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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

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(R) **BOLIVIA.**

SMALL-SCALE INDUSTRY SURVEY.

**WORLD BANK/UNIDO
CO-OPERATIVE PROGRAMME**

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BOLIVIA

SMALL-SCALE INDUSTRY SURVEY

CURRENCY EQUIVALENTS

US\$ 1 = \$b 20 (Bolivian pesos)
\$b 1 = US\$ 0.05 } Since 1972

ABBREVIATIONS

ARL	:	Artisanry Refinancing Line
BAFINSA	:	Banco de Financiamiento Industrial
BANESTA	:	Banco del Estado
BIBSA	:	Banco de Inversión Boliviano S.A.
BISA	:	Banco Industrial S.A.
CBF	:	Corporación Boliviana de Fomento
CNI	:	Cámara Nacional de Industrias
CODESUR	:	Corporación Financiera del Sur
COFINSA	:	Corporación Financiera de Santa Cruz
COMBOFLA	:	Comité Boliviano de Fomento Lanero
COMIBOL	:	Corporación Minera de Bolivia
CONEPLAN	:	Consejo Nacional de Economía y Planificación
DEG	:	Deutsche Gesellschaft für Wirtschaftliche Zusammenarbeit
ENFE	:	Empresa Nacional de Ferrocarriles del Estado
FBD	:	Fundación Boliviana de Desarrollo
FOMEX	:	División de Fomento de las Exportaciones
FOMO	:	Servicio Nacional de Formación de Mano de Obra
FRI	:	Fondo de Refinanciamiento Industrial
GDP	:	Gross Domestic Product
GNP	:	Gross National Product
IBRD	:	International Bank for Reconstruction and Development
IDB	:	Interamerican Development Bank
IFC	:	International Finance Corporation
ILO	:	International Labour Organization
INALPRE	:	Instituto Nacional de Pre-inversión
INBOPIA	:	Instituto Boliviano de Pequeña Industria y Artesanía
INI	:	Instituto Nacional de Inversiones
MICT	:	Ministerio de Industria, Comercio y Turismo
SSI	:	Small-Scale Industries
UNDP	:	United Nations Development Programme
UNIDO	:	United Nations Industrial Development Organization
USAID	:	United States Agency for International Development
YPFB	:	Yacimientos Petrolíferos Fiscales Bolivianos

SMALL-SCALE INDUSTRY IN BOLIVIA

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INTRODUCTION

This report was prepared by a UNIDO mission (World Bank/UNIDO Co-operative Programme), which visited Bolivia during the period 7 November to 4 December 1977.

The mission was composed of Messrs. H. Molina (industrial engineer and mission leader), L. Thorson (financial analyst) and J. Paschke (industrial economist). Mr. J. Mirski of IBRD accompanied the mission during the first two weeks in the field, helped plan mission strategy, and provided advice on sources of information. A Bolivian consulting firm was hired to administer a questionnaire to a selected sample of small industrial enterprises in La Paz and to arrange contacts and interviews with representatives of public and private institutions. Mission members administered the questionnaire directly in six other major cities.

The Ministries of Planning and Coordination, and of Industry, Commerce and Tourism acted as Bolivian counterparts. Logistic support was provided by the Banco Industrial S.A. and the Departmental Development Corporations. The National Chamber of Industries and the Departmental Chambers of Industry were most effective in helping to select and contact companies that were visited by mission members.

Special acknowledgement is given to Messrs. A. Valdez, Under-secretary of Planning and Coordination, and Mr. R. Arrivillaga, IBRD's Resident Representative in Bolivia, for their help in clearing the mission with the Government and in making preliminary preparations. Thanks are also extended to all other Government officials, representatives of USAID and financial institutions and managers of enterprises visited for the high level of cooperation received.

1. SUMMARY

The basic objective of the survey was to determine what Bolivian small-scale industry requires in terms of financial and technical assistance in order to accelerate its development and improve its contribution to the country's economy. Special emphasis was to be given to identification of possible programmes of assistance from the World Bank and UNIDO.

For the purposes of the mission and in agreement with Government authorities and private sector representatives, small-scale industries (SSI) were defined as enterprises having fixed assets between US\$ 2,500 and US\$ 100,000 equivalent, excluding land and buildings, and employing between 5 and 25 persons. For purposes of definition, and as a result of the mission it is recommended to increase the number of employees to 50 and to up-date the limit for fixed investment periodically by means of relevant indexing.

Bolivian industry is in an early stage of development. This fact is reflected by its share of around 12 percent in GDP and less than 7 percent of the country's total labour force during the past 5 years. However, SSI are an important segment of the whole industrial sector, contributing about 35 percent of industrial value added, 32 percent of industrial employment, and 16 percent of gross investment in industry. The main SSI activities are the manufacturing of consumer goods, such as food, beverages, wearing apparel, and wood and leather products.

Almost the entire production of SSI is destined to small markets in the vicinity of the production facilities. Due to the land-locked situation of the country, poorly developed surface transport facilities and high production costs, exports of SSI products are limited mainly to handicrafts.

A sample of 97 companies was visited, of which 18 were found not to comply with the established parameters for SSI. In general, SSI in Bolivia are owned by one person or family, and all managerial, administrative and production responsibilities are under a single individual. As a consequence, and to avoid the introduction of middle management, most companies have to date remained small, a fact reflected in the average age of 18 years for the companies included in the sample.

The manager-owner is typically well-versed in the simple production techniques used in Bolivia, but lacks formal training and needs technical assistance in the fields of financial, operational and industrial management.

In general, workers are trained by the companies which employ them and are considered skilled when they have more than 5 years of on-the-job experience. They demonstrate an ability to learn quickly but show a disinclination to work according to a regular schedule. Productivity of labour is relatively low. Bolivian wages are among the lowest in Latin America, and the legislation pertaining thereto is confusing and out-dated.

Due to a chronic shortage of working capital, SSI usually purchase raw materials and supplies on a short-term basis from importing firms, thereby involuntarily renouncing the tax exemptions for which they would often be eligible if they imported directly.

Capacity utilization of plant and equipment, defined as the ratio of actual production to maximum production achievable in a normal year (365 days, 8 hours per day), is 40 percent on the average in Bolivia. This is due to the limited market, shortage of working capital, production bottle-necks, mechanical break-downs, low productivity of labour, and low quality of products. Transport problems for both raw materials and finished products also contribute to low output. Many of the smaller companies operate in rented premises or in a part of the owner's household; consequently, plant lay-out, material flow, and comfort and safety for workers are matters that show neglect. Production equipment and machinery are usually old and/or second-hand and lacking in repair and maintenance.

Accessibility to industrial credit is restricted to SSI that are able to cope with the relatively short maturities and difficult collateral requirements imposed by both public and private banks. Banks are reluctant to work with SSI because of i) the risks perceived, ii) the costly processing of often incomplete and ill-prepared credit applications, and iii) the unattractive interest spreads on existing lines of credit. The mission recommends the establishment of a special credit line for SSI in the magnitude of up to US\$ 22 million for a 3 year period for fixed assets and permanent working capital. The mission believes that the institution best equipped to administer this credit line is the Banco del Estado (BANESTA), although a credit to the Central Bank for channelling through the entire commercial banking system would be an acceptable alternative.

Financial support is recommended for the proposed Central Bank/ USAID guarantee fund. In its present form, the benefits of this proposed programme of guarantees do not extend to SSI in urban areas. Additional support could be designed to fill this gap. This might involve the pledging of up to US\$ 4 million, thereby doubling the capacity of the fund that has already been proposed.

The mission also recommends a programme of assistance to SSI in the preparation of credit and incentive applications and considers the Bolivian Institute for Small-Scale Industry and Artisanry (INBOPIA) as the most appropriate institution to provide this type of assistance.

A need for technical assistance in basic business matters including financial management and commercialization was observed by the mission as an adjunct to the providing of new credit facilities. Assistance in the preparation of bankable projects is also generally needed by SSI, and the Bolivian institution recommended to administer these services is once again INBOPIA. However, this institution would need to be reorganized and strengthened for such an important task. A programme for technical assistance to the extent required from international organizations would call for a minimum contribution of US\$ 750,000 (equivalent to 10 man/years).

The mission also recommends that independent management centers be established with the initial help of the Government. These centers should offer training in basic operational, administrative and industrial management.

At present, the Government has no consistent policy for SSI development, a fact reflected at all institutional levels, where a preference for large industrial enterprises is apparent. Existing institutions dealing with SSI are not properly oriented and lack sufficient resources and staff to have a meaningful impact.

Given the fact that a healthy and modern SSI sector is necessary for further industrial development in Bolivia, the mission recommends giving special attention to SSI in the country's development plans. It also recommends modifying existing legislation or enacting a special incentives law, possibly of a temporary nature, for all existing and new SSI.

2. CHARACTERISTICS OF SMALL-SCALE INDUSTRIES IN BOLIVIA

2.1. OBJECTIVES OF THE MISSION AND DEFINITION OF SSI

As described in its terms of reference, the mission's main objectives were to determine the needs of Bolivian SSI in terms of financial and technical assistance and the role to be undertaken by IBRD, UNIDO and/or other international and bilateral organizations in order to help accelerate the development of the sector and improve its contribution to the economy of the country. Specifically, the mission was to review the present situation of SSI and its future possibilities for development in respect to the following: definition of SSI, record of growth, main branches, economic indicators of the sector, marketing, procurement, financing, management skills and techniques, institutional framework and critical areas. In addition to formal sources of information (public and private), the findings of the mission were to be based on the results of direct contacts with SSI. For this purpose, a representative sample of enterprises in the major industrial branches was to be selected and interviewed. SSI engaged in mining activities and the artisan sector were excluded from the survey because they have benefitted from special programmes of technical and financial assistance.

The official definition used by the Ministry of Industry (both INBOPIA and the Directorate of Industries) restricts SSI to enterprises having fixed assets between US\$ 2,000 and US\$ 50,000 equivalent. For the National Chamber of Industry, SSI fall within their Third Category Membership, which is defined as having paid-in capital between US\$ 2,500 and US\$ 30,000 equivalent. One must recognize, however, that these figures have not been updated since 1974, and that they do not reflect today's values of money and assets. Therefore, the Ministry of Planning and Coordination, together with private and public sector institutions dealing with SSI, as well as the mission members, agreed in the course of a meeting at the beginning of the mission to raise the upper limit on fixed investment to US\$ 100,000. This definition excludes land and buildings, because those assets are often not owned by SSI. Moreover, employment (workers and full-time administrators) was taken as a second parameter for SSI, the limits being set at 5 and 25 persons, excluding the owners themselves. Artisans, which are defined as enterprises having an investment in equipment of less than US\$ 2,500 equivalent and employing less than five persons were excluded from the survey.

The pre-selection of SSI that qualifies under the above criteria and that therefore was to be visited and interviewed by the mission was difficult due to insufficient statistical data on investment and employment.

The main industrial branches selected for the survey, in agreement with representatives of the Government and the private sector and in accordance to their economic importance for the country, were:

- Food processing
- Leather and leather products
- Wood and wood products
- Textiles and wearing apparel
- Metal products
- Building materials.

The same institutions recommended that enterprises to be visited be located in the seven major departments of the country (La Paz, Santa Cruz, Cochabamba, Tarija, Oruro, Sucre and Potosi). Preliminary lists of firms were drawn up with the help of the Ministry of Industry, Commerce and Tourism (Directorate of Industries and INBOPIA), the National Chamber of Industries, BISA, and the Bolivian consulting firm. The lists were later refined with the help of the Departmental Development Corporation and the local Chambers of Industry.

Out of 97 enterprises that were visited and evaluated on the basis of real value of equipment and actual employment, only 79 (about 80 percent) complied with the criteria regarding value of fixed investment. The employment limitation of 25 persons was met by only 55 enterprises, or 57 percent of the sample. However, because of labour-intensive production methods and owner-management characteristics, 25 companies with more than 25 employees were finally included in the survey. All things considered, the enterprises included in the survey represent a good cross-section of Bolivian SSI.

On the basis of the mission's experience, it is recommended that the SSI limits on investment value be updated periodically in accordance with suitable indexing. Additionally, an increase in the upper limit of employment for SSI to 50 persons is recommended. Without such an increase, a large number of firms having the general characteristics of SSI would be unnecessarily excluded.

2.2.

THE INDUSTRIAL SECTOR IN THE BOLIVIAN ECONOMY

Available statistical information, which has been the basis for preparing Government projections for the current Five-Year Plan (1976-1980), should be used with reservation. Many of these data, although consistent within themselves, are presently in the process of being revised by a number of agencies: by the Central Bank for economic data such as gross production value and value added; by the Central Statistical Office for population^{1/}, labour force and urban employment; and by the Ministry of Labour for distribution of employment in manufacturing industries in urban areas.

Official statistics usually combine data on SSI with those on artisanry production. Moreover, most of these data are taken from official questionnaires which, for reasons such as minimizing tax liability, tend to understate capacity, investment, production value and value added. The mission has therefore prepared a new set of economic and financial data on SSI based on officially revised information, as yet unpublished, and on the mission's findings in the course of interviews with 79 Bolivian small-scale enterprises.

^{1/}The 1976 Census established that Bolivia has a population of 4.6 million as opposed to the 5.6 million that had been estimated on the basis of the 1972 Census.

Bolivia is at an early stage of industrial development. In 1976, manufacturing industry contributed about 12.5 percent of \$b 7.4 billion to Bolivia's GNP and employed less than 7 percent of Bolivia's total labour force of about 1.5 million. The situation in 1976 can be summarized as follows:

TABLE No. 1

BOLIVIA: Selected Economic Indicators for 1976

<u>Economic Sectors</u>	<u>Value Added</u>		<u>Gross Production Value</u>		<u>Employment</u>
	<u>\$b million</u>	<u>Percent</u>	<u>\$b million</u>	<u>Percent</u>	<u>'000 persons</u>
Agriculture	10,006	17.0			740
Commerce, Hotels, Restaurants	11,371	19.3			79
Mining	4,887	8.3			46
Energy, Transport, Communications	5,232	8.9			46
Manufacturing	<u>7,370</u>	<u>12.5</u>	<u>16,785</u>	<u>100.0</u>	<u>103</u>
Food/Beverages	2,623	4.4	7,031	41.9	
Textile/leather	1,677	2.8	3,641	21.7	
Chemicals	1,722	2.9	2,532	15.1	
Other Sub-sectors	1,348	2.4	3,581	21.3	
Other Sectors	<u>20,083</u>	<u>34.0</u>			<u>186</u>
Total	<u>58,949</u>	<u>100.0</u>			<u>1,200</u> *

Source: Unpublished statistical data of the Central Bank; 1976 census on population; 1977 sample census on urban employment and households.

*/ This figure does not include under-employed or unemployed persons in urban areas.

Annexes 1 and 2 show the most recent data as well as projections on population and labour force in urban and rural areas respectively. Annex 3 gives details on GNP and overall economic growth since 1970. According to these data, Bolivia's population totalled about 4.6 million in 1976, growing at an annual rate of about 2.7 percent. The Bolivian economy grew at a healthy average rate of 6 percent per year between 1970 and 1976; the manufacturing sector grew slightly faster at an average rate of 7.2 percent per year. These results were achieved during a period of political stability, of increased world market prices for Bolivia's main exports (minerals and non-ferrous metals) and of favourable weather conditions for agricultural products.

At the end of 1977, a degree of uncertainty was introduced with the announcement of general elections scheduled for mid-1978. This and other political events that took place in the meantime reduced prospects for economic growth, at least during 1978. However, on-going efforts to increase world market prices for hydrocarbons, coupled with an increase in domestic production of hydrocarbons as well as of agricultural and industrial goods, are expected to counter-balance any negative effects arising from political uncertainty. The Bolivian economy may, therefore, continue to grow at a steady rate of about 6 percent per annum, as during the 1970-76 period.

Annex 4 and the summary table on the previous page clearly indicate that consumer goods continue to be the main products of Bolivian manufacturing industries. Food products and beverages account for about 42 percent of industrial output, and textiles and leather products for about 22 percent. The chemical industry, as the third largest sub-sector, accounts for about 15 percent of industrial output.

The most recent investigations into employment in urban areas, where most of industrial labour is recruited, are shown in Annex 5. These figures indicate that about 236,000 persons, or 31 percent of the total urban labour force, are presently under-employed, i.e. are subject to irregular working hours and fluctuating, generally low income. The unemployed constitute about 61,000 persons, or 8 percent of the urban labour force. These figures also show the important role that manufacturing industry, and presumably SSI, will have to play in helping to solve unemployment problems.

Information on the total number and size of Bolivian industrial enterprises is incomplete and contradictory. The National Registry of Industries maintained by MICT is incomplete. Despite the fact that registration is obligatory, an estimated 30 percent of all enterprises, especially the smaller ones, have failed to comply. Membership in the National Chamber of Industries is voluntary and covers small, medium and large industrial enterprises, excluding artisans, which NCI defines as enterprises with less than US\$ 2,500 of paid-in capital. In 1976, total membership was 920 enterprises, which NCI estimates to represent about 50 percent of all existing industrial enterprises excluding artisans. These estimates are close to the mission's conclusions, which are derived from employment data.

Official data on industrial employment are equally incomplete and contradictory (see Annex 6). Starting with total industrial employment (103,000 persons in 1976) and applying average employment figures for artisanry and small-scale enterprise (3.3 for artisanry and 21 for SSI), the mission arrived at the following break-down:

TABLE No. 2

BOLIVIA: Number of Industrial Enterprises and Employees

<u>Size of Enterprise</u>	<u>Number of Enterprises</u>	<u>Number of Employees</u>
Large and Medium	350	20,000
Small-Scale	1,600	33,000
Artisanry	15,000	50,000
Total	16,950	103,000
	=====	=====

Source: Mission estimates

2.3.

THE IMPORTANCE OF SSI IN THE BOLIVIAN ECONOMY

The mission attempted to determine the degree of SSI participation in Bolivia's economy by estimating its share in certain major economic parameters.

The share of SSI in gross domestic product (GDP) was around 4.4 percent in 1976 (see Table No. 3). During the same year, the SSI share in total value added by manufacturing industry was in the order of 35 percent. This figure is relatively close to an estimate made by INBOPIA in 1972.

TABLE No. 3

BOLIVIA: Share of SSI in GDP

	<u>US\$ Million (current)</u>	
	<u>1970</u>	<u>1976</u>
Gross Domestic Product	2,079.3	2,947.5
Value Added by Manufacturing Industry	248.3	368.5*
Value Added by SSI	n.a.	129.3

	<u>Percent</u>	
	<u>1970</u>	<u>1976</u>
Value Added by Manufacturing Industry/GDP	11.9	12.5
Value Added by SSI/GDP	n.a.	4.4
Value Added by SSI/Value Added by Manufacturing Industry	n.a.	35.1

* This figure is calculated by multiplying the average annual sales per small-scale enterprise (US\$ 188,000 equivalent) by the total estimated number of small-scale enterprises (1,600), in turn multiplied by 43 percent value added. The 43 percent figure was derived from data collected from companies interviewed by the mission.

Source: National Accounts and mission estimates

The official figures in respect to Bolivia's labour force and industrial employment required adjustment on the basis of the results of the 1976 National Census on Population. Based on these adjustments, Bolivia's labour force in 1976 totalled about 1.5 million, of which about 50 percent were located in urban areas. Employment in manufacturing industries was about 7 percent of the total labour force, and employment in SSI almost one third of employment in manufacturing and about 2 percent of the total labour force. This is summarized in the following table:

TABLE No. 4

BOLIVIA: Share of SSI in Total Labour Force and in Labour Force
in Manufacturing Sector

	<u>Thousands of Persons</u>	
	<u>1970</u>	<u>1976</u>
Total Labour Force	1,264.4	1,510.5
Employment in Manufacturing	88.3	103.0
Employment in SSI	25.0	33.0
	<u>Percent</u>	
	<u>1970</u>	<u>1976</u>
Employment in Manufacturing/ <u>Total</u> Labour Force	7.0	6.8
Employment in SSI/ <u>Total Labour Force</u>	2.0	2.2
Employment in SSI/ <u>Employment in</u> Manufacturing	28.2	32.0

Source: 1976 National Census on Population, 1977 Sample Survey on Urban Employment, and Mission estimates.

In 1976, the investment for capacity increase and replacement in manufacturing industry, both public and private, amounted to US\$ 121.5 million equivalent, of which the mission estimates that SSI's share was US\$ 19.2 million equivalent, or around 16 percent. The 1972 figure on industrial investment is about 25 percent of the 1976 value, while the share of SSI in the total is more than 36 percent or twice that of 1975. These figures indicate a relatively greater increase in investment in medium and large-scale manufacturing industry than in SSI during the period 1972-1976. Data are summarized in the following table:

TABLE No. 5

BOLIVIA: Investment in Manufacturing Industry

	<u>US\$ million</u>		<u>Percent</u>	
	<u>1972</u>	<u>1976</u>	<u>1972</u>	<u>1976</u>
Total Incremental Investment in Manufacturing Industry	30.0	121.5	100.0	100.0
Investment in SSI	11.0	19.2	36.7	15.9

Source: Five-Year Plan for Economic and Social Development, 1976-1980, Operational Plan 1977, and Mission estimates.

