern, efficient financial system.
3. The functions of bank supervision and capital markets regulation are very disparate activities, and it is unlikely that the Superintendent of Banks would understand adequately the role of capital markets in financial sector development.
4. Although the Superintendent of Banks has taken a reasonably firm hand in supervising the banks, there is a fear that pre-existing relationships and an understandable concern for the health of the banking system would further tip the balance in favor of bank-affiliated brokerages, limiting efforts to develop securities markets.
5. Passage of the banking law, which may be considered in the upcoming Extraordinary Session of Congress, would probably mean that the Securities Market Law would not receive early attention.

In terms of its future development, the securities market is at a crossroads. It requires GOB support and new legislation to move beyond the current early developmental stage. Likewise, there is a need for new fiscal and tax incentives for companies to issue equities or debt.

It should also be noted that there is a need for the CNV to provide vigorous leadership to the market system. In part because of the lack of a Securities Market Law, in part because of leadership turnover at CNV, and in part because of the end of USAID/Bolivia's technical assistance project, there is the danger of a vacuum occurring at a time when further progress is required. For example, steps need to be taken to strengthen the brokers association and to define its role in the system, and a coordinated effort needs to be made to increase the technical capacity of the Bolsa in Santa Cruz and integrate it with the national system.

#### **IV. CONCLUSIONS AND RECOMMENDATIONS**

The securities exchange has established a presence in Bolivia's financial system, but it still has a long way to go in its development. The support of USAID/Bolivia and the technical assistance provided by Nathan Associates were instrumental in the start-up and functioning of the system. Measured by the standard of the EOPS, the securities market component of the SFM project was a clear success: the securities exchange infrastructure is in place, financial instruments have been developed and traded, and the securities market has provided a new outlet to mobilize savings and investment. However, it should be noted that the total trading volume in 1992 amounted to an insignificant proportion of gross domestic product.

Several current trends or possible developments could have an adverse impact on the development of the securities market. These include:

- Continued high dependence on a single financial instrument (Central Bank certificates of deposit), while at the same time this instrument is less attractive to the market and declining in trading volume.
- Limited potential for the expansion of private sector debt offerings, and even more limited possibilities in issuing equities. Many Bolivian companies are reluctant to reveal the financial information required to issue securities, while the more modern companies have access to external financing sources, thus limiting market growth potential.
- Lack of a consolidated framework for the securities market system (e.g., lack of a Securities Market Law), and the possibility that the approval of the new banking law will place the CNV under the Superintendency of Banks. This development would probably downgrade the potential importance of the securities market vis-a-vis the banking system, and undermine the role of the market in monetary policy.
- Commercial banks appear to be at best ambivalent toward the securities market, more interested in conserving their political and financial power base than in participating in the development of a modern financial sector. Although it is appropriate for banks and bank regulators to occupy a central role in the financial system, it is also incumbent upon them to recognize the potential value of securities exchanges to investment and growth and cede a measure of leadership to institutions capable of innovation.
- Institutional strengthening and development of the CNV is needed. This was the weakest aspect of this component of the SFM project. While it is understandable that relatively more resources and attention were devoted to developing the BBV, assisting brokerages, and designing new financial products, based on the premise that one has to create a market before it can be regulated, too little attention was paid to

developing the CNV as a strong advocate for the securities market. Frankly, the CNV lacks the leadership and political weight to have much impact on policy making or legislation, has been unable to command political and budgetary support from the GOB, and needs to review and enhance its supervisory procedures to maintain adequate controls to safeguard the system. At the same time, it should be noted that the CNV has been hampered by lack of GOB support.

- Awareness and understanding of the securities market, on the part of both issuers and investors, is still very limited. While independent brokerages are aware of the need to promote the market, the ABAB and the bank-linked brokerages are less aggressive in marketing issuances via the exchange. Moreover, the ABAB appears to be a weak organization, internally divided and lacking consensus on its role in the system.
- Government support for the securities market is weak. For example, of the US\$340,000 committed to the CNV by the government under the project, only US\$171,000 was disbursed. Likewise, there have been significant lapses in filling leadership positions at the CNV by the government. It is frequently asserted by market participants that high government officials do not understand the potential contribution of securities market to managing monetary policy, but this is a dubious explanation given the talented group of individuals who have occupied senior financial positions over the past four years. It seems more likely that senior financial officials are skeptical about the prospects for growth and development of the securities market, and/or have other political and budgetary priorities than support for the securities market.

In economic terms, the securities market has provided a primary and secondary market to trade government debt, and has begun to provide an outlet for private companies to place issues at rates below commercial bank loans. In terms of the significance of the securities market for the financial system, its main contributions are: to increase competition with the banking system and lower interest rates; to provide an additional outlet (liquidity) for short-term commercial paper and debentures of private companies; and to provide a potential market for trading commercial bank certificates of deposit. Overtime more individual investors might be brought to market by the vehicle of mutual funds, but at present the mutual funds of brokerage houses have relatively few investors (e.g., one brokerage has 60-70 investors, while another has 35) and Bolivian small investors remain risk averse.