There is a paucity of data available on small-scale industry, and therefore the mission has estimated investment in SSI by the following method: The average replacement value of total assets per small-scale enterprise in the sample was found to be about US\$ 141,000 equivalent. When multiplied by the total number of companies (1,500), total assets of SSI should have a **current** value of about US\$ 225 million equivalent. Future expansion, estimated at a conservative 7 percent per annum, would result in an annual investment of US\$ 15.3 million equivalent. Added to this is the annual investment for replacement of existing assets. The sample survey showed that SSI's investment in machinery and equipment is equal to about 30 percent of total assets. It was also found by the mission that machinery is used for a relatively long period of time, and an average lifespan of 20 years has been assumed. Using these assumptions, the annual amount required for replacement of equipment should be in the order of US\$ 3.4 million equivalent. Therefore, annual investment in SSI, for both new and replacement assets, is estimated to be around US\$ 20 million equivalent.

It is worthwhile noting the share of various sub-sectors of SSI in total employment, in the number of registered enterprises, in the value of gross production, and in value added. To do this we have assumed that those companies which are registered with INBOPIA are representative of Bolivian SSI. Details are given in the following table:

TABLE No. 6

BOLIVIA: Statistical Data on Sub-sectors of SSI, 1976

	Employment	No. of Registered Enterprises	Gross Prod. Value	Value Added
	%	%	%	%
Food/Beverages	22.5	20.2	38.0	19.9
Textiles and Leather	15.6	21.6	17.7	17.4
Wood and Furniture	28.8	23.5	15.0	25.4
Paper and Printing	6.0	7.8	4.1	8.3
Chemical Products	5.6	4.1	13.7	11.0
Mineral Products	5.4	6.1	3.0	5.7
Non-Ferrous and Ferrous Metals	6.8	5.8	2.3	6.4
Engineering	4.4	5.8	3.4	3.8
Others	4.9	5.1	2.3	2.1
Total	100.0	100.0	100.0	100.0
	=====	=====	=====	=====

Source: INBOPIA, unpublished draft on SSI and Artisan workshops.

This table shows that food processing and beverages, textiles and leather, and wood products are by far the most important activities of SSI in Bolivia. Therefore, the bulk of the financial and technical assistance to SSI should probably be directed to these activities.

2.4.

REGIONAL DISTRIBUTION OF BOLIVIAN SSI

Generally, industry is concentrated in and around urban centers, where infrastructure is more developed in terms of communications, power, water, sewerage, banking, community services, etc. Proximity to the main markets and to labour are also determining factors for the concentration of industry in and around cities and larger villages.

The greatest concentration of SSI at the center of a city was found in La Paz, whereas in the case of Cochabamba and Santa Cruz dispersion of industries to the peripheral areas is beginning to occur. There is less industry in Oruro, Sucre, Tarija and Potosi, while in other towns and villages and in rural areas SSI is virtually non-existent. In rural areas, mainly large agro-industries, such as sugar mills or vegetable oil extraction plants, are to be found.

One measure of the regional distribution of Bolivian SSI is its share in total employment by Department. The following table shows the close correlation between distribution of employment by Department and the percentage of firms visited by the mission in each Department.

TABLE No. 7

BOLIVIA: Geographical Distribution of SSI According to Employment and Selected Sample

<u>Departments</u>	<u>SSI Employment 1975</u>	<u>Firms Visited by Mission</u>
	%	%
La Paz	61.6	48.0
Cochabamba	17.5	21.0
Santa Cruz	11.4	11.0
Oruro	5.3	6.0
Chuquisaca	2.5	5.0
Tarija	0.8	6.0
Potosi	0.6	5.0
Beni	0.3	-
Panlo	-	-
TOTAL	<u>100.0</u> =====	<u>100.0</u> =====

Source: Ministry of Labour, "Labour Statistics"; and mission visits to selected SSI.

2.5.

SURVEY RESULTS

As described in the mission's terms of reference, a representative sample of 79 enterprises was selected, all falling within the agreed definition of SSI and representing the most important small-scale industrial activities (food processing, textiles and wearing apparel, leather and leather products, wood and wood products and building materials). Mission members, accompanied by Bolivian counterparts, visited companies in La Paz, Santa Cruz, Cochabamba, Oruro, Potosi, Tarija and Sucre, as indicated in Table 1 of Annex 7, which also contains information on age, size, type of employment, industrial activity, volume of sales, and technical evaluation of the sample firms.

2.5.1.

GENERAL CHARACTERISTICS

The average age of the 79 companies was found to be 18 years. The average number of workers was 21. Other characteristics and comparable data from Peru, as an example of another Latin American country at a somewhat higher level of industrial development, are shown in the following table:

TABLE No. 3

BOLIVIA: A Comparison of Characteristic . . . in Bolivia and Peru

	<u>BOLIVIA (1976)</u>	<u>PERU (1975)</u>
Fixed assets per worker (US\$)	2,100	4,600
Gross output per worker (US\$)	3,950	13,700
Value added per worker (US\$)	3,100	6,400
Value added by SSI as a percentage of value added by manufacturing industry (%)	35.1	46.7

Source: Mission interviews with Bolivian SSI; IBRD Small-Scale Industry Survey Mission to Peru (December 1977).

The above data may indicate that Peruvian SSI is at a more advanced stage than Bolivian SSI in terms of productivity and value added^{1/}.

^{1/} In Peru, SSI are defined as private enterprises with annual sales of up to US\$ 360,000 equivalent and a maximum of 49 employees (see IBRD Small-Scale Industry Survey Mission to Peru, report dated December 1977).

In 95 percent of the cases, the Bolivian companies are owned and managed by individuals or families, and the others (usually the largest companies in the sample) have no more than 5 partners. Products manufactured are mostly consumer goods, of medium and low quality, sometimes of artisan type. Generally speaking, equipment is old, sometimes second-hand, and often poorly maintained. The owner is in most cases the only source of technical training for employees. Capacity utilization, defined as the ratio of actual production to production available in a normal year (365 days, one 8-hour shift), is on the average 40 percent, the main reasons being the limited demand for products and the shortage of working capital.

MARKETING

Due to the disadvantages of being a land-locked country with rugged topography and inadequate infrastructure, the markets for Bolivian industry are necessarily largely limited to the urban centers where the production units are located. Existing surface transportation systems are inefficient, unreliable and costly. Contraband and production from non-registered and thus non-tax paying enterprises (especially artisans) make it difficult for registered SSI to be competitive. A number of smaller companies operate on the basis of special orders only and not for stock, thus in some instances increasing the cost of production. In such cases the financing of raw materials is made easier by the fact that the down-payment required can be used for this purpose. Those who produce for stock frequently face the problem of insufficient working capital, even though sales are made on a cash-basis. In exceptional cases, interest-free credit up to 60 days is granted to customers. Commercial letters of credit are generally not used because of the difficulties experienced in re-discounting them and the lack of familiarity with their use.

Sub-contracting arrangements between large companies and SSI are utilized in other countries as a means to promote industrial development, and especially the development of SSI. In Bolivia, however, sub-contracting is not yet practised even by large Government-owned enterprises such as Corporación Minera de Bolivia (COMIBOL), Yacimientos Petrolíferos Fiscales Bolivianos (YPFB) and Empresa Nacional de Ferrocarriles del Estado (ENFF). On the contrary, these entities still accept merchandise from SSI on a commission basis and pay on an irregular schedule, sometimes up to 6 months after consignment.

Exports of SSI are limited to handicrafts, some food and leather products and wearing apparel. The enterprises visited exported less than 3 percent of their combined sales in 1976 (see Table 8 of Annex 7).

Enterprises with high quality products generally do not face marketing problems. Their limitations to increased sales are related to the lack of resources for financing additional equipment and permanent working capital.

2.5.3.

PROCUREMENT

The same inefficient transportation systems that impede delivery of products to more distant markets make raw material supply difficult and expensive. SSI located in La Paz, Cochabamba and Santa Cruz can purchase raw materials from local importing firms, while those in smaller towns such as Potosi and Sacre often have to transport their raw materials from far-away importers.

As a result of limited working capital, some small entrepreneurs are unable to import raw materials directly from abroad in the relatively large quantities that represent minimum orders. Instead they are obliged to purchase on a short-term basis from importing firms, and in so doing are unable to take advantage of customs **duty** exemptions, even when eligible under existing regulations. Additionally, SSI must usually meet cash-payment conditions, although they sometimes obtain short-term credits of up to 60 days at an interest rate of 1 to 3 percent per month. The general rule is to buy raw materials and other inputs for cash and sell finished products for cash.

Industries processing local agricultural raw materials have to deal with high prices, low quality and limited quantities, due in part to the early stage of development of modern agricultural and animal husbandry methods. In addition, illegal exports of raw materials of the best quality (e.g. hides to Argentina) reduce their availability at reasonable prices for Bolivian industry. Another factor depriving small industrialists from using high quality raw materials is the lack of storage and seasoning facilities (e.g. fruits, grains and timber).

As might be expected, industries producing traditional consumer goods, such as food and cotton textiles and wearing apparel, are less dependent on imported raw materials than are enterprises producing non-traditional, more sophisticated products, such as chemicals, metal and electronic products. Table No. 9 indicates the general origin of raw materials used by the main industrial branches of Bolivian SSI.

TABLE No. 9

BOLIVIA: Local and Imported Raw Materials
by Branch of SSI, 1975

<u>SSI Branch</u>	<u>Local Raw Material Percent</u>	<u>Imported Raw Material Percent</u>
Food, Beverages, Wood and Wood Products, Furniture, Non-Metallic Minerals	80 - 100	0 - 20
Clothing, Leather and Leather Products, Non- Ferrous Metals	50 - 80	20 - 50
Shoes, Chemical Products	20 - 50	50 - 80
Printing and Publishing, Chemicals, Glass Products, Metal Products, Mechanical and Electrical Equipment	0 - 20	80 - 100

Source: INBOPIA, unpublished report on SSI and artisan type
production in Bolivia.

2.5.4.

MANAGEMENT

As is the case in most developing countries, a characteristic of SSI in Bolivia is one-man or one-family management. Even in the case of a family-owned enterprise, the tendency is for the strongest personality (generally the oldest man) to assume all functions and responsibilities inherent to the operation, from the acquisition of raw materials and the hiring of personnel to the sale of finished products and the keeping of elementary financial and production records. Sometimes the same person is also involved in actual production, in operating machines and tools and even in carrying materials.

A result of this situation is resistance to growth, because beyond certain limits it is not possible for one person to control all things. Instead of introducing middle management and thus evolving into medium-scale industry, enterprises are often kept small or within what is considered to be a "manageable size". Therefore, and taking into consideration the limited market and the relatively low capacity utilization, it is not surprising that 51 percent of the companies visited by the mission were found to be more than 10 years old, 31 percent to have existed for more than 20 years, and the average age to be 18 years.

The concentration of authority at the administrative level is shown by the fact that, within the sample, the average number of persons with administrative capacity is 1.5 per enterprise, whereas the average number of workers engaged in production is 19.5 per enterprise. These results do not consider the usual practice of employing part-time accountants and other part-time help.

Normally, the manager-owner is a person with many years of experience in production (e.g. a competent carpenter, shoemaker or tailor), well-versed in the simple production techniques that are characteristic of SSI in Bolivia. On the other hand, he usually lacks formal management training, and his practical experience is often affected by misconceptions especially in his relationships with Government and competitors. He usually does not know the basic elements of accounting, production planning and control, and marketing. Financial statements are generally prepared by outsiders for official purposes and rarely reflect actual conditions. Unfortunately, financial data are usually not used as tools to measure performance and to signal trouble spots, but rather to minimize tax obligations.

The organization of the production process was generally found to be inefficient, with resulting waste and accumulation of materials in process along the production lines. Low product quality and high production costs are the result of the poor management observed.

As a general rule, no efforts are made to open new markets in neighbouring towns, regions or countries, partly due to a non-aggressive management attitude.

The generally low level of managerial capability within SSI could be at least partially improved by Government-sponsored extension services, which at present do not exist in Bolivia. The most urgent needs fall within the following categories:

Financial Management, including general, cost and cash accounting.

Industrial Management, including product design, quality control, materials utilization, materials flow, production techniques, industrial safety, and plant maintenance and repair.

Operational Management, including procurement of raw materials, marketing of finished products and market research. Project preparation, compliance with Government requirements, and knowledge of business legislation should also be included in this category.

This type of technical assistance needs to be organized by the Bolivian Government through a public institution, with help from international organizations. Since many Bolivian SSI are already accustomed to paying for accounting services, it is conceivable that a nominal fee might be charged to the beneficiaries. However, even if assistance is given on a free-basis, the costs to the Government would be compensated by increased employment, increased income tax revenues, and a healthier SSI sector.

Another important contribution would be the organization of "Management Centers", where seminars on the most important management, administrative and production techniques, at the appropriate levels and using competent instructors from Bolivia and abroad, might take place periodically to complement the practical experience of Bolivia's small-scale businessmen. At present, there is no public or private institution engaged in these activities. It is also a field where international assistance might play an important role.

In general there is a lack of confidence on the part of small-scale entrepreneurs in Government authorities, who give the impression that helpfulness is not their main concern. This is a situation that will take some time to change, requiring a real effort on the part of public institutions to show that they can be useful as channels of financial and technical assistance. It is an obvious recommendation that public institutions should try to improve their image by becoming more efficient and genuinely helpful.

LABOUR, SKILLS AND WAGES

The sample results show that 29 percent of workers in SSI are skilled, 39 percent semi-skilled, and 28 percent non-skilled. As a matter of definition, a skilled worker is a person with more than 5 years of on-the-job experience, usually as a machine operator, with the ability to perform his work with a minimum of supervision. In 99 percent of the cases he has been trained in the same enterprise in which he is employed and where he was initially recruited as an apprentice. Usually he has no formal training.

It appears that most Bolivian workers have the ability to learn their trades quickly. However, as is often the case in other Latin American countries, their sense of responsibility is questionable and they are often unwilling to accept regular working hours. Therefore, when a Bolivian entrepreneur speaks of lack of "qualified personnel", he is often referring to a lack of personnel that are willing to accept responsibility. Industrialists report that absenteeism is high among workers and is one of the reasons for low capacity utilization. They also cite carelessness, indifference to the company's welfare, and continual demands for increased compensation and fringe benefits as other negative attitudes.

On the other hand, some of the smaller companies and artisan shops are known to pay wages well below the legal minimum, to avoid paying bonuses, and to retain indefinitely an employee's social security contributions. Under such conditions, it is hard to find workers with a sense of responsibility and even harder to justify high profits when they are obtained by the above methods.

There is a jumble in the existing labour legislation. Minimum wages are seldom revised, and the preferred method to increase compensation is to add another bonus to the extent that wages themselves are only a small part of total compensation. The system has many loopholes and leads to confusion and misinterpretation. Despite the inconsistencies found in the information obtained directly from the companies' managers, the most frequent ranges for monthly labour compensation, including fringe benefits, are shown in the following table:

TABLE No. 10

BOLIVIA: Monthly Labour Compensation in Small-Scale Industries

	<u>Bolivian Pesos</u>	<u>U.S. Dollars equivalent</u>
Skilled workers	3,500 to 4,500	175 to 225
Semi-skilled workers	2,500 to 3,500	125 to 175
Non-skilled workers	1,000 to 2,500	50 to 125

Source: Mission survey results

Examples of fringe benefits (which are not always provided) are "Christmas bonus", "half year bonus", "prima legal" (25 percent of company's profits before taxes), social security contributions, and commissary services for companies with more than 20 workers. These benefits range from 20 to 68 percent of base pay. The degree to which observed varies by location and even from company to company within the same area.

Aware of the need to up-date and consolidate existing labour legislation, the Bolivian Government is studying a new Labour Code (November 1977) that will, hopefully, eliminate problems of comprehension and inconsistency of application. Consistent and clear information is necessary for both existing industries and new ventures.

2.5.6.

TECHNICAL ASPECTS

Only 42 percent of the companies visited showed a satisfactory level of capacity utilization (more than 60 percent of installed capacity), while the average is 40 percent. The most frequent reasons given for low capacity utilization are (1) insufficient demand for products and (2) shortage of working capital. From the technical point of view, production bottle-necks, equipment break-downs and low productivity and unreliability of labour are the main factors responsible for this situation. Transport problems and inadequate quantity and quality of raw materials are other constraints. No correlation was found between age of companies and capacity utilization (see Tables 2 and 10 of Annex 7).

Despite the rather simple production processes and technology used by SSI in Bolivia, about one third of the companies included in the sample were found to need technical assistance to improve their production techniques. Most of them appear to need help to improve product design and quality as well.

The majority of SSI operate in rented premises or within the owner's home. Despite adaptations, neither location is likely to provide a proper layout, with easy access, smooth flow of materials, and comfort and safety for the workers. For some, the problem could be solved by moving to industrial estates, the construction of which should be further encouraged, or to their own premises with the proper financial assistance. For others that must remain in the center of urban areas for proximity to markets and other reasons, stricter Government construction and building codes may be the only solution, particularly as concerns the safety and welfare of workers.

Wastage of raw materials is due mostly to reluctance to use proper measuring and carrying devices and to deficiencies in the training of workers. Little attention is paid to wastage of electricity, water, and fuel.

Machinery and equipment are in general old, in conformity with the age of the companies. In some cases it was found that second-hand equipment from Brazil and Argentina had been imported for initiating operations. Lack of maintenance and repair are among the negative aspects observed, especially in the case of smaller companies. Difficulties in obtaining long-term credit for replacement and modernization and the limited size of existing markets are among the primary reasons for the frequent use of worn-out equipment.

2.5.7. FINANCIAL ASPECTS

2.5.7.1. RELIABILITY OF DATA

In studying the financial position and results of SSI in Bolivia, it must be kept in mind that statistical data based on tax returns are to a large degree inaccurate. It is common practice for small firms in particular to report only a small portion of total sales revenue, with the result that only a fraction of the potential tax liability is actually paid. This leads to distortion of net worth as well as to a fabrication of cost and profit figures. Tax returns are usually prepared by professional accountants employed on a part-time basis. From the point of view of the entrepreneur, the high cost of this special service is more than justified by the tax savings. It is apparent that statistics on profitability of SSI would be significantly altered if reporting of income were more strictly monitored by the Government. Officially the corporate income tax rate is 30 percent except when, as an investment incentive granted by INI, the rate is reduced to 25 percent.

In view of the practice described above, the mission tried during the interviews with SSI to ascertain real figures and values in preference to those reflected in official accounting records. These efforts often, but not always, met with success. This meant being content with verbal approximations, as written records reflecting real income and expense were rarely in evidence. Nevertheless, the mission feels more confident in the figures obtained in the course of the interviews than in any official written records.

2.5.7.2. PROFITABILITY

In spite of inefficiencies, limited market potential, transport problems, inaccessibility of bank credit, and occasional unfair competition from contraband goods, SSI in Bolivia were found to be generally profitable. As explained in Section 2.5.7.1., one reason for this profitability is the low effective rate of taxation. Another reason is the existence of a large and cheap labour force that does not always receive minimum wages and benefits.

When profit is measured against the investment committed to obtaining this profit, we found that half of the companies interviewed reported gross earnings in excess of 20 percent of total assets. As mentioned earlier in this report, asset values used are realistic present day values based upon the owners' oral estimates. Seventy-three percent reported more than a 5 percent return on total assets. Only 4 out of 79 companies were in a loss position, and that was believed to be a temporary situation. Profits remaining after taxes and after compensation to creditors in the form of interest were in excess of 10 percent of total assets for 45 percent of the sample.

The earning power of the ownership investment was found to be correspondingly high. Thirty-eight percent of the firms interviewed reported a greater than 30 percent return on net worth, and 55 percent indicated a greater than 10 percent return.

Profit margins are normally high. Earnings before interest and taxes were found to be greater than 20 percent of sales in almost half of the cases examined. For the same number of cases, net profit exceeded 10 percent of sales, and this would probably have been higher if all respondents had been candid about giving their real sales and profit figures. An analysis of ratios regarding profitability is at Annex 8.

The profitability described above must be considered also in light of the relatively low inflationary trend in the economy, which has varied between 5 and 10 percent per year over the past 3 years.

2.5.7.3. LIQUIDITY AND INDEBTEDNESS

Annex 9 contains a summary of ratios pertaining to liquidity and indebtedness.

The mission found a general pattern of strength among SSI in terms of ability to meet current obligations. Data on current assets and current liabilities were obtained only in La Paz, Cochabamba and Santa Cruz, and in these areas 65 percent of the companies interviewed reported current assets greater than twice the amount of current liabilities. This reflects a tendency, at least on the part of the more affluent concerns, to carry large inventories in response to supply problems, the inability to obtain raw materials on a credit basis, and the disinclination to incur short-term debt because of its relatively high cost and difficult (for SSI entrepreneurs) application procedures.

The assumption that small firms in Bolivia operate for the most part with their own funds and rarely with borrowed money was verified during the survey. In only 24 percent of the cases were more than 50 percent of total assets financed by a company's creditors. In 41 percent of the cases less than 20 percent of total assets were provided by debt, either long or short-term. Three firms reported no debt of any kind. The position becomes even clearer on examination of long-term debt in the capital structure of the companies. Forty-six percent of the firms interviewed reported no long-term debt at all, and 78 percent of the firms had less than 20 percent of their capital resources in long-term debt. Only 11 firms reported a greater than 30:70 debt/equity ratio. Non-availability of long-term money on reasonable terms is a major reason for this minimal borrowing, and of paramount significance is the problem of providing collateral. It is also worth noting that small businessmen show a certain reluctance to expose themselves to bank audits in connection with loans, lest this act affects their tax obligations.

2.5.7.4.

BANK CREDIT

Almost without exception the companies interviewed cited inaccessibility of bank credit on reasonable terms as a major financial problem tending to limit their activities and acting as a disincentive to investment. The owners of small businesses generally find it difficult to obtain bank financing, particularly in the form of long-term loans, particularly for permanent working capital, and particularly in the more remote areas. The delay experienced in processing loan applications, a procedure little understood by small-scale businessmen, is a further deterrent to applying for bank loans.

Bolivia's commercial banks are reluctant to lend to SSI because of the risks they perceive in the operating methods of SSI. Conflicting opinions were obtained in respect to whether there is in fact a higher risk in lending to SSI than there is in lending to larger firms. Inasmuch as Bolivian SSI are found to be just as profitable if not more profitable than medium and large enterprises, the fear of high risk may be more imagined than real. More than likely the behaviour patterns of small businessmen undermine confidence on the part of the bankers. Commercial banks are reluctant to lend to SSI also on the grounds that loan applications from this sector are costly to process in terms of time and attention and that the loans are expensive to supervise, particularly when one considers the relatively small amount involved in each loan. Bankers claim that an inordinate amount of staff time is needed to extract the necessary qualifying data from small-scale entrepreneurs. It is a fact that for lending to SSI the spreads on existing lines of credit are not attractive relative to alternate investment possibilities available to the commercial banks.

The terms under which bank credit is available are almost always considered by small-scale entrepreneurs to be unreasonable, first in terms of interest rates charged, second in respect to repayment periods, and third in regard to collateral requirements.

In Bolivia, interest rates are in fact relatively high because the financial cost of resources to the banks is high. Interest rates paid on peso savings deposits range from 10 percent to 11.75 percent. US dollar deposits yield up to 9 percent per annum. The average cost of resources to Bolivian banks is roughly 8 percent, varying according to the proportion of savings accounts to current accounts, the amount of rediscounting in which a bank engages, and the amount of foreign borrowing incurred. Interest rates charged by commercial banks to SSI vary from 12 percent for loans discounted at the Central Bank to more than 30 percent on short-term commercial loans with interest prepaid and various commissions attached (see section 3.4.2.). Local currency loans from the Banco Industrial (BISA), which are rarely made available to SSI according to the mission's definition, are made at 15 percent, and foreign currency loans from the same source cost in the order of 12 percent. Companies that are forced, because they cannot meet the conditions of commercial banks, to go to private money lenders for short-term credit, must pay effective interest rates ranging from 5 to 10 percent per month. In order to avoid delays, red-tape, and the possible embarrassment involved in asset appraisal (viz. tax liability), SSI often obtain bi-lateral financing from foreign banks in connection with the purchase of machinery and equipment (see section 3.4.2.).

Repayment periods on loans from commercial banks are usually less than 5 years, and grace periods are rarely available. There is, however, a movement into longer maturities, because recent bank legislation is forcing the commercial banks to keep a larger percentage of their portfolios in medium-term loans (see section 3.4.2.). The principal private development bank BISA, makes working capital loans for up to 3 years and loans for fixed assets up to 10 years.

The general practice among Bolivian banks is to take personal guarantees on all loans under 3 years, and mortgages on real property, machinery and equipment and inventories as collateral for loans from 3 to 5 years. Loans for longer periods usually carry both types of guarantees. The guarantee policy is conservative, the banks normally requiring up to 3 times loan coverage in the case of real estate and up to 2 times coverage in the case of machinery and equipment. A number of firms interviewed asserted that banks ask for loan coverage of 2 or 3 times, but this contradiction probably stems from disagreement over the fair market value of the asset in question, the banks' appraisers attaching lower values than the owners themselves tend to estimate. In any case, SSI usually consider guarantee requirements to be excessive and a real hindrance to the usage of bank credit.

In the opinion of the management of the Banco del Surado, the standard forms of collateral should not be applied to SSI. Instead, more reliance should be placed on the merits of a project itself as the best form of guarantee, and this raises the question of technical assistance to entrepreneurs in preparing bankable projects.

Another form of guarantee as yet little used in Bolivia is the assignment to the financing agency of the sales proceeds resulting from the implementation of any given project. However, this once again calls for strict supervision, which the banks find costly and are reluctant to accept. In any case, it is necessary to agree with the Banco del Estado that special and not standard arrangements need to be made for security on loans to SSI due to their general inability to meet standard collateral requirements. The proposed Productive Credit Guarantee Program of USAID and the Central Bank merits special attention in this regard (see section 3.4.1.1.).

3. INSTITUTIONAL FRAMEWORK

3.1. GOVERNMENT POLICIES

The Five-Year Development Plan 1976-1980 calls for a more dynamic and balanced participation of the industrial sector in GDP, pointing to the rather low (12.5 percent) contribution achieved in 1976 and to the composition of industrial output, the latter consisting mainly of consumer goods that are usually manufactured in small and inefficient units. The plan envisages a growth rate for industrial production of 9.8 percent per year compared with an average of 7.2 percent achieved in the previous five-year period. According to the Plan, the country is to take advantage of export possibilities within the Andean Group and other neighbouring regional markets, and an expansion of the domestic market corresponding to an increase in population, personal income, and availability of raw materials (e.g. minerals, natural gas and oil, and farm commodities).

Total new investment in industry for the five-year period is estimated at US\$ 2.2 billion, of which about US\$ 1.7 billion (76 percent) are for public sector projects. Strong emphasis is put on large projects, especially those destined for the Andean Market (metal, mechanical, petrochemical and automotive products), and the processing and refining of minerals (tin, copper, zinc, silver, and bismuth).

No mention is made in the Five-Year Plan of the role SSI are expected to play. In fact, there is not a clearly defined policy towards this sector, although it is obvious that many components, intermediates and services necessary for the larger projects will have to be supplied from small and medium-size enterprises. These inputs must be planned and organized well in advance.

This lack of a Government policy toward SSI is reflected at all institutional levels, where preference for large projects or enterprises is apparent. The situation is not likely to change as long as performance of Government agencies dealing with industrial development is measured in terms of investment value and/or value of industrial output.

Another tendency is to confuse SSI with the artisan sector at the other end of the scale. Although artisans and small industrialists have some common features (owner-management and

problems of access to credit, incentives and Government protection), they are essentially different in Bolivia. Artisans belong to the informal sector, function more or less at the margin of the Government's knowledge and control, and are therefore not subject to taxation or regulations regarding minimum wages and fringe benefits. SSI are expected to conform to Government regulations, although the degree to which this is enforced varies considerably.

Small businesses in other sectors of the economy, such as mining, agriculture and artisanry, are nowadays receiving more attention than are SSI from the Government and from institutions like IBRD and USAID. These institutional lenders have exerted considerable influence in the establishment of policies and procedures favouring the development of certain sectors as a pre-condition for financial assistance. Some aid programmes in both rural and urban areas focus on small business as a means to fight poverty and achieve a more rational and just income distribution. However, Bolivian SSI seem to have benefited only marginally from these programmes.

The situation of SSI in Bolivia contrasts with other countries, including those with a high level of industrialization, where there is recognition that problems affecting SSI differ from those of large and medium-size enterprises and from those of the artisan sector. This recognition has led to special legislation and treatment for SSI on the understanding that these units are the seedlings of larger enterprises. A weak and stagnant SSI sector, such as we find in Bolivia, is not conducive to sound industrial development. Therefore, in the opinion of the mission, the Bolivian Government should initiate a comprehensive plan in favour of SSI, setting-up adequate policies and goals, establishing priorities for industrial activities, and identifying critical areas in which governmental action is necessary. At the same time, reorganizing and otherwise strengthening of existing Government institutions should be carried out.

3.2.

INVESTMENT INCENTIVES

Incentives for all new investment are granted under the "Investment Law" (Decree-Law No. 10045 of 10 December 1971), which is administered by the National Institute for Investments (INI). Chapters V and VI of the Investment Law deal with industry. The "Rules for National Industrial Integration" (Supreme Decree No. 13050 of 7 November 1975) apply to assembly industries and give INI the right to decide upon Government incentives on the basis of projected value added. In neither case is SSI treated differently from any other industrial enterprise.

The incentives provided under the Investment Law are summarized in Annex 10. The most important incentives are: (1) exemption from import duties on machinery and equipment, raw materials and supplies not produced in Bolivia, (2) refund of customs duties on raw materials and supplies re-exported as finished products, and (3) in certain cases income tax exemption proportional to reinvestment of profits. New industries are divided into three categories

according to the economic importance of each activity, the first category receiving maximum incentives. Activities included in the first category are those related to the programmes of the Andean Group (metal, mechanical, petrochemical, chemical, pharmaceutical, automotive, electric and electronic products). The second category includes production of intermediate goods and inputs for first category products, agro-industries, consumer goods and explosives. Other products not covered in the first two groups belong to the third category.

In addition to failing to provide special treatment for SSI, the Investment Law and its application have disadvantages for the small-scale entrepreneur. An application for benefits requires a complete feasibility study of the proposed investment, even for a modest investment or replacement or improvement of existing installations. Since in a great number of cases the incentives are limited to customs duty exemption on imported machinery and equipment (about 10 percent of c.i.f. value), many SSI are excluded because the cost of the feasibility study exceeds the benefits. Additionally, applicants report 6 to 24 months processing time for applications for incentives with corresponding price increases which SSI cannot afford. To many small-scale businessmen the Investment Law is difficult to understand, thereby necessitating explanations and assistance in preparing applications for incentives. In some cases complete ignorance of the Investment Law was found to exist, indicating that its promotion is necessary.

Export incentives are confined to the "draw-back" system for imported raw materials and inputs. For financial and practical reasons, SSI are not able to import directly and thereby benefit from the system. Information regarding fiscal incentives for exporters frequently reaches only the intermediaries engaged in export sales and not the manufacturers. In contrast, other Latin American countries have export bonuses which allow for the refunding of custom duties on locally purchased raw materials and supplies that were originally imported by commercial firms^{1/}.

Together with simplification of existing application procedures, the Investment Law urgently requires amendment if the Government seriously intends using it as a tool to promote private investment in general. The present requirement for a complete feasibility study in order to establish eligibility for incentives, while obviously necessary for new ventures, should be relaxed in favour of a briefer justification for expansion or modernization of existing small-scale businesses. The incentive for the reinvestment of earnings, namely reduction of taxable income by the amount of the reinvestment, is at present limited to further investment in the same company which generated the earnings. It is recommended that this incentive apply to the creating of new capacity in any form, e.g. in new ventures or

^{1/} Export incentives of this nature were recently enacted in Bolivia but are not yet in effect (Decree-Law No. 14803 of 8 August 1977).

in other existing firms. Decentralization of industry to less developed regions of the country could be assisted through utilizing this incentive.

All such modifications of existing incentives and the introduction of new incentives could justify new and special legislation for SSI or the incorporation of special provisions into existing legislation.

3.3. INSTITUTIONS DEALING WITH SSI^{1/}

3.3.1. THE SECRETARIAT OF THE NATIONAL COUNCIL FOR ECONOMY AND PLANNING (CONEPLAN)

CONEPLAN performs the general tasks of planning and co-ordinating for all sectors of the economy. It is also in charge of preparing social and economic surveys for the various executive bodies of the Government. CONEPLAN has played an important role in the preparation of the Investment Law and in the creation of the existing institutional infrastructure dealing with industry, including SSI.

The Secretariat of CONEPLAN has an Industrial Sector Department that prepares, evaluates and up-dates on an annual basis the five-year plans for industry, for which purpose it collects information from public and private sources. As mentioned previously, neither the Five-Year Plan nor the 1977 Annual Plan contain policies, strategies and goals specifically designed for SSI. It is evident that CONEPLAN is concentrating on large-scale projects as a means to accelerate industrial development.

3.3.2. DEPARTMENTAL DEVELOPMENT CORPORATIONS

The Departmental Development Corporations (Corporaciones de Desarrollo) are an extension of CONEPLAN. They are responsible for planning and executing publicly financed projects in each Department and for monitoring the various sectors of the economy, including industry.

Some of these development corporations are well organized and carry out their work with great enthusiasm and an acceptable degree of efficiency. For the industrial sector, they prepare feasibility studies, organize ventures with private participation, plan and construct industrial parks and cope with infrastructure problems, especially those related to transportation, power, water and sewerage.

The development corporations of Santa Cruz and those of Tarija, Potosi and Sucre are actively promoting the creation of regional development finance corporations that would provide credit on terms easier than those prescribed by BISA and the commercial banks. This action is in response to problems faced by private entrepreneurs in obtaining financial assistance from the established commercial banking system.

^{1/} Financial and credit institutions are not included in this section but rather in Section 3.4.

There is, however, a lack of co-ordination of the development corporations' activities, resulting in undue competition for relatively small markets. In the field of industry, projects for products such as vegetable oils, articles made from leather and wood, and wines and spirits are contemplated by almost all of the development corporations visited by the mission.

3.3.3.

THE NATIONAL INSTITUTE FOR INVESTMENTS (INI)

INI was created by Decree-Law No. 10045, of December 1971, to administer the Investment Law. It operates as an autonomous unit under the supervision of the Ministry of Industry, Commerce and Tourism (MICT). Its Board of Directors is composed of the Minister of Industry as chairman, the Ministers of Finance and of Planning and Co-ordination, and two representatives of the private sector.

INI's functions and competence also include guidance to entrepreneurs regarding investment incentives and investment opportunities. The bulk of INI's work is the processing of applications to obtain the benefits of the Investment Law. Although INI has a small Department of Promotion Assistance and Surveys to collaborate with private initiative, the impact of these activities has yet to reach SSI.

Between January 1972 and August 1977 INI had approved or otherwise registered a total of 321 projects, representing an investment of US\$ 405.6 million (see Annex 11). Of these, 67 projects (or 24 percent) constituted investments of less than US\$ 100,000 each; 38 projects (or 12 percent) were below US\$ 50,000 each; and only 12 projects (or 4 percent) were less than US\$ 20,000 each. The situation improved in 1977, when in 8 months 22 projects of less than US\$ 100,000 each (or 27 percent of all applications during that period) were registered.

From the figures mentioned above and considering that the Investment Law is intended for all types of economic activity, the number of SSI that have received the benefit of Government incentives appears low. The main reason for this is the fact that the bulk of Bolivian SSI, with an average age of about 18 years, could not benefit from incentives granted under the Investment Law, which was introduced only for investments in new enterprises after the year 1972. Therefore, the sample shows that only 3 (or about 4 percent of the enterprises interviewed) actually received benefits under this law, while 51 enterprises (or 65 percent) started operations before 1972 and thus are excluded from the incentives altogether.

These figures also reflect the large number of entrepreneurs who were entitled to incentives but never presented applications to the Government because of the cumbersome procedures. The mission found entrepreneurs who are not knowledgeable of existing incentive schemes, which indicates that much more should be done to publicize these opportunities.

Aware of its present limitations and inefficiencies, INI has expressed interest in obtaining assistance from international organizations (UNIDO among them) to train its professional staff, simplify procedures, identify investment opportunities, prepare feasibility studies and organize the promotion of new projects among local and foreign investors. However, even with this help it will be difficult for INI to concentrate on SSI, which require more attention than do large-scale enterprises. As long as INI's performance is measured by comparing staff-time input with the investment value of approved projects, SSI will continue to have low priority for INI.

3.3.4.

THE BOLIVIAN INSTITUTE FOR SMALL-SCALE INDUSTRY AND ARTISANRY (INBOPIA)

INBOPIA was created by Supreme Decree No. 11734 of 28 August 1974, and started operating in June 1975. As an autonomous public institution supervised by the MICT, it is authorized to engage in a broad spectrum of activities. INBOPIA is mainly in charge of promoting new projects for SSI and artisans and in providing technical assistance to improve their productivity. INBOPIA is also involved in the formulation of policies and incentives and in the co-ordination of the activities of all institutions dealing with the two sectors.

With a current annual budget of only US\$ 140,000 and a staff of 35 persons, of which 14 are professionals (see Annex 12), INBOPIA can achieve very little in view of the fact that there are 1,600 SSI and 15,000 artisan workshops known to exist. The fact that INBOPIA was only recently created, and therefore has a relatively inexperienced staff, contributes to its lack of success thus far. Up to now, INBOPIA has concentrated on the following activities:

- a) Preparation of a sector analysis of SSI and artisanry (in process).
- b) Establishment of a National Registry for SSI and artisans.
- c) Promotion of handicrafts for export markets.
- d) Promotion of artisans co-operatives for the production and commercialization of handicrafts.^{1/}

From items (c) and (d) above, it is obvious that INBOPIA is more concerned with artisans than with SSI and that handicrafts have the highest priority. For this purpose, the institution is receiving financial assistance from USAID and technical assistance from IDB. The mission believes that INBOPIA, properly reinforced and organized, could be the best source of technical assistance and extension services for modernizing the SSI sector. Certain urgent needs of SSI, as identified by the mission, clearly come under the responsibility of INBOPIA, and these are:

- a) Identification of investment opportunities.
- b) Preparation of industrial profiles and feasibility studies.
- c) Preparation of applications for credit and investment incentives.

^{1/} An example is "Manos de Bolivia", a conglomerate of 9 co-operatives located around Lake Titicaca producing handwoven sweaters and other garments from alpaca wool.

- d) Extension services to existing enterprises to improve productivity and efficiency, including basic systems of financial, operational and production management.
- e) Promotion of services and incentives available to SSI through INBOPIA, INI and other public, private, national and international organizations.
- f) Utilization of the facilities of industrial estates and parks.

Giving due credit to the importance of export promotion for handicrafts, the mission believes that this activity requires a specialized organization, with a network of show-rooms and distribution channels in the most popular tourist centres of the country and in selected cities abroad. It also requires assistance in developing new designs, improving manufacturing techniques, acquiring raw materials and developing new markets. Such a programme is too large for INBOPIA's existing organization and structure. As an example, INBOPIA has so far unsuccessfully engaged in the marketing of wool products in competition with another institution, the Committee for Development of Wool (COMBOFLA). In order to use its limited resources in the best way, INBOPIA should assist in organizing marketing entities for handicrafts, including those made out of wool, rather than in being directly involved in marketing activities. Such policy would free INBOPIA to concentrate on providing much needed technical assistance to SSI and artisans.

In order to enhance INBOPIA's role as a source of technical assistance for SSI, the Government should give greater financial support to the organization. In addition, the mission recommends that assistance, both financial and technical, be provided to INBOPIA by international organizations.

3.3.5.

THE NATIONAL SERVICE FOR LABOUR TRAINING (FOMO)

Since 1972, FOMO has been charged with preparing and training workers for different sector of the economy. According to FOMO, only 10 percent of available labour in the country is skilled. This low percentage reflects in part the large number of unskilled workers in the agricultural sector.

In the industrial sector, the Five-Year Development Plan (1976-1980) calls for the formation of some 31,500 qualified workers, or about 11 percent of the requirements of all economic sectors. To meet these targets, FOMO trained some 2,500 persons during its first three years of operations and an additional 2,600 persons in 1976. Special training for industry covers welding and operating of machine tools for metal working and wood processing. Other fields of training are electric installations, electronics and automotive repair.

FOMO has thus far received technical and financial help from Spain, Brazil, USA, West Germany, Switzerland and France and from international agencies including ILO and UNDP. Agreements for training have been concluded with private industries or groups of industries (e.g. textiles and furniture), local development corporations and other official agencies.

Despite FOMO's experience with training programmes, it is obvious that the resources available are insufficient for such an ambitious programme. There is a great scope for additional help, using domestic, multilateral and international aid resources. In the meantime, industry is obliged to rely on its own capacity for preparing and training workers, and this is particularly burdensome for small companies.

3.3.6. THE DIVISION FOR EXPORT PROMOTION (FOMEX)

FOMEX is the section of the Central Bank that is in charge of export promotion and technical assistance to exporting firms. Among other services, FOMEX provides information on international fairs and trade conventions. It publishes a "Directory of Exporters" and a "Letter to the Exporter" containing references to potential customers abroad. Exports promoted include handicrafts and agricultural and manufactured products such as canned foods and preserves, leather, cocoa, chestnuts, coffee, parquet and veneer. Traditional exports like mineral concentrates and sugar are not within the sphere of activity of FOMEX.