As it looks toward the future, the securities market needs to focus on a few priority areas to continue its development and secure its position in the financial system. The main priorities should be:

1. Maintain and expand the trading volume on the exchanges in order to provide a more secure revenue base for the continued operation of the exchange and the brokerages. If trading volume continues to fall, and if new private sector debt



offerings are not developed and issued, then some of the brokerages may fail (those most likely to fail would be the independent brokerages, which do not have the financial resources to sustain substantial operating losses). There needs to be a dialogue with the GOB on the issuing of new and existing public debt issues, and a redoubling of efforts to generate a greatly expanded volume of private offerings. Possible activities to build trading volume include:

- Reaching agreement with the Central Bank on a plan for a stable and predictable program of primary issues of Central Bank certificates of deposit.
- Developing a program, with the Central Bank, for the issuance of Treasury Obligations of various maturities. This would not only provide the government with greater flexibility in monetary policy, but would have a significant impact on the development of the secondary market.
- As indicated above, private sector debt offerings have been mainly limited to convertible debentures (by commercial banks) and short-term notes and obligations of private companies. The ABAB and the brokerage houses need to redouble efforts to bring such issues to market, and they may need additional training and technical assistance in financial analysis, prospectus preparation, and marketing. There still exists serious doubts concerning the wisdom of publishing financial statements on the part of Bolivian companies, and companies below "blue chip" status are also reluctant to risk a failed placement.
- Asset-backed securities, particularly those of the commercial banks, continue to hold potential for the securities market, and for the improved financial health of the banking system. This idea, which was proposed and developed in mid-1991 by Phillip W. Rourke has been successful in other developing countries but has not been attempted in Bolivia<sup>5</sup>. The basic concept is for the banks to segregate a portfolio of "seasoned" medium-term loans with relatively well-established pre-payment and default-risk schedules, and offer these to the investing public. From the perspective of the investor, such a security has the advantage of not depending on the credit of the issuer, but rather on the diversified credit of the original bank borrowers. From the perspective of the issuer, the sale of an asset-backed security has the advantages of not affecting ownership and not requiring interest payments, while providing resources to strengthen the capital base of the institution.
- Developing securities which are backed by a partial guarantee of principal or

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<sup>5</sup> Phillip W. Rourke, Assessment of the Bolivian Securities Market, USAID Mission to Bolivia, May 1991.

interest by a foreign government or international agency needs to be promoted. The 3-year term, US\$6 million issue of bonds by the Banco de Santa Cruz, which carried a guarantee of 50 percent of the principal by AID/Washington, was reportedly sold out in record time on the BBV. Efforts should be made to promote this concept among international donor agencies, including the World Bank, the Inter-American Development Bank, the *Corporación Andina de Fomento* (CAF), and European governments. Apparently the CAF is prepared to announce a guarantee of the secondary market liquidity of US\$5 million in 5-year notes of the *Banco Mercantil*, and that this has been well received by the market.

2. Develop and expand the role of the securities market and specifically of the CNV in the policy formulation process for the financial sector as a whole. The development of better articulated, more competitive financial markets in Bolivia is a prerequisite for the structural transformation of the economy. No major financial policy decision should be taken without consideration of its possible impact on the securities market, and vice versa. In order to make the securities market an integral part of financial policy formulation, the government attitude must be changed and the CNV must be strengthened, especially in terms of leadership, budget, staffing, and independence from the Superintendency of Banks. It is important that the role of the CNV in the system — its leadership, participation in policy-making, and its supervisory capabilities — remain at the top of the agenda of those interested in securities market development.
3. Continue efforts to increase awareness of the securities market among government officials, the business community and investors. The BBV is planning a public relations campaign supported by additional training for brokers, and this should be supported. However, it should be noted that the ABAB should be playing a leading role in expanding the market. Given the end of USAID/Bolivia's financial and technical support of the securities market, there is a danger that the program of public events and the dissemination of promotional materials will die out. This public relations effort should be aimed at the general public, issuers and investors, and, of particular importance over the next year given Bolivia's electoral calendar, at new government officials.
4. Continue and expand efforts to promote a more competitive securities market. This activity includes efforts to maximize information flows among market participants, ensure a level playing field for all securities firms, enforcement of market rules, and integration of the Santa Cruz Exchange into the national system. One of the key issues facing the securities market is the participation of bank-affiliated brokerages in the system. It has already been noted that there is a widespread perception that the banks are less-than-enthusiastic participants in the system, and that several analysts (including Nathan Associates) recommend that the banks be required to spin-off their brokerages into wholly-owned subsidiaries. Whether or not this legal

requirement would result in significant changes in actual practices is open to question, but the CNV needs to monitor the situation. Independent brokers, some of whom have called for a "Glass-Steagall Act" for Bolivia, believe that bank-affiliated brokerages engage in predatory practices (e.g., subsidizing or waiving client fees), and have a natural competitive advantage due to bank client lists, superior human resources, and political and financial clout. Likewise, the CNV, the BBV, and the ABAB need to ensure that the securities market is adequately policed and that market infractions are punished. The Santa Cruz Exchange, which was founded in 1991 and authorizes only independent brokerages to operate on the Exchange (ASERFIN is the only member of both exchanges), is a good candidate to receive technical assistance and training, preferably through the BBV to build relationships among the two exchanges.