FOMEX has no direct contact with either SSI or artisans, which in any case do not normally export directly but rather through cooperatives or export firms. On the other hand, information on importing firms in other countries is available to any enterprise, regardless of size.

3.3.7. THE TECHNICAL COUNCIL FOR THE PROMOTION OF EXPORTS

This office was recently created by Decree-Law No. 14303 of 5 August 1977, to administer the export incentives established under the same law. Tax bonuses granted in proportion to the local value added of the exported products are in accordance with the following table:

TABLE No. 11

BOLIVIA: Export Incentives for Manufactured Products

<u>Local Value Added as percentage of F.O.B. Value</u>	<u>Tax bonus as percentage of F.O.B. Value</u>
From 0.0 to 10	5
10.1 30	7
30.1 40	9
40.1 50	12
50.1 60	16
60.1 70	21
70.1 100	25

Source: Decree-Law No. 14803

Traditional exports, such as minerals and agricultural products, as well as raw materials whose export is prohibited are excluded from these export incentives. This scheme will be effective after approval of internal regulations prepared by the Technical Council. Again, the beneficiaries may be exporting firms and therefore not likely to include small manufacturers.

3.3.8.

THE NATIONAL CHAMBER OF INDUSTRIES (CNI)

CNI, with a membership of some 920 industrial enterprises (see Annex 13), covers about 50 percent of all private industrial enterprises in Bolivia, which are estimated to number around 2,000. Artisans are not members of CNI and are therefore excluded from these figures. Twenty-eight percent of CNI members are located in La Paz, 25 percent in Santa Cruz, 23 percent in Cochabamba, and the remainder in other Departments. This shows that CNI is more active in the largest cities. Members are divided into three categories according to the amount of their paid-in capital, and membership fees are proportional to this capital. It is therefore understandable that companies tend to understate their capital to limit their CNI fees and that statistical information submitted to CNI is somewhat unreliable. SSI belong to CNI's Third Category.

Among the services provided by the CNI to its members are information on existing laws and Government procedures, on manufacturers of machinery and equipment, on financial institutions and on market opportunities. However, CNI's work is restricted by the small number of personnel in charge of these tasks and by the difficulties of communicating by mail and telephone with industrialists located outside of La Paz and other major industrial centers. Although efforts are being made by CNI to coordinate its activities with the Departmental Chambers of Industry, it remains difficult to maintain contact with members outside of La Paz.

3.3.9.

INDUSTRIAL ESTATES AND PARKS

The responsibility for the planning and construction of industrial estates and parks lies with the Departmental Development Corporations. Practically all of them are handling such projects, which are at various stages of development. The most advanced park is located in Santa Cruz; it is already in partial operation. Cochabamba has completed plans for an industrial estate, where enterprises resulting from the implementation of the automotive industry programme of the Andean Group will be located. Oruro has just invited international competitive bidding for a feasibility study and final design for its industrial part. Tarija and Chuquisaca are considering similar parks and may need expert assistance to prepare their projects.

None of the industrial parks under implementation has been conceived for SSI exclusively. Again, preference is given to large-scale projects, and in most cases SSI and artisans will benefit only occasionally in case of insufficient demand from medium and large industry. Inasmuch as large enterprises will have to depend on services and sub-supplies from SSI, the location of suitable small-scale enterprises within the industrial parks should be considered desirable. The lay-out of these parks should therefore allow for space destined to a certain number of selected SSI.

A case deserving immediate attention for the planning of an industrial estate is La Paz where, because of land configuration, space available within the city is reaching its limits. Here, industry in general faces a serious problem for further expansion. Existing prices for real estate in La Paz are among the highest in Latin America, and the most seriously affected by this situation are the small entrepreneurs. The Municipality of La Paz and the Development Corporation of La Paz (CORDEPAZ) have not yet reached agreement as to whether an industrial estate should be located in El Alto or farther out on the road to Lake Titicaca. CORDEPAZ, for environmental reasons, opposes construction of more industrial facilities in El Alto, which could, for reasons of topography, spread air pollution into the lower-lying center of La Paz.

3.4. FINANCIAL INSTITUTIONS

The following is a brief review of all major financial institutions that deal with SSI in Bolivia. It bears some reference to artisanry because of overlap in definitions.

3.4.1. BOLIVIAN GOVERNMENT ENTITIES

3.4.1.1. BANCO CENTRAL DE BOLIVIA

The Banco Central de Bolivia (Central Bank), through the Ministry of Finance, advises the Bolivian Government on monetary and financial policies, manages the monetary reserves, regulates the functioning of financial entities, and acts as financial agent of the Government in the handling of internal and foreign debt. It also serves as a channel for various financial resources, among which are funds for the financing of industry. Those funds and programmes which relate to SSI are:

- a) Special Fund for Economic Development
- b) Industrial Refinancing Fund (FRI)
- c) Artisanry Refinancing Line (ARL)
- d) Fund for Agribusiness and Artisanry
- e) Proposed Productive Credit Guarantee Programme

A brief description of these funds and programmes and comments on their usefulness are as follows:

a) Special Fund for Economic Development

This fund was established in the Central Bank in February 1967, utilizing repayments of three loans from USAID to the Government-owned Corporación Minera Boliviana (COMIBOL). The three USAID loans, totalling US\$ 10.9 million, were made to COMIBOL for a period of 40 years, including 10 years grace, at a rate of interest of 3/4 percent p.a. COMIBOL, on the other hand, has been repaying the loans to the Central Bank over a period of 20 years at 2 percent interest p.a., the difference in terms creating a fund in local currency that has been relent through intermediary banks to various economic sectors.

Subloans have generally been made for periods of less than 5 years at 12 percent p.a., of which 5 percent is given as spread to the intermediary banks.

As of July 1977, subloans totalling US\$ 26.4 million equivalent had been financed from this fund, and 60 percent of these were administered by Government-owned banks (Del Estado, Agricola, and Minero). The Banco del Estado alone accounted for 45 percent of the subloans. The major portion of the subloans has been for agriculture and livestock. Distribution by economic sector is as follows:

TABLE No.12

Bolivia: Central Bank - Distribution of Special Fund Credits by Economic Sector as of December 31, 1976

<u>Sector</u>	<u>US\$ '000 equivalent Cumulative</u>	<u>Percent</u>
Construction	6,800	28.6
Exports	2,465	10.4
Industry	4,545	19.1
Agriculture and Livestock	9,835	41.3
Mining	105	0.4
Artisanry	40	0.2
	<u>23,790</u>	<u>100.0</u>

Source: Banco Central de Bolivia

Records were not available to indicate the amount from this fund that has gone to SSI but it is said to be negligible. None of the firms interviewed during the current survey had benefited from loans from this Special Fund.

As of December 31, 1976, the balance of loans outstanding and not repaid under this programme was US\$ 4.8 million equivalent.

b) Industrial Refinancing Fund

The Industrial Refinancing Fund (IRF) was created in September 1972 by means of a loan to the Central Bank from USAID in the amount of US\$ 7 million and US\$ 1 million equivalent in counterpart funds of the Central Bank. The USAID loan was for a period of 40 years, including 10 years' grace, at an interest rate of 2 percent p.a. during the grace period and 3 percent p.a. thereafter. Proceeds of the fund have been used for making subloans in local currency through the Bolivian banking system to the private sector for the establishment, expansion and modernization of industrial enterprises. The IRF fund was fully disbursed within a three-year period, i.e. by the end of 1975, and since then the fund has operated on recuperation of previous subloans.

The system provides for subloans to be channelled through intermediary financial institutions. The Government-owned Banco del Estado has handled 28 percent of the loans by number and 29 percent by value. The balance has been channelled through all but two of Bolivia's private commercial and specialized banks, the largest users being the Banco Industrial, Banco Mercantil, and Banco Hipotecario Nacional. Annex 14 shows the distribution of FRI loans by financial intermediary.

Although no particular emphasis was given to agro-industry or small enterprises in the design of the FRI project, 27 percent of the original funds were allocated to agro-industry, and 68 percent of the subloans were for US\$ 50,000 equivalent or less each. The maximum allowable subloan is US\$ 400,000 equivalent. Approximately 70 percent of the subloans have been for expansion and improvement of existing facilities, while 30 percent have been for establishing new enterprises. As of the end of October 1977, a total of 225 enterprises had been financed, with the following geographical distribution:

TABLE No. 13

BOLIVIA: Central Bank - Distribution of FRI Subloans by Department as of December 31, 1976

<u>Department</u>	<u>Number of Subloans</u>	<u>Percent</u>	<u>Amount of Subloans (US\$ '000 equivalent)</u>	<u>Percent</u>
La Paz	65	28.9	4,986	48.3
Cochabamba	53	23.6	2,573	24.9
Santa Cruz	54	24.0	2,076	20.1
Chuquisaca	23	10.2	333	3.3
Tarija	4	1.8	17	0.2
Potosi	7	3.1	162	1.6
Oruro	7	3.1	65	0.6
Beni	12	5.3	105	1.0
Pando	0	0.0	0	0.0
	<u>225</u>	<u>100.0</u>	<u>10,317</u>	<u>100.0</u>

Source: Banco Central de Bolivia

The fund has been utilized as indicated in the following table:

TABLE No. 14

BOLIVIA: Central Bank - Uses of FRI Funds as of December 31, 1976

<u>Purpose</u>	<u>Amount US\$ '000 equivalent</u>	<u>Percent</u>
Working capital and local expenses	2,949	28.6
Investment capital and imported goods	7,366	71.4
Feasibility studies	2	0
	<u>10,317</u>	<u>100.0</u>

Source: Banco Central de Bolivia

In respect to purpose of loans, 43 percent has been for working capital and 57 percent for investment in fixed assets.

The intermediary banks charge 12 percent interest p.a. on subloans utilizing FRI funds, and this is considerably lower than standard commercial rates for loans to the productive sector (16 percent p.a.). Out of the 12 percent, a 5 percent spread is given to the commercial banks and 7 percent is retained by the Central Bank.

Eighty-two percent of the subloans have had maturities of 1 to 5 years, and 18 percent 5 to 10 years. The average term for investment capital has been 4.9 years and for working capital 1.8 years. Because of short payback periods, it was possible to finance subloans totalling US\$ 11.6 million equivalent between initiation of the programme and June 1977. The balance of FRI subloans outstanding and not repaid as of the same date was US\$ 6.3 million equivalent.

Approximately 2,200 new jobs have been created thus far as a result of the FRI programme. The average amount of investment per job has been US\$ 5,760 equivalent.

During 1976 the number of subloans approved under the FRI programme declined by 45 percent and the trend continued into 1977. The reasons are the slow recuperation of funds now that the original source has been exhausted, lack of knowledge on the part of many small-scale entrepreneurs as to the existence of this fund, and last but not least the lack of interest on the part of borrowers due to (to them) complicated application procedures and stringent collateral requirements.

A major criticism of the FRI lending programme is that it has reached and continues to involve mainly medium and large industries in urban areas. It is estimated that less than 30 percent of the FRI sub-loans were to industries that qualify as SSI under our definition, even though most of the subloans were for amounts of less than US\$ 50,000 equivalent. The average size of loans has been approximately US\$ 60,000 equivalent. The number of companies within the mission's survey that are using or have utilized FRI subloans is 11, constituting 13 percent of the sample.

Another criticism of the FRI programme is that technical assistance in terms of project identification and preparation has been neglected. The Central Bank has a staff of 14 professionals specialized in financial analysis. However, it is up to the commercial banks to initiate the subloan requests for subsequent Central Bank approval, and it is the commercial banks that are doing little or nothing to assist the investor in preparing bankable projects. Lack of attention to this matter on the part of the commercial banks may also be traced to the 5 percent spread, which many bankers believe, given present day alternatives, to be too low to warrant the extra effort in terms of time and manpower required.

The time involved in processing a subloan under the FRI programme has also been the cause of concern to clients. The

procedure often takes up to six months to complete. Delays within the intermediary commercial banks are usually caused by problems in obtaining sufficient security on the loans and excessive paper work.

c) Artisanry Refinancing Line (ARL)

In 1974 the Central Bank established with its own resources a US\$ 1.5 million equivalent refinancing line of credit for artisanry subprojects. This involved financing for typical handicrafts and small-scale productive enterprises. Within one year, subloans were made through the commercial banking system to 865 artisans, with the maximum subloan fixed at US\$ 3,000 equivalent and an average subloan of US\$ 1,750 equivalent. As of June 1977, subloans totalling US\$ 2.1 million equivalent had been made from this fund. Terms are up to 18 months for working capital and up to 5 years for investment capital. The interest rate is 12 percent p.a., of which 7 percent is retained by the Central Bank and 5 percent given as spread to the intermediary banks. The private banking system has made 63 percent of the subloans, and the Banco del Estado 37 percent. According to the Central Bank, the repayment record has been excellent. This fund has created about 1,300 jobs and contributed to the recent expansion in exports of Bolivian handicrafts. The distribution of subloans by Department is as follows:

TABLE No. 15

BOLIVIA: Distribution of ARL Credits by Department
as of December 31, 1977

<u>Department</u>	<u>Amount</u> <u>US\$ '000 equivalent</u>	<u>Percent</u>
La Paz	192.4	9.4
Santa Cruz	216.5	10.6
Cochabamba	621.4	30.3
Sucre	306.1	14.9
Tarija	318.7	15.5
Potosi	130.8	6.4
Oruro	164.3	8.0
Beni	94.0	4.6
Pando	6.4	0.3
Total	2,050.6	100.0

Source: Banco Central de Bolivia

A principal criticism of the ARL is that the programme extends mainly to urban areas and that rural areas continue to be neglected, although this has not been the intention of the programme.

d) Proposed Fund for Agribusiness and Artisanry

The Central Bank and USAID are now in the process of creating a refinancing fund similar to FRI for agribusiness and artisanry. It is expected that this new fund will be operational by the end of 1978. Agribusinesses are defined as those that provide inputs for

small farmer production purposes or for the marketing of small farmer products. Artisan activity in urban areas is limited to activities which involve the processing of agricultural products, e.g. wool, leather and wood. The financing of other types of artisanry, such as metalworking, furniture manufacturing and cottage industries, would be limited under this programme to projects located in rural areas only. The seven cities visited by the mission, which have the largest concentrations of SSI in the country, are thus excluded.

The fund will consist of a loan from USAID to the Bolivian Government in the amount of US\$ 6.2 million and US\$ 3.2 million equivalent in funds of the Central Bank. The USAID loan will be for 40 years, including a grace period of 10 years, with interest at 2 percent per annum during the first ten years, and 3 percent thereafter. Subloans will be channelled through the Bolivian banking system at an interest rate of 13 percent p.a. for periods of up to 10 years. Subloans will be limited to 80 percent of the principal of eligible loans. The upper limit on subloans will be US\$ 400,000 equivalent for agribusiness and US\$ 15,000 equivalent for artisanry. Out of the 13 percent interest p.a., the Central Bank will retain 3 percent as opposed to the 7 percent it has retained on subloans from FRI. The intermediary banks will receive a spread of 5.5 percent on subloans to urban agribusiness, 6.5 percent on subloans to rural agribusiness and urban artisanry, and 7.5 percent on subloans to rural artisanry. These spreads are higher than on the FRI subloans and reflect the previous lack of interest on the part of the intermediary banks in the FRI programme when the spread was limited to 5 percent. They also reflect the determination on the part of USAID to utilize the commercial banking system as the most desirable channel for subloans to small entrepreneurs.

The balance of the interest (from 2.5 percent to 4.5 percent) will be placed in a special technical assistance fund, also to be managed by the Central Bank. This fund will finance a wide range of technical and promotional services to participating sub-lenders and sub-borrowers. Its major activities will be:

- (i) to finance an inventory of industrial projects for the benefit of the banking community,
- (ii) to finance promotional and training activities undertaken by participating banks, and
- (iii) to finance sub-project development from the idea stage through feasibility study.

The technical assistance programme will be funded initially by a US\$ 200,000 grant from USAID and US\$ 200,000 equivalent from the Central Bank, the latter originating from the interest spread to the Central Bank on earlier USAID loans. USAID grant financing will also be used to provide a long-term adviser to the Central Bank on the administration of lending and technical assistance programmes.

This new project is expected to result in US\$ 13.9 million equivalent additional direct productive investment in agribusiness and artisanry in Bolivia over the next 5 years, not including

resources invested by sub-borrowers in their own projects. The project is expected to finance over 630 subloans over the five-year period and create about 5,000 jobs. Industries that qualify under this programme are likely to overlap those that qualify under the mission's definition of SSI, particularly agro-industries and small businesses in rural areas. On the other hand, the programme is limiting in terms of eligibility, and the USAID officials that were interviewed stressed the need for complementarity of programmes to assure aid to all types of SSI. USAID would like to see a co-ordinated approach by all lending institutions, not only for lending but also for providing technical assistance in project identification and preparation.

e) Proposed Productive Credit Guarantee Programme

This new credit guarantee programme is sponsored jointly by USAID and the Central Bank and has yet to be approved by the participating institutions. It will become operative sometime in 1978. Its objective is to provide institutional credit to persons or groups that presently lack access to such credit because they have insufficient collateral to meet the normal requirements of the lending institutions. As such, it is destined to fill a long-recognized need that was observed repeatedly during the mission's programme of interviews with small-scale businessmen.

According to the plan, a fund is to be established within the Central Bank to guarantee 75 percent of the amount of each qualifying loan made by Bolivian financial institutions. The fund will be capitalized through a one-time guarantee commission of 4 percent on qualifying short-term loans and 5 percent on qualifying medium and long-term loans. It will be supported with up to US\$ 2.5 million from USAID and US\$ 1.5 million equivalent from the Central Bank. The programme will be implemented on a pilot project basis for four years subject to periodic evaluation.

Loans that would be guaranteed under this programme would be financed from credit lines administered by the Central Bank as well as from resources of the participating lending institutions. Technical assistance and loan supervision would be provided to borrowers through another fund administered by the Central Bank. The sponsors propose that eligible loans should include those to: (1) agricultural production and related infrastructure and services, (2) small-scale privately-owned agro-industries, (3) business enterprises located in rural areas or market towns, (4) artisanry projects located in rural or urban areas, and (5) self-financing, self-help community development projects.

This new guarantee programme may have significant impact on small loan programmes as lack of sufficient collateral has been repeatedly observed to be a stumbling block to utilization of bank credits by SSI. Under this scheme, however, it is probable that SSI in urban areas, which are the primary concern of this mission, will be excluded from the guarantee programme. Therefore, the mission recommends providing additional financial support to the Productive Credit Guarantee Programme to extend its coverage to SSI in urban areas.

3.4.1.2. CORPORACION BOLIVIANA DE FOMENTO (CBF)

CBF has in recent years become more of a holding company for Government investments than a development banking institution, although the latter was its original purpose. With investments in approximately 25 different companies, its assets now exceed US\$ 150 million equivalent. In most instances, it is the sole owner of these companies and is directly involved in their management. Major investments are in sugar refining, milk processing, vehicle body construction, ceramics, cement, and metal smelting. CBF has borrowed heavily from the Central Bank to finance these projects and has been unable to meet the scheduled repayments. For this reason, CBF's investment plans have been curtailed, and the Government is arranging a loan from a syndication of foreign banks in order to consolidate CBF's debt and restructure its investments. Most of CBF's investments are very highly leveraged and in need of being recapitalized.

In addition to the refinancing of CBF's debt, the Government's new policy is to decentralize the management of CBF's companies, to divest by selling them wherever possible to the private sector, and to reconstruct CBF along the lines of a development banking institution. Thus far 3 firms have been sold, and CBF has published a list of 12 additional firms for sale with total assets estimated at US\$ 98 million equivalent. CBF is seeking outside assistance for its re-organization effort as well as for the sale of its assets, and the mission had discussions with CBF management regarding possible technical assistance from UNIDO for these purposes.

Between 1966 and 1973, CBF administered a fund for subloans to the productive sector. For this purpose it received three global credits from the Interamerican Development Bank (IDB) totalling US\$ 30 million at an average cost of 4 percent p.a., for a period of 30 years with 10 years' grace, for on-lending to industry, mining, agriculture, tourism and artisanry. An additional sum of US\$ 1 million was provided to CBF for the same purpose by the Corporación Andina de Fomento (CAF) at an interest rate of 6 percent p.a.. Out of the total to all sectors, 94 industrial enterprises received subloans totalling US\$ 2.9 million equivalent, and the amount channelled to SSI was about US\$ 300,000. Terms for the subloans were 1 to 15 years at 12 percent interest p.a.. The balance outstanding on all subloans as of October 1977 was US\$ 560,000.

CBF has been much criticized for poor administration of these subloans as well as for bias in the selection of candidates. Supervision was not adequate and many of the subloans have been in default. The mission believes that, without a major organizational restructuring, CBF is not in a position to administer effectively a lending programme to SSI.

Future plans of CBF include divesting of holdings and remodelling the institution along the lines of a development bank, but it is too early to predict the outcome. CBF's position in respect to financing SSI depends on the restructuring of its policies and on priorities to be set. Clearly, with changes, it could be a candidate for the administration of financial and technical assistance to SSI. CBF is expecting a new line of credit from CAF for US\$ 10 million, but this is to be channelled mainly to agro-industry.

3.4.1.3. BANCO DEL ESTADO (BANESTA)

BANESTA has been singled out by the mission for special attention because of its potential role in the financing of SSI. It was created in November 1970 to take over the functions of the Banking Department of the Central Bank. The Bolivian Government is the sole shareholder in BANESTA, and although it is a Government institution its orientation is exclusively towards the private sector. It has the character of both commercial and development bank, utilizing public and private deposits as the basis for making short-term commercial loans and specially designated resources for making loans at lower interest and longer term to priority sectors such as manufacturing industry, agro-industry, export and construction.

BANESTA is Bolivia's largest commercial bank, with about 24 percent of all deposits held by the banking system and 44 branches throughout the country. Its paid-in capital by the end of 1976 was US\$ 2.5 million equivalent, capital and reserves US\$ 7.1 million equivalent, portfolio of commercial loans US\$ 33.7 million equivalent, and portfolio of development loans US\$ 46.0 million equivalent. BANESTA has financed approximately 28 percent of all subloans rediscounted with the Central Bank under the Industrial Refinancing Fund (FRI), far more than any other single institution. It has also financed 37 percent of the subloans to artisans under the Central Bank's Artisanry Refinancing Line (ARL). Loan approvals in 1975 and 1976 by Sector and Department are given in Annex 15.

Because of its experience in the FRI programme, its character as a Government institution with an obligation to serve the needs of the country, its organization with 44 branches strategically located to service remote areas, and its staff of professionals that are qualified to handle project appraisal and supervision (30 in La Paz and 40 in the field), BANESTA has been mentioned by the Bolivian banking community as a logical choice for an institution to administer a special programme of lending and technical assistance to SSI. The management of BANESTA is clearly interested in assuming such a responsibility, as evidenced during an interview by the mission with BANESTA's President. According to the President of BANESTA, successful management of a special fund for SSI is not contingent upon Central Bank co-administration, and the mission concurs with this view. The President also stressed the importance of financial contributions from the Bolivian Government as symbolic of the mutual assistance that is required to make this type of programme successful.

3.4.1.4 INSTITUTO NACIONAL DE PREINVERSION (INALPRE)

INALPRE is a public sector entity under the Ministry of Planning and Coordination, created mainly for the purpose of preparing prefeasibility and feasibility studies for Government investments. However, a small part of its effort is directed to industry in general and to the private sector, but virtually none of it extends to SSI. INALPRE has a professional staff of 6 persons and a roster of local and foreign consultants on which to draw for specific projects.

Loans for pre-investment studies are granted by INALPRE for periods of up to 8 years at a cost of $8\frac{1}{2}$ percent p.a., $6\frac{1}{2}$ percent being INALPRE's average cost for funds, leaving INALPRE with a 2 percent spread. Its financial resources are a fund of US\$ 14 million equivalent from the Government budget and various loans from the Union de Bancos Bolivianos. Negotiations are in progress for a US\$ 5 million loan from IDB and another US\$ 5 million loan from the Canadian International Development Agency (CIDA). Subloans for pre-feasibility studies are made by INALPRE for a minimum of US\$ 5,000 equivalent and a maximum of US\$ 15,000 equivalent; for feasibility studies, a minimum of US\$ 15,000 equivalent and a maximum of US\$ 100,000 equivalent. SSI are generally neither willing nor able to spend these sums on investment studies as they are out of proportion to the value of their projects.

4.4.

PRIVATE COMMERCIAL BANKS

The private commercial banking system is made up of ten national banks and six foreign banks. These 16 banks have a total of 87 offices throughout Bolivia, for the most part concentrated in the departmental capitals. Annex 16 shows locations for private commercial as well as private specialized banks. Except for those banks that have been active in agricultural lending programmes, the commercial banks have had a prevailing urban orientation and have lent on relatively short-term for traditional activities such as construction and commerce.

Total deposits registered in all private commercial banks were US\$ 225 million equivalent at December 31, 1976, an increase of 73 percent over the previous year. This phenomenal growth rate of the Bolivian banking system reflects the rapidly increasing usage of banking services throughout the country. Loans to the private sector from private commercial banks totalled US\$ 175.5 million equivalent at year end 1976, an increase of 42 percent over the previous year. The relative positions of private national, private foreign and the state-owned commercial bank in respect to deposits and loans at the end of 1976 were as follows:

TABLE No. 16

BOLIVIA: Deposits and Loans of Private Commercial Banks in 1976
(in percent)

	<u>Deposits</u>	<u>Loans</u>
Private national banks	49.6	42.1
Private foreign banks	26.5	26.7
Banco del Estado	23.9	31.2
	<u>100.0</u>	<u>100.0</u>

Source: Banco del Estado

Sources of finance for the private sector and distribution of deposits within the commercial banking system are shown in Annex 17. Total deposits and the portfolio of loans from each bank's own resources are shown in Annex 18. Annex 19 illustrates portfolio growth and distribution by sector among the private commercial banks.

Private national commercial banks are required to have a minimum capital of US\$ 1 million equivalent, whereas the requirement for foreign commercial banks is US\$ 2 million equivalent. The maximum debt/capital ratio is 30:1 for national banks and 20:1 for foreign banks. Reserve requirements are as shown in the following table:

TABLE No. 17

BOLIVIA: Reserve Requirements for Private Commercial Banks
(in percent)

	<u>Demand Deposits</u>	<u>Savings Accounts</u>
National banks	45	10
Foreign banks	45	15

Source: USAID

Commercial banks must maintain a 10 percent legal reserve in respect to foreign loans when the loan is for less than two years and when the subloans are granted to the productive sector for more than two years.

A law passed in 1975 requires every commercial bank to have at least 75 percent of its loan portfolio in credits to the productive sector and no more than 25 percent in credits to strictly commercial activities. A further restriction in respect to term of loans was enacted in June 1977, requiring commercial banks to apportion their loan portfolios as follows:

TABLE No. 18

BOLIVIA: Compulsory Portfolio Composition of Commercial Banks
(in percent)

	<u>Term</u>	
	<u>2 - 3 years</u>	<u>3 - 5 years</u>
National banks	10	5
Existing foreign banks	15	10
New foreign banks	20	15

Source: Banco Central de Bolivia

The banks had until March 1978 to make the corresponding adjustment in their portfolios. Those that do not comply are required to invest in bonds of the State. The intent is to manoeuvre the commercial banks from their traditional short-term lending to medium-term activities.

From the above, it is apparent that foreign banks are not treated by the same standards as national banks. Nevertheless, the Ministry of Finance regularly receives inquiries from foreign banks about establishing operations in Bolivia.

Interest is not paid on demand deposits. The interest schedule for savings and time deposits is as follows:

TABLE No. 19

BOLIVIA: Legal Interest on Savings and Time Deposits

	(in percent)
Savings deposits	10
90-day deposits	10 3/4
180-day deposits	11 1/4
360-day deposits	11 3/4

Source: Banco Central de Bolivia

Dollar deposits yield up to 9 percent per annum. The consumer price index shows annual increases between 5 and 10 percent over the past three years. Due to the relatively low rate of inflation and a satisfactory trade balance, the possibility of a devaluation of the peso in the near future is not foreseen.

In the banking system, the interest rate on commercial loans from the banks' own resources is a nominal rate of 15 percent p.a. plus 7 percent p.a. tax plus 3 percent p.a. commission for a bank employees benefit fund, for a total effective interest rate of 25 percent p.a. The interest rate on productive loans from the banks' own resources is 16 percent p.a. For certain areas of activity, e.g. production and marketing of cotton, soya, coffee, wood, corn, sugar and livestock and housing construction and promotion of non-traditional exports, the rate is 15 percent p.a. for loans under 2 years, increasing to 16 percent p.a. for loans with terms of 2 to 5 years. The current interest rate for loans from external resources is LIBOR plus from 4 to 6 percent p.a.

Additional fees, commissions, and practices can boost the effective interest rate several percentage points. Examples are front-end fees for closing and for supervision of loans, the practice of requiring prepayment of interest and fees, the practice of requiring compensating balances, a special fee for the benefit of bank employees amounting to $\frac{3}{4}$ percent flat every 3 months on renewable loans, and a 1 percent university tax in the Department of Santa Cruz. During the interviews the mission encountered companies that were paying effective interest rates in excess of 20 percent p.a. on productive loans and in excess of 30 percent p.a. on commercial loans.

Maturities on commercial bank loans are normally 30 days to 18 months for working capital and 1 to 5 years for fixed capital. Security arrangements for short-term loans are usually in the form of personal guarantees. Mortgages are almost always required on loans exceeding 3 years, and the value of the collateral must be 2 or 3 times the amount of the loan.

From discussions with Bolivian bankers, it is apparent that they are not interested in increasing their lending activity to SSI, which is in any case minimal, because of the perceived high-risk factor on such loans, because of better alternative uses for their funds. At present the banks can afford to limit their lending activity to well-known and well-established clients. As an indication of their conservative practices, the loss rate on loans for the commercial banking system as a whole is estimated at 1 percent of the portfolio. Arrears over 3 months affect less than 1 percent of the portfolio.

Suppliers' credits denominated primarily in US dollars for capital goods made in Argentina and Brazil are available through the Banco de la Nacion Argentina and Banco do Brasil respectively. Terms are generally 3 to 8 years at 7 to 8 percent p.a. interest plus the guarantee of a Bolivian bank, which costs up to $\frac{1}{2}$ percent p.a. depending on the client's connections.

3.4.3.

PRIVATE SPECIALIZED BANKS

3.4.3.1.

BANCO INDUSTRIAL S.A. (BISA)

Due largely to the support of international financial institutions, BISA has played a major role in the expansion of the productive sector, and its activities are expected to increase significantly. BISA was founded in 1963 as a private development bank under the sponsorship of the Bolivian National Chamber of Industries and USAID. Its shareholders now number 246. All are private institutions grouped as follows:

	<u>Percent</u>
Private Bolivian banks	21
Bolivian firms and individuals	32
Bolivian mining enterprises	15
Foreign investors	32
	<hr/>
	100
	<hr/>

The largest shareholder is ADELA Investment Company, with 23 percent of BISA's share capital. Among the other foreign investors are the International Finance Corporation (IFC) and Deutsche Gesellschaft für Wirtschaftliche Zusammenarbeit (DEG) both having become shareholders in 1977.

BISA's main office is in La Paz, where 17 professionals are employed. There is a branch office in Santa Cruz, with 3 professionals, and one regional representative in Tarija and Cochabamba. Full branch offices are planned for Cochabamba and Tarija in the near future.

As of September 30, 1977, BISA's total assets were US\$ 24.3 million equivalent. Capital and reserves were US\$ 3.7 million equivalent, with paid-in capital at US\$ 3.0 million equivalent. Long-term debt was US\$ 18.9 million equivalent. The loan portfolio stood at US\$ 21.2 million equivalent, and equity investments at US\$ 319,000 equivalent. BISA's profit in 1976 was US\$ 349,000 equivalent after taxes and other deductions, representing a return of 15 percent on invested capital. Loans in arrears over 3 months affected 6 percent of the portfolio, down from the 15 percent level of 1972. Although this shows a considerable improvement in BISA's portfolio, it should be noted that BISA's lending to industry involves more risk than that undertaken by the commercial banks, as indicated by the fact that the latter have a corresponding arrears position of less than 1 percent.

BISA's objectives are (1) to stimulate investment in the Bolivian private productive sector and (2) to give financial and technical assistance to this end. Its principal activity is medium and long-term lending for periods of up to 10 years, but it is also authorized to invest in shares of the enterprises that it assists, a function it has thus far exercised very little. In 1976 the loan portfolio was about 19 percent short-term and 81 percent medium and long-term. BISA's past and projected loan operations are shown in Annexes 20 and 21. BISA aims to have at least 10 percent of its portfolio in loans to SSI in the future, but up to now only about 6 percent of loan approvals have been for small companies. BISA informally defines SSI as those with equity not exceeding US\$ 50,000 equivalent and which employ not more than 50 persons; thus its loans to SSI are difficult to reconcile to our definition. Ninety percent of BISA's loans are in dollars and 10 percent in pesos from its own capital and from loans discounted with the Central Bank.

In its 13 years of operations, BISA's cumulative resources have been in the order of US\$ 35 million equivalent, the principal sources of credit being:

- Interamerican Development Bank (IDB)
- International Bank for Reconstruction and Development (IBRD)
- US Agency for International Development (USAID)
- Kreditanstalt für Wiederaufbau (KfW)
- Banco Central de Bolivia (FRI programme)
- European Economic Community

In addition, during 1977 BISA succeeded in obtaining finance from the international capital markets with direct loans from a consortium of banks led by the Atlantic International Bank Ltd. of London, together with the Royal Bank of Canada, Libra Bank Ltd., the First National Bank of Chicago, and the Deutsch-Südamerikanische Bank.

The cost of BISA's financial resources varies from one source to another and from one loan to another from the same source, e.g. 3.25 percent to 3 percent p.a. in the case of IDB, zero to 6 percent p.a. from USAID, 3 percent p.a. from the World Bank, LIBOR plus 2 percent p.a. from the Atlantic International Bank, LIBOR plus 1.75 percent p.a. from the First National Bank of Chicago, and 9.5 percent p.a. from the Deutsch-Südamerikanische Bank. BISA is presently negotiating a new US\$ 15 million credit from IDB. Also, as a shareholder in the newly formed Arab-Latin American Bank, BISA may have access to new lines of credit in the future.

Interest rates charged by BISA are 15-16 percent p.a. for working capital loans in domestic currency up to 3 years; 12 percent p.a. on dollar loans up to 10 years for fixed assets using funds mainly from IBRD; and LIBOR plus 4.5 percent p.a. for working capital loans up to 2 years using dollar resources. Other fees are: a 1 percent commitment fee on the undisbursed balance of a loan (soon to be increased to 1.5 percent), and a 2 to 4 percent closing and supervision fee on the full amount of the loan.

Loans of under US\$ 20,000 equivalent are usually channelled by BISA through commercial banks and carry the guarantees of those banks at a cost to the client of up to an additional 3 percent p.a. In the latter case, BISA holds the commercial bank responsible for collection and loan supervision.

Where BISA takes the loan directly, it usually requires a mortgage on property appraised at a value of 2 to 3 times the amount of the loan.

BISA's plans for the future include issuing bonds in order to raise local currency for lending. It also aims to expand its activities to areas of the country in which it is not presently operating. Fifty percent of its activity is now in La Paz and 25 percent in Santa Cruz, where it has been established for only two years.

BISA has been designated as the channel for a US\$ 2.05 million component to SSI in the La Paz area under IBRD's recent US\$ 22.5 million Urban Development Project for La Paz. SSI is herein defined as business with a paid-in capital of less than US\$ 20,000 equivalent. IBRD estimates that about 140 small-scale enterprises will benefit from this loan, assuming the average loan requirement is about US\$ 17,500.

Terms will be 5 to 8 years plus up to 3 years' grace. The interest rate on these loans will be 12 percent p.a. plus up to 6 additional points depending on the assessed risks and/or appraisal work required. A relatively high spread is deemed needed to cover the administrative costs associated with this type of loan, for additional feasibility studies, and to allow for possible bad debts. A special appraisal unit will be set up within BISA for the selection, monitoring and supervision of the small firms that are expected to seek credit under this scheme. BISA is expected to give assistance in financial and cost accounting to borrowers under the programme.

BISA is respected as a highly professional institution, well-managed, well-organized and efficient in its operations. It is a major domestic source of medium and long-term financing for industry and mining. However, it is unable to satisfy fully the fast-growing demands of private industry. It has been criticized for neglecting promotional activity, particularly in outlying areas of the country and particularly among small companies. Especially in Santa Cruz, where most of BISA's loans have been channelled through local commercial banks, BISA is thought to be weak in its promotional work and slow in satisfying local needs. For that reason, local business groups in Santa Cruz, including the Regional Development Committee, are planning to establish their own development bank (see section on 3.4.3.5.). At the same time, the commercial banks in Santa Cruz are not satisfied to earn only a 3 percent spread as intermediaries for loans originating with BISA, considering this to be inadequate compensation for the many problems inherent in the collection and supervision of these loans.

Backed by the international financial community and enjoying a reputation for professionalism, BISA is expected to continue to play a very important role in lending to industry and mining, including ever-increasing attention to SSI.

3.4.3.2.

BANCO DE FINANCIAMIENTO INDUSTRIAL S.A. (BAFINSIA)

In November 1974 a private financial institution known as Banco de Financiamiento Industrial S.A. (BAFINSIA) was formed in Oruro by a number of small mining companies. Its headquarters were moved to La Paz in February 1977. BAFINSIA now has 1,070 Bolivian shareholders, most of them small mining companies, of which 30 together have a controlling interest. BAFINSIA's paid-in capital is US\$ 1.2 million equivalent. Employees number 12, of which 7 are in La Paz and 5 in Oruro.

BAFINSIA's policy is to extend short and medium-term credit up to 5 years to industry and mining. As with all non-commercial banks, BAFINSIA is not allowed to accept deposits of any kind. It concentrates on export financing for mining companies. Subsequent to criticism for granting loans to its own shareholders, BAFINSIA adopted a rule of not lending to any company in which a shareholder of BAFINSIA has an interest greater than 20 percent. It intends to assist borrowers in project preparation, but very little of this type of activity has been engaged in thus far. BAFINSIA plans to maintain leverage

at 5 to 1, and to increase its paid-in capital to US\$ 1.5 million equivalent in the near future. Local resources are its own capital plus lines of credit from the Central Bank. Other sources of funds are lines of credit from U.S. banks, particularly Citybank and Banco de Boston.

BAFINSA's maximum term for fixed asset loans is 5 years, and for working capital loans 12 to 18 months. As with commercial banks, the interest rate for local currency loans to industry is 16 percent p.a. The spread on loans from foreign sources is between 2 and 3 percent. The maximum loan granted is US\$ 100,000 equivalent and the minimum US\$ 25,000 equivalent. Borrowers are expected to maintain a debt/equity ratio no greater than 1:1. Preferred security arrangements are mortgages on real estate (but not on plant and equipment), and also the assignment of sales proceeds.

It is doubtful that the resources of BAFINSA will ever be made available to SSI because of the administrative problems and expense involved in lending to SSI and because of BAFINSA's limitations in respect to personnel for evaluating and supervising loans.

In the opinion of BAFINSA's management, very little reliance can be placed on the official financial statements of small companies, and cash flow projections must be made for every case. At the same time, BAFINSA is of the opinion that SSI are highly profitable, believing the average rate of return on invested capital to be in the neighbourhood of 30 percent. This largely coincides with the mission's findings.

3.4.3.3.

BANCO DE INVERSION BOLIVIANO S.A. (BIBSA)

Founded in September 1977, BIBSA is Bolivia's newest specialized banking institution. Its five shareholders are all in the private sector. One is a holding company that was formed to purchase the Bolivian interests of W.R. Grace and Co.; another is Bolivia's largest private mining corporation. Eighty percent of the equity is owned by Bolivians, the balance by a Canadian national. BIBSA's paid-in capital is US\$ 1 million equivalent, to be increased to US\$ 1.5 million equivalent by September 1978. BIBSA plans to build up its resources to US\$ 25 million equivalent, over the next 5 years, depending largely on the support of the U.S. banking community. Lines of credit have already been established with American Express, Manufacturers Hanover, Wells Fargo, Continental Illinois, First National of Dallas and Dow Banking Corporation of Switzerland among others. Leverage is planned at about 9 times equity. The intention is to have a lending mix with 2/3 maturing at 2 to 5 years and 1/3 at less than 2 years. Total lending commitments for 1977 were expected to be between US\$ 5 and 6 million equivalent. BIBSA has 8 full time employees, 5 of whom are professionals.

BIBSA's policy is to concentrate on short and medium-term dollar loans to the productive sector, defined as agriculture, ranching, industry, mining and tourism. Short-term credit will be extended for working capital purposes, and medium-term for financing industrial machinery and new plants. Its statutes allow it to take equity, and BIBSA is considering doing so in lieu of fees which it would otherwise charge for its services. BIBSA also hopes to place a number of large Government and private sector borrowings with international banks.

For short-term loans the nominal interest rate charged is 18 percent p.a., the effective rate with front-end fees and stamp taxes included amounting to about 20 percent p.a. The terms for long-term lending vary according to the foreign source of funds, with a spread of 1 to 4 percent p.a. over the cost. Maturities do not to exceed 5 years inasmuch as this is the maximum term for funds obtained by BIBSA from foreign commercial banks for on-lending. BIBSA's statutes prohibit lending more than 20 percent of its capital to a single client. Security requirements are a first mortgage as well as personal guarantees of the borrower, particularly in the case of small and relatively unknown borrowers.