5. Efforts to issue equity instruments, or participate in the GOB's privatization program, should receive low priority attention. Attempts to generate a significant number of public stock offerings on the Bolivian exchange will continue to be premature over the near-term. The Bolivian companies which are good candidates for public stock offerings are not interested in diluting ownership or control, and there are no special incentives to encourage them in this direction. The authorities should evaluate carefully efforts to raise capital via the *Bolsa* for new projects, or for subsidiaries of existing companies divorced from the parent. Likewise, none of the state-owned enterprises currently being privatized are attractive candidates for a public stock offering, and the GOB's privatization program aimed at the larger enterprises will probably not result until 1994.
6. Continue efforts to enact the Securities Market Law developed with project assistance. This law is important to the integrity of securities market operations, given the fact that existing legislation is dispersed and sprinkled throughout various juridical codes and orders. The experience of other developing countries indicates that a strong securities market law which defines roles, responsibilities, and sanctions is critical to the development of the market. At the same time, enactment of the law would both secure the independence of the CNV, and reduce the influence of the banks over the system. Future international donor support for the CNV should be conditioned on the enactment of this legislation.

Looking forward, one possible source of expansion of the securities market is the proposed reform of the GOB's pension system. This project, which is strongly backed by the World Bank and has received support from USAID/Bolivia, is at an advanced stage of development, with a draft law nearing completion. As a side effect of this project, the World Bank would probably support a technical assistance program to strengthen the securities exchange system. The World Bank estimates that the proposed pension reform would increase trading volume on the BBV by US\$60 million in the first year, with substantial increases thereafter.

**Annex 1**

***Scope of Work***

## **Scope of Work**

Working under the guidance of USAID/Bolivia's Private Sector Office, the contractor will evaluate the performance of the BBV and CNV from project inception to final completion date of 11-30-92. The contractor will liaise with the BBV, CNV, USAID, selected banks, brokerage firms, "public companies", and with governmental entities as necessary to carry out the scope of work.

Analysis and evaluation will be focused on the following implementing agencies:

**A. Bolsa Boliviana de Valores, S.A. (BBV)**

What progress has been made towards completing the EOPS indicators of the BBV? Has the technical assistance been effective and in what ways has the institution been strengthened? What recommendations would you give to further the growth and effectiveness of the BBV? What legal and regulatory impediments continue to impede development of Bolivia's capital markets? What new market instruments should be introduced in order of priority? How can the BBV involve the Central Bank more in open-market operations and control of the money supply? What specific suggestions could be made for improving communications with potential investors, issuers, and thus strengthen investor confidence? With the local commercial banks dominating the market, what suggestions can be put forth to foster greater competition between the "Bolsa" and the "banca"? With the anticipated progress toward pension reform, what should the BBV's strategy be regarding new market instruments?

**B. Comisión Nacional de Valores (CNV)**

What progress has been made towards completing the EOPS indicators of the CNV? Has technical assistance been effective and in what ways has the CNV been strengthened? How can the CNV play a more effective role in financial sector policy? How can it best maintain its autonomy and not be swallowed up by the Superintendency of Banks? Is the CNV doing an adequate job of regulating securities exchanges (La Paz and Santa Cruz), brokerage firms, and issuing companies? Are their regulations of mutual funds adequate and effective? What deficiencies exist in the staffing and/or training of CNV personnel? What recommendations can be made toward strengthening the quality of CNV activities and its long-range viability as a GOB agency?

**Annex 2**

***List of Persons Contacted and Documents Reviewed***

## LIST OF PERSONS CONTACTED

Camilo Arenas  
Chief-of-party, SFM Project  
Nathan Associates

Richard Rosenberg  
Private Sector Office  
USAID/Bolivia

Ricardo Rojas  
General Manager  
Bolsa Boliviana de Valores

Rodrigo Navarro  
Vice President  
Banco Hipotecario Nacional

Luis Felipe Rivero  
Manager  
Pro Bolsa

Federico Csapek  
Manager  
Pro Bolsa

Jorge Szaszz  
Finance Manager  
COMSUR

Jorge Ambram  
Adviser to the Board  
ASERFIN. Agentes de Bolsa

Jose Luis Urdininea  
ASERFIN. Agentes de Bolsa

Patricio Garrett  
President  
Comision Nacional de Valores

Sonia Vargas  
Executive Secretary  
Comision Nacional de Valores

Pablo Gottret  
Advisor  
Banco Mundial

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**Annex 3**

***Comisión Nacional de Valores Authorized Private Sector Issues***

**COMISION NACIONAL DE VALORES  
BOLIVIA**

**Summary of Authorized Private Issues**

<b>Instrument</b>	<b>Nº of Issues</b>	<b>Amount in US\$</b>
Convertible Bank Bonds	14	36,800,000
Commercial Paper	5	2,140,000
Bonds	8	16,100,000
Long Term Bank Bonds	1	6,000,000
<b>TOTAL</b>	<b>28</b>	<b>61,040,000</b>

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