According to BIBSA's management, the mission's definition of SSI does not include companies that are among its clients. Not one of the companies in its present portfolio of loans totalling approximately US\$ 1 million equivalent would qualify as SSI, all being relatively large enterprises. BIBSA is not interested in lending to SSI because of the high work input required to appraise projects and supervise loans. If such loans were made, BIBSA would probably charge a loan supervision fee to compensate for the extra time and effort involved.

4.3.4.

CORPORACION FINANCIERA DE BOSTON S.A. (FINANCIERA BOSTON)

Financiera Boston, which is 100 percent owned by the Boston Overseas Financial Corporation, was opened in La Paz in June 1975 in connection with obtaining approval for the establishment of the Banco de Boston as a commercial bank. Financiera Boston's paid-in capital is US\$ 1.5 million equivalent. The staff at its only office in La Paz includes 9 professionals for project analysis.

Financiera Boston has been engaged mostly in medium-term project financing for up to 5 years for industry and agriculture. In 2½ years of operations it has financed a total of 43 projects for approximately US\$ 13 million equivalent. Very few of these would qualify as SSI under our definition. Two-thirds of the loans have been for new projects and one third for expansions. Only 3 were short-term loans for working capital. The average loan size in US\$ 350,000 equivalent, and the average term is 28 months.

Financiera Boston's main source of funds is Eurodollar loans from the parent company, and all subloans have thus far been in foreign exchange with the exchange risk to the borrower. The interest rate is LIBOR plus 2 to 3 percent p.a. Arrears are not significant, and there has been only one default out of the 43 loans. Clients are located in 7 out of the 9 departments of Bolivia.

According to Financiera Boston's management, the net spread is about 3.5 percent, and it is just breaking even. Since its affiliated company, the Banco de Boston, is engaged in similar lending activities, the two companies plan to merge as soon as the Bolivian authorities grant permission to do so.

3.4.3.5.

CORPORACION FINANCIERA DE SANTA CRUZ S.A. (COFINSA)

A private development bank for medium and long-term loans to industry and agriculture is in the process of being formed in the Department of Santa Cruz. Principal sponsors are the regional development committee^{1/} and the Banco de Santa Cruz de la Sierra, which is Bolivia's largest private commercial bank. COFINSA is a priority project for the regional development committee, which finances this and other projects with the royalty of 11 percent which it receives on the market value of all natural gas and petroleum produced in the Department of Santa Cruz. The regional development committee will be a 20 percent shareholder in COFINSA, and in addition plans to provide a loan of US\$ 5 million equivalent under quasi-equity terms.

In addition to lending medium and long-term, COFINSA intends to underwrite securities, issue marketable papers, issue guarantees and letters of credit and finance feasibility studies. It does not intend to engage in commercial banking activities or make equity investments. COFINSA's initial paid-in capital will be US\$ 1.0 million equivalent, to be increased to US\$ 2.5 million equivalent within 5 years. It intends to seek loans from the World Bank among others, and plans to secure financial resources totalling US\$ 17.5 million equivalent by the fifth year of operations. The sponsors intend that COFINSA should eventually operate nationally and not be limited to the Santa Cruz area.

Santa Cruz businessmen are dissatisfied with the paucity of assistance they receive from Government institutions and from BISA and for that reason are creating this new institution to cope with the shortage of financing for investment projects. COFINSA's sponsors estimate that the shortage of such financing for all projects in the Santa Cruz area will amount to about US\$ 25 million equivalent per year over the next 5 years.

3.4.3.6.

CORPORACION FINANCIERA DEL SUR (CODESUR)

The Departmental Development Corporations of Tarija, Potosi and Sucre are actively promoting the creation of CODESUR as a regional development finance corporation with practically the same objectives as COFINSA. A consulting firm has prepared a feasibility study for CODESUR, and negotiations with the Central Government in La Paz are underway in order to obtain legal authorization and financial support for the new organization.

^{1/} Comité de Obras Publicas de Santa Cruz

3.4.3.7. BOLIVIAN DEVELOPMENT FOUNDATION (FBD)

FBD is a private, non-profit institution founded in July 1971. It belongs to the Council of American Development Foundations, which was created in Santo Domingo in 1972 for the purpose of channelling private resources and capital assistance to Latin American countries. The FBD has distinctly social objectives while working in the financial, technical, educational and cultural fields. As a non-profit organization, it receives tax-free status from the Bolivian Government. FBD operates with a very small budget. Since inception it has had less than US\$ 100,000 for on-lending to eligible borrowers. The organization has only 5 employees, all based in La Paz, but it has plans to open centers in Cochabamba, Santa Cruz and Tarija, where it will organize technical assistance to serve those who benefit from FBD loans.

Sources of finance have thus far been contributions from private persons and organizations, a loan from the Panamerican Development Foundation, contributions from the National Chamber of Industries, donations from USAID, the proceeds from public health activities, and funds provided by BISA for small industries and handicrafts. These altogether financed 27 loans totalling US\$ 97,500 equivalent between 1974 and 1977. Fifty percent of these by value went to small businesses and artisans for a total of 18 loans with an average size of US\$ 2,700 equivalent. Repayment periods varied from 1 to 3 years and interest rates from 8 to 14 percent p.a. Due to lack of funds there has been no further lending activity for the past 8 months.

The average interest spread to FBD has been 2 percent, which is insufficient to cover costs. Twenty percent of the loans have been in arrears and in need of rescheduling. The general policy has been not to require guarantees from borrowers.

FBD plans to create a service unit to provide technical assistance to borrowers. Help will be given in teaching techniques of production, administration and commercialization, internal organization and accounting, and techniques related to credit. For this service, FBD is considering charging a commission of 1 percent flat on all loans.

With its limited resources, both in respect to finance and personnel, FBD can only operate on a very small scale. It is in continuous need of soft loans and grants. Because of its social orientation, however, it has been recommended by the Corporación Andina de Fomento (CAF) as an organization that should be expanded to play a more important role in lending to SSI.

4. CONCLUSIONS AND RECOMMENDATIONS

For Bolivia, SSI is of major importance as a source of employment, a means to promote industrialization, and an opportunity for the formation of skilled labour and experienced entrepreneurs and managers. In addition, the promotion of SSI could complement ongoing programmes for developing rural areas and improving the economic conditions of the urban poor. In conclusion, Bolivia must develop a strong SSI sector as a basis for a sound economic and social development of the country.

Despite the apparent profitability of most SSI, the possibilities for further growth and modernization are limited under existing conditions. The mission therefore recommends that the Government provide specific fiscal incentives and financial and technical assistance to SSI in order to improve the quality of management and the efficiency of operations. Such efforts should be complemented by a more constructive attitude on the part of the Government towards the small entrepreneur, who at present feels alienated from public institutions.

In order to achieve the above-mentioned goals, the mission offers the following suggestions:

4.1.

RECOMMENDATIONS REGARDING FINANCE

The few existing credit facilities which deal with SSI and which are administered through the commercial banking system are costly and restrictive. The actual cost of credit is of less concern to the entrepreneurs than are the short maturities, excessive collateral requirements, and complicated and lengthy application procedures. Considering the fact that small-scale industrialists are largely unaware of the advantages of credit utilization and that project preparation is a major problem for them, it is apparent that technical assistance is needed along with financial assistance.

SSI's past experience in receiving little assistance from commercial and specialized banks leads the mission to propose a package of measures for a new line of credit especially for SSI. This package includes the following three complementary measures:

- a) Creation of a special credit line for SSI
- b) Extension of the credit guarantee programme to cover SSI in urban as well as rural areas
- c) Special assistance for the preparation of credit applications and applications for Government incentives.

a) Creation of a special line of credit for SSI

The proposed line of credit should cover both fixed investment and permanent working capital. The mission estimates that 30 percent of the total future financial requirements of SSI can be covered by internal cash generation and by other credit facilities presently available to SSI through the commercial banking system. As described in Section 2.3, investment by SSI for replacement and expansion of fixed assets is predicted to be about US\$ 20 million annually. The need for a new source of financing, conservatively estimated at 20 percent of the total requirement, is therefore US\$ 4 million per year. Assuming that the entire credit is to be disbursed over a 3-year period and subsequently revolved, the total amount of new financing to be made available for fixed assets would be roughly US\$ 12 million.

The needs for permanent working capital are estimated as follows: Annual sales of SSI are in the order of US\$ 300 million equivalent (see Table 4 of Annex 7). Assuming that the working capital requirement is equivalent to about two months' sales or US\$ 50 million equivalent, and that the need for a new source of funds again amounts to 20 percent of the total requirement, then a sum of about US\$ 10 million should be earmarked for loans for permanent working capital. It is therefore recommended that the total amount of a new line of credit for SSI be fixed at about US\$ 22 million.

Based upon the mission's observations, the organization best equipped to administer such a special line of credit, including appraisal and supervision, is the Government-owned Banco del Estado (BANESTA). As described in Section 3.4.1.3, this choice is based upon BANESTA's past experience and demonstrated capability, as well as its professional staff and large number of branch offices. In all likelihood BANESTA would require a spread not exceeding 5 percent, which in the past has been too low to be of interest to the private commercial banks. Other alternatives for the administration of a special line of credit would be (1) the Central Bank utilizing the entire commercial banking system and (2) the Corporación Boliviana de Fomento. As explained in Section 3.4.1.2., organizational problems would preclude CBF as a choice. The Central Bank plus commercial banking system involves unnecessary intermediary steps in addition to reluctance on the part of commercial banks to deal with SSI (see Sections 3.4.1.1. and 3.4.2.).

b) Extension of the credit guarantee programme

This programme was recently organized by the Central Bank with USAID support. In the opinion of the mission, it is a sound programme filling a very important need to make credit facilities available to companies or persons that lack sufficient collateral. However, in its presently proposed form, the Central Bank's credit guarantee programme will be limited to special types of SSI in rural areas. But most SSI are located in urban areas and are therefore excluded from the existing guarantee scheme. By increasing the financial support to the guarantee fund, the coverage could be extended so that all sub-sectors of SSI in all locations would benefit from easier collateral arrangements. The Central Bank and USAID have pledged to support the guarantee fund to the extent of roughly 4 million. The mission proposes that initially this amount be doubled through participation by other institutions so that loans to a substantial number of urban SSI could be covered in the pilot programme.

c) Provision of special assistance for (i) the preparation of credit applications and (ii) applications for fiscal incentives

In the opinion of the mission, this assistance should come from an institution outside the banking system, thus separating the cost of such assistance from the cost of money. These services should be free of charge or at most carry a nominal fee. The Government should be encouraged to absorb a portion of the cost as promotional assistance to SSI.

The existing organization which, in the opinion of the mission, would be best prepared to provide this type of assistance is INBOPIA (see Section 3.3.4). INBOPIA is an autonomous public sector entity, whose mandate even now is the providing of technical assistance programmes aimed at increasing the productivity of SSI. There would be an advantage in terms of objectivity in having a neutral agency such as INBOPIA assist in preparing credit applications, which would then be acted upon by the institution or institutions administering the credits.

4.2.

RECOMMENDATIONS REGARDING TECHNICAL ASSISTANCE

In addition to assistance to SSI in preparing credit and fiscal incentive applications, the need for technical assistance in matters of accounting, financial management, and commercialization was amply documented in the course of the mission's interviews with the 94 companies. Contributions from international and/or bilateral agencies amounting to at least US\$ 750,000 (equivalent to 10 man/years) is suggested for a technical assistance programme aimed at alleviating some of the problems caused by lack of basic business knowledge in addition to the assistance called for in section 4.1.c. above. This figure would not include the costs of financing fellowships and normal, budgetary operational cost of the local institutions in charge of implementing the programme.

Once again, INBOPIA is considered by the mission as the most appropriate institution, which, after a thorough review and possible revision of its present policies, organization and staffing, could channel technical assistance and extension services to SSI. Thus, combining the need for basic business training with the special assistance outlined in 4.1.c. above, INBOPIA's total range of responsibilities in respect to SSI would be:

- i) Informing SSI of incentives and sources of financial and technical assistance;
- ii) preparing applications for credit and/or Government fiscal incentives;
- iii) providing extension services, especially in the fields of financial management (general, cost and cash accounting), industrial management (product design, quality control, materials balance and flow, production techniques, industrial safety, and plant maintenance and repair), and operational management (procurement, commercialization, and market research);
- iv) identifying investment projects and preparing market and feasibility studies.

It is obvious that Government financial support to INBOPIA would have to be substantially increased before this institution could be entrusted with carrying out an effective technical assistance programme. International assistance to provide foreign expertise, train professional staff, and supply equipment to INBOPIA would also be needed.

Alternatively, technical assistance could be administered by the Banco del Estado, in conjunction with administering a lending programme, although probably not without some significant restructuring of that organization. It could also be administered by the Central Bank, utilizing the same facilities as exist within the new lending programme for agribusiness and artisanry. The Bolivian Development Foundation already has plans for a business advisory assistance programme on a limited scale, and this could be expanded as an additional source of help to small industrialists. Such assistance could also be administered by or through the semi-autonomous regional development corporations, such as CORDEPAZ and CORDECO. These organizations are already giving financial and technical assistance to small farmers and, at least as expressed by CORDEPAZ, would welcome the opportunity to extend this aid to small businesses in rural areas.

The mission advocates the creation of independent management centers, similar to those existing in other Latin American countries. These centers could be established with Government grants in the beginning and could later cover a major part of their operating costs through training fees. For the managers of SSI, training fees could be nominal. Seminars for SSI should be carefully designed to cover basic instruction in management, administration, production techniques, and commercialization. They should have a practical orientation to be of maximum benefit to small industrialists.

4.3.

RECOMMENDATIONS REGARDING THE LEGAL AND ADMINISTRATIVE FRAMEWORK

In order further to strengthen SSI, the matter of official policy should be reviewed and legislation amended. In particular, the mission recommends the following:

- a) Preparing a development plan for SSI, in which policies, strategies and targets are clearly defined. The impact on SSI of large projects in the industrial sector as well as in other sectors of the economy, such as agriculture, education, health and transport should be considered for determining priority activities for SSI. Programmes such as the one linked to the automotive industry of the Andean Group will create a number of possibilities to provide components and services through SSI. International organizations should be in a position to assist in preparing a comprehensive development plan for SSI.
- b) Improving existing legislation through the alteration and improvement of existing investment incentives or the issuance of a special law for SSI. New legislation should apply to existing as well as new enterprises. The incentives that are the most urgently needed and which should be readily attainable are:

- i) Exemption of customs duties on imported equipment and raw materials.
- ii) Income tax reductions in case of reinvestment of profits, either in the same company that generated the profits or in other existing or new enterprises.
- iii) Export incentives.

Regulations concerning the availability of financial and technical assistance should be included in this legislation.

BOLIVIA

**LABOUR FORCE IN URBAN AND RURAL AREAS: PAST AND FUTURE DEVELOPMENT
ESTIMATES BASED ON THE 1976 NATIONAL CENSUS OF POPULATION AND HOUSING**
(THOUSANDS OF PERSONS)

REGION AND DEPARTMENT	1970		1972		1974		1976 ^{2/}		1978		1980	
	URBAN ^{1/}	RURAL	URBAN	RURAL	URBAN	RURAL	URBAN	RURAL	URBAN	RURAL	URBAN	RURAL
ALTIPLANO	242.0	313.6	361.8	331.5	382.8	354.4	405.1	382.6	428.6	404.8	453.4	428.3
LA PAZ	224.4	174.3	237.4	184.2	251.2	198.0	265.8	216.1	281.2	228.6	297.5	241.9
OREIRO	53.7	30.0	56.8	31.7	60.1	34.1	63.6	37.1	67.3	39.3	71.2	41.6
POTOSI	63.9	109.3	67.6	115.6	71.5	122.3	75.7	129.4	80.1	136.9	84.7	144.8
VALLE	143.9	207.9	152.3	219.9	161.2	232.6	170.5	246.2	176.3	260.5	186.7	275.6
CHUQUISACA	26.8	70.1	28.3	74.1	30.0	78.4	31.7	83.0	33.5	87.8	35.5	92.9
COCHABAMBA	96.8	111.8	102.5	118.3	108.4	125.1	114.7	132.4	117.7	140.1	124.2	148.2
TARIJA	20.3	26.0	21.5	27.5	22.8	29.1	24.1	30.8	25.5	32.6	27.0	34.5
LLANOS	157.9	99.1	167.0	104.9	176.7	111.4	187.0	119.0	196.5	125.9	206.6	133.3
SANTA CRUZ	130.3	71.3	137.8	75.55	145.8	79.9	154.3	84.5	162.2	89.4	170.5	94.6
BENI	25.2	18.0	26.6	19.0	28.2	20.4	29.8	22.3	31.3	23.6	32.9	25.0
BANDU	2.4	9.8	2.6	10.4	2.7	11.1	2.9	12.2	3.0	12.9	3.2	13.7
BOLIVIA-TOTAL	643.8	620.6	681.1	656.2	720.7	698.4	762.7	747.8	801.4	791.2	846.7	837.2

^{1/} This information is based on data indicated for "cities and populated centres" in publications "Resultados Provisionales" by departments, published in March 1977 by the Ministerio de Planeamiento y Coordinación, Instituto Nacional de Estadística.

^{2/} Minor differences between Tables 3 and 2 are due to rounding.

General Note: Possible differences in population growth between urban and rural areas, between individual Departments or Regions, as well as the influence of migration from rural to urban areas had to be neglected, because reliable information is not available. The average yearly growth rates of the population according to the note on Table 4 have also been applied for the labour force. Possible influences due to changes in the age structure of the population are negligible over such short periods.

POIPIA: Shares of Economic Sectors in Gross National Product
(Millions of 1976 Bolivian Pesos)

Economic Sectors	1970		1972		1974		1976	
	₺	%	₺	%	₺	%	₺	%
Agriculture	7,748.8	18.6	8,353.3	18.1	9,061.6	17.3	10,006.0	17.0
Mining	3,610.5	8.7	4,203.2	9.1	4,974.7	9.5	4,886.8	8.3
Manufacturing Industry	4,965.3	11.9	5,559.0	12.0	6,496.5	12.4	7,370.3	12.5
Civil Construction	1,712.0	4.1	1,792.4	3.9	1,993.5	3.8	2,429.0	4.1
Energy, Transport, Communications	3,156.2	7.6	3,618.0	7.8	4,437.5	8.5	5,232.0	8.9
Commerce, Hotels + Restaurants	8,639.1	20.8	9,066.7	19.6	9,349.0	17.8	11,371.0	19.3
Other Sectors	11,754.4	28.3	13,619.5	29.5	16,131.4	30.7	17,654.0	29.9
Total Gross National Product	<u>41,586.3</u>	<u>100.0</u>	<u>46,212.1</u>	<u>100.0</u>	<u>52,444.2</u>	<u>100.0</u>	<u>58,949.1</u>	<u>100.0</u>
Biannual growth (%)			<u>11.1</u>		<u>13.5</u>		<u>12.4</u>	
Average annual growth (%) (1970-1976)		6.3						

Sources: Banco Nacional de Bolivia, National Economic Accounts. Revised and unpublished figures.

BOLIVIA: Production Value and Value Added by Major Branches of Manufacturing Industry - 1976
(Millions of Bolivian Pesos)

Industrial Branches	1970				1976				1970 - 1976		
	Gross Prod. Value		Value Added		Gross Prod. Value		Value Added		Gross Prod. Value	Change of Value Added	
	\$b	%	\$b	%	\$b	%	\$b	%	\$	%	
31 Food Industry	4,541.8	41.1	1,635.4	33.0	36.1	7,030.5	41.9	2,622.5	35.6	37.3	+ 60.0
32 Textile and Leather	3,742.0	33.8	1,707.9	34.4	45.6	3,640.8	21.7	1,676.6	22.7	46.1	- 2.8
33 Wood and Furniture	347.3	3.1	149.8	3.0	43.1	544.5	3.3	233.3	3.2	42.8	+ 55.7
34 Paper and Printing	157.6	1.4	62.1	1.3	39.4	339.5	2.0	135.1	1.8	39.8	+ 217.6
35 Chemical Industry	1,388.9	12.6	954.0	19.2	68.7	2,531.8	15.1	1,722.3	23.4	68.0	+ 80.5
36 Ceramic Industry	406.1	3.7	240.8	4.9	59.3	779.5	4.6	463.5	6.3	59.5	+ 92.5
37 Iron, Steel-Non-ferrous Metals	17.2	0.1	5.3	0.1	30.8	1,014.1	6.0	126.8	1.7	12.5	+2392.5
38 Mechanical + Elec. Eng.	139.5	1.3	61.6	1.2	44.2	415.3	2.5	178.1	2.4	42.9	+ 189.1
39 Other Manuf. Industries	322.3	2.9	144.5	2.9	44.8	488.8	2.9	211.9	2.9	43.4	+ 46.6
Total	11,062.7	100.0	4,965.4	100.0	44.2	15,784.8	100.0	77,370.1	100.0	43.9	+ 48.4

Source: Banco Nacional de Bolivia, Nacional Economic Accounts, Revised and unpublished figures.

BOLIVIA: THE URBAN LABOUR FORCE IN 1976TABLE 1: URBAN LABOUR GROUPS

	<u>Persons ('000)</u>	<u>Share in Total (%)</u>
1. Employees with fixed working hours and regular income	419.5	55
2. Under-employed persons with irregular working hours and fluctuating relatively low income	236.4	31
3. Independent Professionals with relatively high income (lawyers, doctors, etc.)	45.8	6
4. Unemployed	60.6	8
TOTAL URBAN LABOUR FORCE	762.7	100

Source: National Institute of Statistics, "Investigation on Employment, September 1977," a sample survey in 4,400 households.

TABLE 2: URBAN EMPLOYMENT BY SECTOR

	<u>1970</u> %	<u>1972</u> %	<u>1975</u> %	<u>1976</u> ('000 persons) based on 1975 distribution
Professionals	6.0	6.0	6.0	305.0
Urban unemployment and under-employment	39.0	39.0	39.0	
Urban Employment				
Mining and Petroleum	6.0	5.8	5.5	45.8
Manufacturing	12.7	12.5	12.4	103.0
Civil Construction	3.9	4.2	5.5	45.8
Energy, Transport and Communications	6.1	5.9	5.5	45.8
Commerce	10.1	9.9	9.4	78.5
Services	16.2	16.7	16.7	138.8
TOTAL URBAN LABOUR FORCE	100.0	100.0	100.0	762.7

Source:

1. "Plan de Desarrollo Economico y Social 1976-1980", Volume 1, pp. 129-130.
2. Ministry of Labour, "Estadística Laboral 1970-1975", pp. VIII and Tables 12 and 40.
3. Mission estimates based on the September 1977 investigation on urban employment, existing labour statistics, and recent data on the urban labour force.

BOLIVIA: EMPLOYMENT ACCORDING TO SIZE OF INDUSTRIAL ENTERPRISE

Government Institution Reporting	Artisanry		Small-scale		Medium and Large Scale		Total Employees	
	No.	%	No.	%	No.	%	No.	%
Social Security	1,950	7.6	7,956	31.0	15,756	61.4	25,662	100.0
Ministry of Labour	1,181	5.7	4,702	22.7	14,831	71.6	20,713	100.0
INBOPIA	111,249	66.6	25,729	15.4	30,176	18.0	167,154	100.0
Ministry of Planning and Coordination			<u>small and medium together</u>					
	39,577	28.8	<u>No.</u>		<u>%</u>		137,187	100.0
			97,610		71.2			

Source: Information collected by the mission during visits to the following institutions:

1. Social Security: Computer print-out prepared upon request of the mission.
2. Ministry of Labour: Computer print-out showing employment, enterprise, location and industrial activity.
3. INBOPIA: Unpublished report determining parameters for a work programme.
4. Ministry of Planning and Coordination: "1978 Progress Report on the Five Year Plan for Economic and Social Development 1976-1980," page 5, unpublished draft.

STATISTICAL INFORMATION ON ENTERPRISES VISITED NOVEMBER 1977

(AS RECORDED ON QUESTIONNAIRES)

TABLE 1: LOCATION OF ENTERPRISES

<u>CITY</u>	<u>NUMBER OF FIRMS</u>	<u>PERCENT</u>
La Paz	38	48
Cochabamba	15	21
Sta. Cruz	9	11
Tarija	5	6
Oruro	5	6
Sucre	4	5
Potosi	3	3
Total	<u>79</u>	<u>100</u>

TABLE 2: AGE OF ENTERPRISES

<u>AGE IN YEARS</u>	<u>NUMBER OF FIRMS</u>	<u>PERCENT</u>
0 - 3	17	21
3 - 5	10	13
5 - 10	12	15
10 - 20	16	20
More than 20	24	31
Total	<u>79</u>	<u>100</u>

Average age: 18 years

TABLE 3: SIZE AS DETERMINED BY INVESTMENT IN
MACHINERY AND EQUIPMENT

<u>US \$ EQUIVALENT</u>	<u>NUMBER OF FIRMS</u>	<u>PERCENT</u>
Up to 10,000	16	20
Up to 20,000	13	17
Up to 40,000	16	20
Up to 60,000	9	11
Up to 80,000	9	11
Up to 100,000	17	21
Total	<u>79</u>	<u>100</u>

Average investment in machinery and equipment US \$ 44,000

TABLE 4: SIZE AS DETERMINED BY ANNUAL SALES (1976)

	<u>NUMBER OF FIRMS</u>	<u>PERCENT</u>
Up to 50,000	18	22.8
50,000 to 100,000	20	25.3
100,000 to 200,000	14	17.7
200,000 to 400,000	14	17.7
400,000 to 600,000	7	8.9
600,000 to 800,000	4	5.0
800,000 to 1,000,000	1	1.3
N.A.	1 ^{1/}	1.3
	<u>79</u>	<u>100.0</u>

Average annual sales: US\$ 188,000

1/ One company shut down for the entire year due to fire.

TABLE 5: SIZE AS DETERMINED BY NUMBER OF WORKERS ^{1/}

<u>NO. OF WORKERS</u>	<u>NUMBER OF FIRMS</u>	<u>PERCENT</u>
5 through 10	20	25
11 through 15	14	18
16 through 20	12	15
21 through 25	9	11
26 to 60	24	31
Total	<u>79</u>	<u>100</u>

Average number of workers per firm: 21

1/ Excluding owner.

TABLE 6: TYPE OF EMPLOYMENT

	<u>NUMBER OF EMPLOYEES</u>	<u>PERCENT</u>
Administrative and Clerical	116	7
Skilled workers	478	29
Semi-skilled workers	631	39
Non-skilled workers	413	25
Total	<u>1,638</u>	<u>100</u>

Average assets per employee: US \$ 6,700

Average fixed investment in machinery and equipment per employee: US \$ 2,100

Average sales per employee: US \$ 8,950

TABLE 7: TYPE OF INDUSTRIAL ACTIVITY

	<u>NUMBER OF FIRMS</u>	<u>PERCENT</u>
Food processing	12	15.4
Leather and leather products	11	14.1
Wood and wood products	12	15.4
Textiles and wearing apparel	14	18.0
Metal products	13	16.6
Building materials	6	7.7
Others	10	12.8
Total	<u>78</u>	<u>100.0</u>

TABLE 8: ANNUAL SALES BY INDUSTRIAL ACTIVITY (1976) ^{1/}

	<u>US \$ 000</u>	<u>PERCENT</u>
Food processing	3,778	25.8
Leather and leather products	2,101	14.4
Wood and wood products	1,527	10.4
Textiles and wearing apparel	2,494	17.0
Metal products	1,084	7.4
Building materials	1,336	9.1
Others	2,333	15.9
Total	<u>14,653</u> ^{2/}	<u>100.0</u>

^{1/} Based on data from 78 firms.

^{2/} Includes exports, mainly leather products, wearing apparel, and handicrafts, for a value of approximately US \$ 405,200 equivalent (2.8 per cent of total sales.)

TABLE 9: TECHNICAL EVALUATION OF SSI OPERATIONS BASED ON VISUAL INSPECTION

	PLANT LAY-OUT %	MATERIALS HANDLING %	MACHINERY and EQUIPMENT %	PROCESS TECHNOLOGY %	CAPACITY UTILIZATION 2/ %	RAW MATERIAL UTILIZATION %
GOOD	9	16	18	24	19	14
SATISFACTORY	26	43	44	48	23	52
SUB-STANDARD	51	27	24	18	53	20
NOT EVALUATED 1/	14	14	14	10	5	14
	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

1/ NOTE: This corresponds to companies where the production facilities were located on premises far from administrative offices and therefore impossible to visit during time allotted for interview.

2/ For capacity utilization, good equals greater than 90%, satisfactory 60%-90%, and sub-standard less than 60%. Capacity utilization refers to output in a normal year (365 days, one 8-hours shift).

TABLE 10: REASONS FOR LOW CAPACITY UTILIZATION

<u>SALES MARKET</u>	<u>NUMBER OF FIRMS</u>	<u>PERCENT</u>
Excessive competition from large industries and/or artisans	6	5
Insufficient demand	24	18
Competition from contraband	8	6
Excessive down-time due to excessive product diversification	2	2
Low quality of product and design	1	1
<u>RAW MATERIALS</u>		
Insufficient supply	8	6
Excessive cost	3	2
Low quality	5	4
<u>TECHNICAL ASPECTS</u>		
Frequent breakdowns	5	4
Production bottlenecks	15	12
Inability to operate machinery	3	2
<u>FINANCIAL PROBLEMS</u>		
High production cost	3	2
Lack of working capital	28	22
<u>LABOUR</u>		
Unreliability and low-productivity	3	2
Lack of skilled labour	8	6
<u>INFRASTRUCTURE</u>		
High transportation costs	5	4
Lack of transport facilities	3	2
TOTAL NUMBER OF EXPLANATIONS	<u>130</u> ^{*/}	<u>100</u>

*/Several firms gave two or more answers.

TABLE 11: PROJECTS FOR EXPANSION AND DIVERSIFICATION ^{*/}

(IN THOUSAND U.S. DOLLARS)

	NUMBER OF <u>PROJECTS</u>	FIXED <u>INVESTMENT</u>	<u>CREDIT</u>	PERCENT OF TOTAL FIXED <u>INVESTMENT</u>
FOOD PROCESSING	9	2,245.00	1,825.0	21.3
LEATHER + LEATHER PRODUCTS	10	1,615.00	1,331.0	15.3
WOOD + WOOD PRODUCTS	9	868.90	660.9	8.3
TEXTILES + WEARING APPAREL	12	2,212.00	2,122.80	21.0
METAL - PRODUCTS	11	2,372.50	1,811.5	22.6
BUILDING MATERIALS	5	715.00	575.3	6.8
OTHERS	7	499.30	362.8	4.2
TOTAL	63	10,527.70	8,689.3	100.0
FOREIGN EXCHANGE		5,867.70		55.0

^{*/} Committed to implementation within 2 to 3 years.

BOLIVIA: SMALL SCALE INDUSTRY
SELECTED FINANCIAL DATA (*)
1976

	La Paz	Cochabamba	Santa Cruz	Tarija	Sucre	Potosi	Oruro	Total
Number of Firms in Sample	38	15	9	5	4	3	5	79
Number of Employees								
Range: High	53	30	60	62	23	21	23	62
Low	5	5	5	11	11	5	5	5
Average:	21	19	27	28	18	13	13	21
Total Assets								
Range: High	410,300	640,500	570,000	155,000 ^{1/}	534,300	133,080	134,750	640,500
Low	8,000	13,750	32,900	73,000	35,000	16,510	17,860	8,000
Average:	113,280	179,300	233,530	94,300	254,870	74,860	56,730	141,140
Investment in Machinery and Equipment								
Range: High	125,400	125,000	151,000	45,000	115,000	66,920	50,950	151,000
Low	3,000	12,500	2,500	12,500	9,000	8,700	6,750	2,500
Average:	41,400	59,190	51,720	29,160	47,980	33,540	24,350	44,140
Net Worth								
Range: High	153,950	540,500	537,500	198,000	64,930	75,000	39,000	540,500
Low	4,000	3,900	9,900	2,500	9,000	15,700	2,715	2,500
Average:	49,230	139,890	178,220	59,390	31,660	47,650	19,630	78,960
Annual Sales								
Range: High	885,950 ^{2/}	600,000	763,500	373,400	115,000	255,340	93,500	885,950
Low	10,000	36,000	40,000	31,500	28,750	10,700	2,420	2,420
Average:	160,240	235,770	405,500	168,350	56,750	113,680	45,870	188,000

1/ Based on data from 4 firms, 1 not reporting.

2/ Based on data from 37 firms; 1 operated for 2 month period only.

(*) Data are based on 1976 actual and 1977 estimated figures. Unofficial and therefore more realistic data have been used wherever possible and in preference to official financial statements prepared for the tax authorities.

BOLIVIA: SMALL SCALE INDUSTRY
SELECTED FINANCIAL RATIOS
1976-1977 (*)

	La Paz	Cochabamba	Santa Cruz	Tarija	Sucre	Potosi	Oruro	Total
Number of Firms in Sample	38	15	9	5	4	3	5	79
Current Ratio	22 firms >2:1 16 firms <2:1 5 firms negative	10 firms >2:1 5 firms <2:1 1 firm negative	8 firms >2:1 1 firm <2:1	N.A.	N.A.	N.A.	N.A.	40 firms >2:1 22 firms <2:1 6 firms negative
Total Debt to Total Assets	13 firms > 50% 12 firms < 20%	1 firm > 50% 7 firms < 20% 1 firm none	2 firms > 50% 4 firms < 20%	1 firm > 50% 3 firms < 20% 1 firm none	1 firm > 50% 2 firms < 20%	1 firm > 50% 2 firms < 20% 1 firm none	no firm > 50% 2 firms < 20%	19 firms > 50% 32 firms < 20% 3 firms none
Long-Term Debt to Capital Structures	4 firms > 30% 30 firms < 20% 11 firms none	1 firm > 30% 13 firms < 20% 9 firms none	2 firms > 30% 7 firms < 20% 5 firms none	1 firm > 30% 4 firms < 20% 4 firms none	1 firm > 30% 3 firms < 20% 3 firms none	1 firm > 30% 2 firms < 20% 2 firms none	1 firm > 30% 3 firms < 20% 2 firms none	11 firms > 30% 62 firms < 20% 36 firms none
Gross Earnings ^{2/} to Total Assets	10 firms > 20% 17 firms < 5% 3 firms loss	11 firms > 20% no firm < 5% no losses	9 firms > 20% no firm < 5% no losses	3 firms > 20% ^{3/} 1 firm < 5% no losses	1 firm > 20% 1 firm < 5% no losses	2 firms > 20% no firm < 5% no losses	3 firms > 20% 2 firms < 5% 1 firm loss	39 firms > 20% 21 firms < 5% 4 firms loss
Net Profit to Total Assets	8 firms > 10% 18 firms < 5% 3 firms loss	14 firms > 10% 1 firm < 5% no losses	9 firms > 10% no firm < 5% no losses	2 firms > 10% ^{4/} 1 firm < 5% no losses	no firms > 10% 1 firm < 5% no losses	no firms > 10% ^{5/} no firms < 5% no losses	2 firms > 10% 3 firms < 5% 1 firm loss	35 firms > 10% 24 firms < 5% 4 firms loss
Net Profit to Net Worth	8 firms > 30% 12 firms > 10% 18 firms < 5% 3 firms loss	10 firms > 30% 14 firms > 10% 1 firm < 5% no losses	8 firms > 30% 9 firms > 10% no firm < 5% no losses	1 firm > 30% 3 firms > 10% no firm < 5% no losses	1 firm > 30% 2 firms > 10% no firm < 5% no losses	no firms > 30% ^{5/} no firms > 10% no firm < 5% no losses	1 firm > 30% 2 firms > 10% 2 firms < 5% 1 firm loss	29 firms > 30% 42 firms > 10% 21 firms < 5% 4 firms loss
Gross Earnings ^{2/} to Net Sales	5 firms > 20% 16 firms < 5% 3 firms loss	12 firms > 20% 1 firm < 5% no losses	9 firms > 20% no firm < 5% no losses	3 firms > 20% ^{3/} no firm < 5% no losses	3 firms > 20% no firm < 5% no losses	3 firms > 20% no firm < 5% no losses	2 firms > 20% 1 firm < 5% 1 firm loss	37 firms > 20% 16 firms < 5% 4 firms loss
Net Profit to Net Sales	6 firms > 10% 15 firms < 2% 3 firms loss	14 firms > 10% 1 firm < 2% no losses	9 firms > 10% no firm < 2% no losses	2 firms > 10% ^{4/} no firm < 2% no losses	2 firms > 10% no firm < 2% no losses	1 firm > 10% ^{5/} no firm < 2% no losses	2 firms > 10% 2 firms < 2% 1 firm loss	36 firms > 10% 18 firms < 2% 4 firms loss

1/ Supporting data obtained only in La Paz, Cochabamba and Santa Cruz — 62 firms total
2/ Earnings before interest and taxes

3/ 4 firms reporting; 1 N.A.
4/ 3 firms reporting; 2 N.A.
5/ 2 firms reporting; 1 N.A.

(*) Data are based on 1976 actual and 1977 estimated figures. Unofficial and therefore more realistic data have been used whenever possible and in preference to official financial statements prepared for the tax authorities.

BOLIVIA

BENEFITS AND INCENTIVES GRANTED BY THE LAW OF INVESTMENTS

BENEFITS AND INCENTIVES	NEW INDUSTRY			Existing Industry	Mining	Agriculture Natural Livestock Renewable Resources	Construc- tions	Tourism
	First Category	Second Category	Third Category					
— Exception from import duties and related additional taxes, except charges for customs warehousing services and consular fees, on machinery and equipment imports, and parts imported therewith and vehicles to be used in the process of production (one time—only).	100 %	100 %	100 %	—	100 %	100 %	100 %	100 % Likewise exemp- tions on all im- ports to furnish and equip inter- class hotels
— Exception of custom duties and related additional taxes and surcharge imposed by Decree No. 08400 of Jun. 27/68 on imports of raw material and supplies not produced in the country, except customs warehousing services and consular fees.	100 % 7 Years (20% annual reduction during the following 5 years)	75 % 7 Years (Reduction of 30, 30 and 40% during the 3 follow- ing years)	50 % 7 Years (50 % annual reduction during the 2 following years)	—	—	100 % 7 Years (20% annual reduction during the following 5 years)	—	Yes (*)
— Refund of customs duties on raw materials and supplies imported and incorporated to the products exported, if this benefit has not been already granted.	100 %	100 %	100 %	100 %	—	—	—	—
— Tax exemption on transfers of capital and credits either domestic or foreign which have been entirely invested in the approved project.	Yes	Yes	Yes	—	Yes	Yes	Yes	Yes
— Exemption of national, departmental and municipal taxes and university surcharges on production and sales of manufactured goods exported.	100 %	100 %	100 %	100 %	—	—	—	—
— Option to adhere to the annual depreciation granted to fixed assets.	Yes	Yes	Yes	—	Yes	Yes	Yes	Yes
— 10 years national, departmental and municipal tax exemption on new constructions of the company, except charges on municipal public services. Exemption for a one-time only of taxes on real estate incorporated as capital of the Company.	Yes	Yes	Yes	—	Yes	Yes	Yes	Yes
— Proportional tax exemption on profits of Bolivian companies that invest such profits for the purchase of new shares issued by companies in which there is foreign capital participation. Such exemption will be granted until national capital participation reaches 51 %.	100 %	100 %	100 %	—	100 %	100 %	100 %	100 %

— In the Departments of Beni, Pando, Chuquisaca, Tarija, and other areas of lesser economic and social development, a 10 years tax exemption on profits and total income derived from an approved investment will be granted.

— Tariff protection will be granted temporarily on the basis of technical-economic studies made by the Ministry of Industry and Commerce.

OTHER BENEFITS NOT RELATED TO TAXATION

— Land for the establishment of industries may not be a part of industrial complexes. State owned land concessions for livestock and agricultural development, within legal limitations.

(*) Subject to special legal provisions.

BOLIVIA

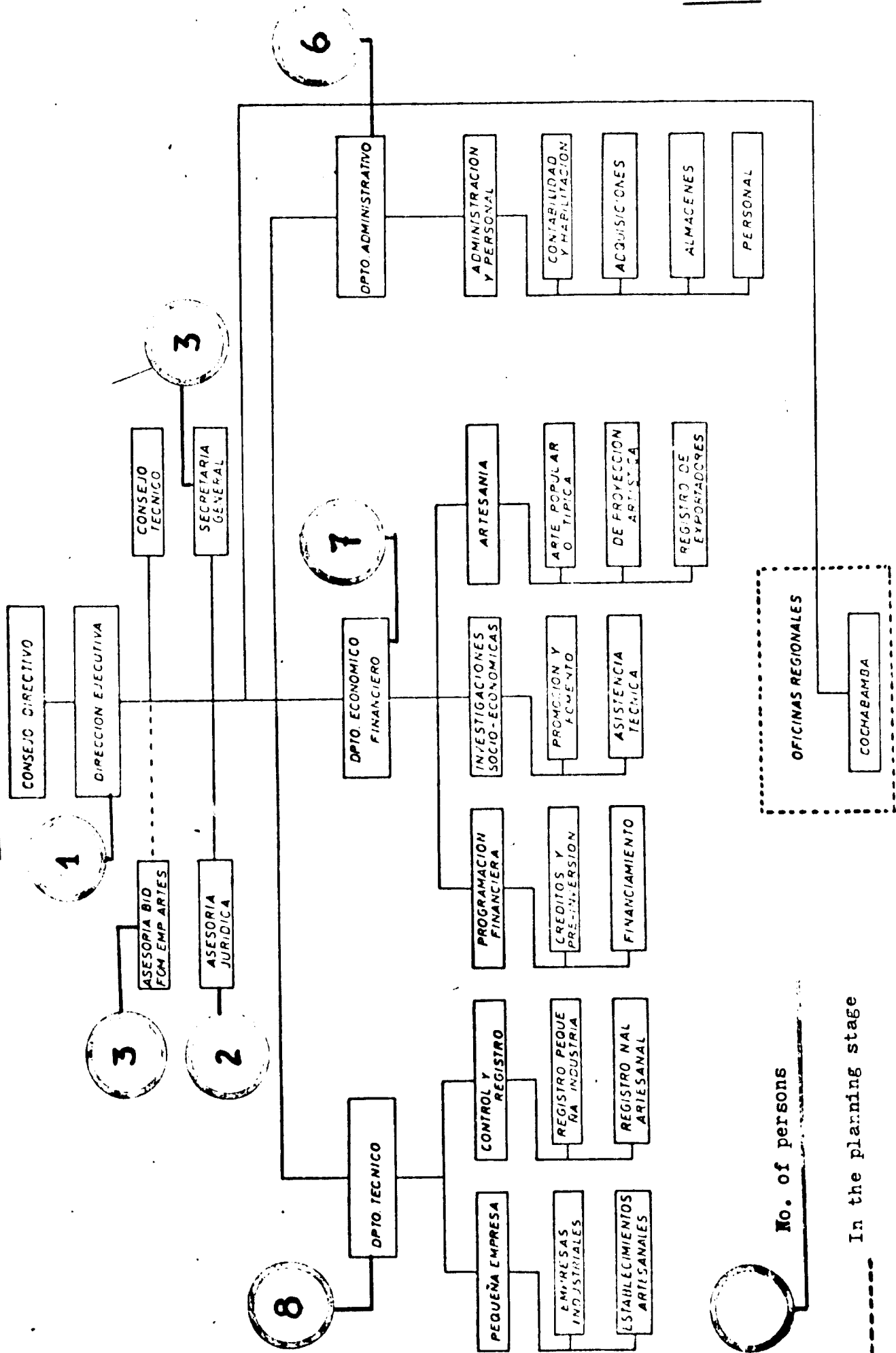
INI: PROJECTS APPROVED AND REGISTERED BETWEEN 1972 AND 1977

<u>INVESTMENT IN U.S. DOLLARS</u>	<u>NUMBER OF PROJECTS</u>							
	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u> ^{1/}	<u>TOTAL</u>	<u>PERCENT</u>
LESS THAN 20,000	1	3	1	-	-	7	12	4
BETWEEN 20,000 AND 50,000	4	5	5	1	2	9	26	8
BETWEEN 50,000 AND 100,000	6	-	4	8	5	6	29	9
MORE THAN 100,000	28	22	39	47	57	61	254	73
Number of projects approved and registered	39	30	49	56	64	83	321	100
Percent	12	9	15	18	20	26		100

^{1/} First 8 months

SOURCE: Instituto Nacional de Inversiones

BOLIVIA
INECPIA: Organizational Chart



No. of persons

In the planning stage

BOLIVIA: MEMBERSHIP COMPOSITION OF THE NATIONAL CHAMBER OF INDUSTRIES

<u>ACTIVITIES</u>	<u>La Paz</u>	<u>Chuq.</u>	<u>Cochab.</u>	<u>Sta.Cruz</u>	<u>Oruro</u>	<u>Tarija</u>	<u>Potosi</u>	<u>Pando</u>	<u>Beni</u>	<u>TOTAL</u>
Food and beverages	29	36	43	111	23	10	9	9	5	275
Tobacco	2	1	-	2	-	-	-	-	-	5
Textiles and confections	91	7	22	6	13	-	-	-	-	139
Wood + Wood products	9	11	33	33	-	10	-	-	1	97
Millinery	2	2	3	-	-	-	-	-	-	7
Leather + leather products	8	3	17	19	6	6	-	-	-	59
Paper products + printing shops	26	4	5	5	10	2	-	-	-	52
Rubber products	3	-	6	-	-	-	-	-	-	9
Plastic products	7	1	2	4	-	-	-	-	-	14
Chemicals, pharmaceuticals + cosmetics	25	3	15	7	7	7	-	-	-	57
Construction materials	6	9	10	13	6	5	-	-	-	49
Glass and glass products	3	-	3	-	-	-	-	-	-	6
Electric + electronic products	5	-	4	-	1	-	-	-	-	10
Metal products	30	3	34	16	12	-	-	-	-	95
Miscellaneous products	10	12	10	10	3	1	-	-	-	46
TOTAL	256	92	207	226	81	34	9	9	6	920
PERCENT	28	10	22.	24	9	4	1	1	1	

SOURCE: NATIONAL CHAMBER OF INDUSTRIES "Directory - Guide of the Bolivian Industry", 1977

BOLIVIA: CENTRAL BANK
DISTRIBUTION OF FRI REDISCOUNT LOANS BY FINANCIAL INTERMEIDARY

JANUARY 1973 - SEPTEMBER 1977

	<u>Number of Loans</u>	<u>Amount of Loans</u> (US\$)
Banco del Estado	64	4,224,704
Banco Hipotecario Nacional	26	1,282,952
Banco Nacional de Bolivia	24	529,232
Banco Industrial S.A.	20	1,903,647
Banco de Santa Cruz de la Sierra	19	765,728
Banco Mercantil	19	779,384
Banco de Credito Oruro	13	826,684
Banco Popular del Peru	9	956,442
Banco de Cochabamba	7	783,987
Banco Boliviano Americano	6	91,300
Bank of America	5	514,069
Banco Potosi S.A.	4	188,379
Banco Industrial Y Ganadero del Beni S.A.	3	74,285
Banco de Financiamiento Industrial S.A.	3	60,734
First National City Bank	2	560,000
Banco de La Paz S.A.	1	12,627
TOTAL	225	13,554,154

Source: Banco Central de Bolivia

BOLIVIA : PAIS DEL ESTADO

LOAN APPROVALS

AS OF DECEMBER 31

(US \$ 000 Equivalent)

SECTORS	1975		1976		DIFFERENCE		%
	1975	1976	ACTUAL	%	DIFFERENCE		
					ACTUAL	%	
COMMERCE	6,044	11,185	5,141	55.0	14.0	14.0	
INDUSTRY	15,649	27,136	11,487	73.4	34.1	34.1	
ARTISANRY	2,272	2,467	195	8.6	3.1	3.1	
SERVICES	3,306	5,673	2,367	71.6	7.1	7.1	
PROFESSIONALS	310	268	-(42)	-(13.5)	0.3	0.3	
PRIVATE INDIVIDUALS	155	270	115	74.2	0.4	0.4	
HOUSING	4,640	3,524	(1,116)	-(24.1)	4.4	4.4	
EXPORT	2,310	1,939	(371)	(16.1)	2.4	2.4	
SPECIAL	16	3	(13)	(81.2)	-	-	
FARMING	26,570	27,238	668	2.5	34.2	34.2	
TOTAL	61,272	79,703	18,431	30.1	100.0	30.1	100.0

DEPARTMENTS	1975		1976		DIFFERENCE		%
	1975	1976	ACTUAL	%	DIFFERENCE		
					ACTUAL	%	
LA PAZ	13,945	24,590	10,645	76.3	30.8	30.8	
COCHABAMBA	5,850	6,360	510	8.7	8.0	8.0	
SANTA CRUZ	28,380	31,250	2,870	10.1	39.2	39.2	
ORURO	1,590	3,225	1,635	102.8	4.0	4.0	
CHUQUISACA	2,075	2,695	620	29.9	3.4	3.4	
TARIJA	4,666	5,345	679	14.6	6.7	6.7	
POTOSI	2,300	2,464	164	7.1	3.1	3.1	
BENI	2,136	3,255	1,120	52.4	4.1	4.1	
PANDO	330	519	189	57.3	0.7	0.7	
TOTAL	61,272	79,703	18,431	30.1	100.0	30.1	100.0

Source: Banco del Estado

BOLIVIA: PRIVATE COMMERCIAL AND SPECIALIZED BANKS
NUMBER OF BANK OFFICES

Bank	La Paz City/Provinces	Santa Cruz City/Provinces	Cochabamba City/Provinces	Oruro City/Provinces	Potosí City/Provinces	Sucre City/Provinces	Tarija City/Provinces	Beni City/Provinces	Total City/Provinces	Total
A) Commercial										
National										
Cochabamba S.A.	1	-	2	1	-	-	-	-	3	4
Credito Oruro	1	1	1	2	1	-	1	-	7	7
Santa Cruz de la Sierra	1	4	1	-	-	-	-	-	6	8
La Paz S.A.	3	-	-	-	-	-	-	-	3	4
Industrial y Comercio del Beni	1	-	-	-	-	-	-	1	2	3
Potosí S.A.	1	-	-	-	1	-	1	-	3	5
Hipotecaria Nacional	2	1	2	-	-	-	-	-	5	7
Mercantil S.A.	3	2	1	-	-	-	1	-	6	11
Nacional de Bolivia	3	1	1	1	1	1	1	-	10	12
Boliviano Americano	1	-	1	-	-	-	-	-	2	3
TOTAL	17	10	10	3	3	1	4	3	51	66
B) Foreign										
De la Nacion Argentina	1	1	-	-	-	-	1	-	3	3
Do Brazil	1	1	1	-	-	-	-	-	3	3
First National City Bank	1	-	-	-	-	-	-	-	1	1
Popular del Peru	3	1	1	1	1	1	1	1	10	10
De Boston	1	1	-	-	-	-	-	-	2	2
Of America	1	1	-	-	-	-	-	-	2	2
TOTAL	8	5	2	1	1	1	2	1	20	21
B) Specialized Banks										
Banco Industrial	1	-	-	-	-	-	-	-	1	1
Banco de Financiamiento Industrial	1	-	-	1	-	-	-	-	2	2
Banco Hipotecario (Seccion Hipotecaria)	-	-	-	-	-	-	-	-	-	-
Banco de Inversion	1	-	-	-	-	-	-	-	1	1
Boliviano Corporacion Financiera	1	-	-	-	-	-	-	-	1	1
Credito de Boston	1	-	-	-	-	-	-	-	1	1
Total	5	1	-	1	-	-	-	-	7	7
GRAND TOTAL	22	15	12	4	4	1	6	4	71	87

ANNEX 16

Source: USAID

BOLIVIA: COMMERCIAL BANKING SYSTEM

Table 1: Sources of Finance for the Private Sector
as of December 31
(US\$ million equivalent)

	1972		1973		1974		1975		1976	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
National Banks	15.0	26.2	23.0	25.0	40.0	25.7	94.1	34.5	107.4	42.1
Banco del Estado	17.5	30.5	36.0	40.1	50.0	40.1	51.5	33.2	79.7	31.1
Foreign Banks	24.8	43.3	30.7	34.3	49.7	33.2	59.0	32.0	58.0	22.7
Total	57.3	100.0	89.7	100.0	149.7	100.0	184.4	100.0	255.1	100.0

Table 2: Distribution of Deposits
as of December 31
(US\$ million equivalent)

	1972		1973		1974		1975		1976	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
National Banks	20.0	33.9	30.0	35.9	52.5	40.4	80.4	45.1	146.9	49.5
Banco del Estado	21.0	35.6	27.5	32.9	37.5	28.8	48.2	27.0	70.5	23.7
Foreign Banks	18.0	30.5	26.0	31.2	40.0	30.8	49.8	27.9	78.4	25.5
Total	59.0	100.0	83.5	100.0	130.0	100.0	178.4	100.0	295.5	100.0

Source: Banco del Estado

**BOLIVIA: PRIVATE COMMERCIAL AND SPECIALIZED BANKS
TOTAL DEPOSITS AND PORTFOLIO OF LOANS FROM OWN SOURCES**

As of 20 October 1977

(US\$ million equivalent)

	<u>Total Deposits</u>	<u>Portfolio of Loans from Own Sources</u>
Banco de Santa Cruz de la Sierra	32.2	20.5
Banco Popular del Peru	24.4	14.4
Banco Mercantil	22.4	10.8
Banco Nacional de Bolivia	22.4	13.2
Banco Credito de Oruro	21.3	15.8
Banco Boliviano Americano	19.4	10.1
Banco Hipotecario Nacional	14.4	9.6
Banco do Brasil	13.9	13.3
Banco de Cochabamba	11.8	8.0
Bank of America	11.1	6.6
Banco de la Nacion Argentina	7.3	6.3
City Bank	7.0	5.9
Banco de Potosi	6.0	4.3
Banco de Boston	5.8	3.8
Banco de La Paz	3.8	2.3
Banco Industrial y Ganadero del Beni	1.6	2.0
Banco Industrial	0.5	1.4
Banco de Financiamiento Industrial	0.2	0.8

Source: Asociacion de Bancos Bolivianos

BOLIVIA: PRIVATE COMMERCIAL BANKS

Table 1: PORTFOLIC GROWTH 1973-1976

(US\$ 000 equivalent)

	1973	1974	1975	1976	increase 1976 over 1973
National Private Commercial Banks	23,125	41,955	64,140	107,435	365%
Foreign Private Commercial Banks	31,205	49,710	59,030	68,045	118%
TOTAL	54,330	91,665	123,170	175,480	223%

Table 2: PORTFOLIC DISTRIBUTION BY SECTORS 1976
(US\$ 000 equivalent)

	Agriculture + Livestock	Industry	Construction	Exports	Artisanry	Mining	Commercial	Individuals	Others	Total
Banco Boliviano Americano	260	6,955	340	85	70	-	7,535	615	1,400	17,260
Banco de Santa Cruz de la Sierra	4,580	5,480	10	--	235	-	3,815	2,035	955	17,110
Banco Mercantil	745	9,005	525	--	185	-	2,100	2,690	75	15,325
Banco Nacional de Bolivia	580	6,480	820	--	615	-	5,865	30	--	14,390
Banco Hipotecario Nacional	590	6,980	530	2,020	90	-	2,070	895	60	13,255
Banco de Credito de Oruro	755	7,650	195	--	95	-	3,645	90	30	12,460
Banco de Cochabamba	215	5,270	535	--	45	-	1,765	1,640	70	9,540
Banco de La Paz S.A.	265	1,620	5	--	5	-	735	540	5	3,175
Banco de Potosi S.A.	335	1,350	5	--	415	-	435	75	--	2,615
Banco Industrial y Ganadero del Beni	1,540	335	--	--	210	-	110	110	--	2,305
TOTAL	9,865	51,125	2,965	2,105	1,965	-	28,075	8,720	2,615	107,435
Banco do Brasil	9,450	8,315	175	--	20	-	5,490	1,250	625	25,325
Banco Popular del Peru	580	8,360	75	--	--	-	5,395	45	105	14,560
Banco de la Nacion Argentina	--	5,970	--	--	--	-	2,590	40	--	8,600
Banco de Boston	30	5,525	125	--	--	-	1,465	150	30	7,325
Bank of America	30	5,395	30	--	--	-	445	435	20	6,355
First National City Bank	40	5,450	10	--	--	-	360	20	--	5,880
TOTAL	10,130	39,015	415	--	20	-	15,745	1,940	780	68,045
GRAND TOTAL	19,995	90,140	3,380	2,105	1,985	-	43,820	10,660	3,395	175,480

Source: GIASE, Estudio del Sistema Bancario Nacional, 1977

Loan Approvals

	1977 (9 mos)		1976 (12 mos)	
	No.	Amount (US\$ 000)	No.	Amount (US\$ 000)
<u>Location</u>				
La Paz	5	204.0	10	249.5
Cochabamba	14	56.9	21	170.4
Santa Cruz	5	115.0	13	315.5
Oruro	-	-	1	20.0
Total	24	375.9	45	756.4
<u>Status</u>				
New	1	3.0	8	194.9
Existing	23	372.9	37	561.5
Total	24	375.9	45	756.4
<u>Purpose</u>				
Fixed Capital	23	322.9	41	579.6
Working Capital	10	53.0	15	176.8
Total	24 ^{1/}	375.9	45 ^{2/}	756.4
<u>Maturities</u>				
2-year	2	5.0	10	203.3
3-year	13	148.9	20	189.1
4-year	8	192.0	12	251.5
5-year	1	30.0	1	12.5
6-year	-	-	1	100.0
Total	24	375.9	24	756.4
<u>Origin of Funds</u>				
AID	13	73.4	24	305.0
BID	14	267.5	22	381.4
KFW	1	35.0	2	70.0
Total	24 ^{3/}	375.9	45 ^{4/}	756.4
Total All Loans	55	12,500.0	104	13,245.0
% Small-Scale Industry	44%	3%	43%	6%

1/ 9 are mixed fixed and working capital

2/ 11 are mixed fixed and working capital

3/ 4 are mixed BID and AID

4/ 3 are mixed BID and AID

BOLIVIA: BANCO INDUSTRIAL S.A. (BISA)

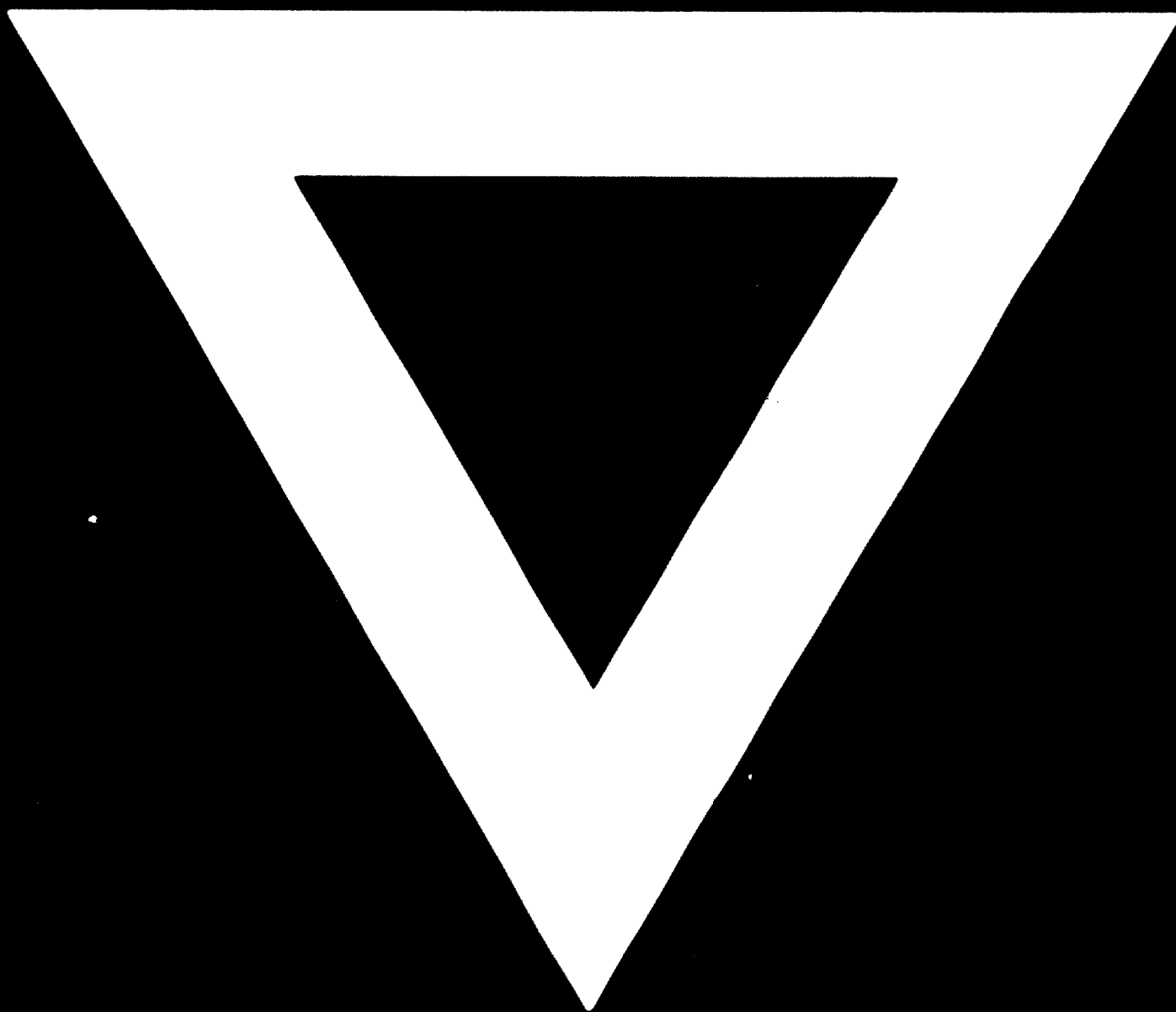
PROJECTED LOAN OPERATIONS

(US\$ 000)

	1977	1978	1979	1980	1981
APPROVALS					
Industry					
Small	380	1,300	1,300	2,300	2,700
Medium	5,328	5,080	5,350	5,325	7,335
Large	4,997	4,000	4,500	5,000	5,500
Mining	2,800	4,100	5,000	5,800	6,000
Tourism	1,435	2,000	2,000	2,000	3,000
Urban Small Scale Industry and Artisanry	- 0 -	700	1,000	1,000	1,300
TOTAL	14,940	17,180	19,750	22,725	26,135
COMMITMENTS	11,952	13,744	15,808	18,180	20,908
DISBURSEMENTS	11,590	13,135	14,535	15,339	19,915

Source: Banco Industrial S.A.

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