

**SECTION TWO**  
**CASE STUDIES: PROMISING RURAL FINANCE**  
**ORGANIZATIONS AND PRODUCTS**

## INNOVATIVE RURAL FINANCIAL PRODUCTS

### ANED, BOLIVIA: PIONEERING RURAL MICROLEASING

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#### INTRODUCTION

The Financial Leasing Program of the National Ecumenical Development Association (Asociación Nacional EcuMénica de Desarrollo, ANED) is an innovative mechanism for the small producers of Bolivia's rural areas to finance investment capital (fixed assets). By financing the acquisition of fixed assets, this alternative to credit circumvents one of the most important bottlenecks small producers face in expanding their production and productivity possibilities. Furthermore, financial leasing enables producers to address the problem of lack of collateral and lowers portfolio risks for ANED.

This chapter is divided in five sections. Following the introduction, which includes a brief description of ANED, an explanation of the financial leasing mechanism is presented (Section 2). In Section 3, the results of the Program are analyzed from the perspective of its outreach and financial performance. The fourth section details the challenges facing the expansion of this model. Finally, conclusions are drawn in Section 5.

#### Brief Description of ANED

ANED was founded as an NGO on June 13th, 1978, for the exclusive purpose of providing credit to low-income, urban and rural sectors, who were traditionally ignored by the banking system. As such, it became the first institution of its type in Bolivia, offering specialized financial services to this segment of the population. The creation of ANED responded to the need of the 11 founding NGOs to have a financial component to complement their nonfinancial activities (training and

technical assistance).<sup>1</sup> ANED is currently made up of 23 NGOs, more than double its original number, which shows that the financial services it offers are attracting an increasing number of member organizations. In other words, members institutions appear to consider that providing financial services through ANED is turning out to be more efficient than offering such services themselves.

As displayed in Table 10.1, ANED offers six financial products, of which five are designed for producers and one for institutions (Associative). Since 1995, a lot of activity has been observed in the creation of new financial products. In fact, four of the products currently on offer have been set up in the meantime.

**Table 10.1. Credit Facilities Offered by ANED, 1998**

Facilities	Characteristics
Associative	First product created, designed for financing working and investment capital. In December 1998, this was the main financial product, as it represented 63.3 percent of the portfolio balance.
Financial leasing	Created in 1997, it finances investment capital. Represents 3.7 percent of the portfolio.
Individual	Implemented in 1996, it finances working capital and investment capital. Represents 1.1 percent of the portfolio, the smallest share of all the products.
Village banks	Started operating in 1996. They finance working capital (short-term loan). Represent 3.5 percent of the portfolio.
Solidarity	Created in 1995, it finances working capital. Represents 23.2 percent of the portfolio.
Line of credit	Designed to finance other credit programs or organizations. Represents 5.2 percent of the portfolio.

Source: ANED.

The area of action of the financial services offered by ANED is spread over eight of Bolivia's nine Departments, all except Pando, among four regional offices and 12 rural offices, which make up the Loan Department.<sup>2</sup> In total, at the end of 1998, ANED had 17 offices staffed with 26 loan officers. The average wage per loan officer amounted to US\$ 450 and there were no bonuses for productivity. The portfolio balance was concentrated in the Departments of La Paz (28.3 percent), Potosí (18.9 percent) and Santa Cruz (17.3 percent).

1 Among them, the Ecuadorian Ecotourism Association (Asociación Ecuatoriana de Ecoturismo, ASEC), the Cooperative Development Department (Departamento de Fomento Cooperativo, DEFOCOOP), the Social and Economic Development Center (Centro para el Desarrollo Social y Económico, DESEC), Community Radio Education (Educación Comunitaria Radial, ECORA), Equipo Chapare, Mennonite Economic Development Associates (MEDA, Bolivia) and the National Union for Social Action Work (Unión Nacional de Instituciones para el Trabajo de Acción Social, UNITAS).

2 In 1997, two regional offices (in Tarija and Oruro) and five rural offices (two in Potosí, one in Tarija, one in Chuquisaca and one in Santa Cruz) were opened and the staff then rose from 32 to 44.

ANED's Financial Leasing Program emerged in 1997 as a response to the needs of many rural producers to have fixed assets to enable them to increase their productivity and income in a significant manner. ANED had already attempted to satisfy that demand through associative credit, but the Program was not successful because of many lost loans. This experience demonstrated that incentives to pay back significant amounts remained very weak when they involved no real guarantee. On the other hand, ANED's solidarity loan programs could not satisfy that demand either, due to the fact that the loans were small and very short-term. The challenge was therefore to design a financial product that would facilitate the acquisition of fixed assets and, at the same time, supply guarantees that would motivate a sector of producers without real guarantees to pay back their loans.

The Program started off as a pilot project, with a donation from the Inter-American Development Foundation (IAF) in the Departments of La Paz and Oruro. In these areas, ANED's surveys had shown that the conditions were conducive to launch the implementation of a financial leasing program. In Oruro, an important segment of small farmers were growing garden vegetables, for which the demand is high in urban areas, and they were in a position to significantly increase their production as long as better irrigation systems were available, particularly the use of motorized pumps. Simultaneously, in La Paz, several dairy organizations were in need of tractors to improve their forage production.

In its beginnings, the Program had to overcome several difficulties. First, a great deal of work had to be done to develop a methodology through which the programs could be explained in a simple manner to the users, considering most of them only had basic education levels. Another difficulty was operations management, since the software the organization was using did not take into account the taxes imposed on financial leasing operations in Bolivia. In addition, hard work had to be carried out to identify suppliers who could provide the appropriate machinery to answer the needs of the target-clientele, as well as to train clients in handling the machines and equipment. Finally, the Program had to strive for greater independence, although this has remained a challenge, since loan officers must split their time between their activities in the Financial Leasing Program and other responsibilities.

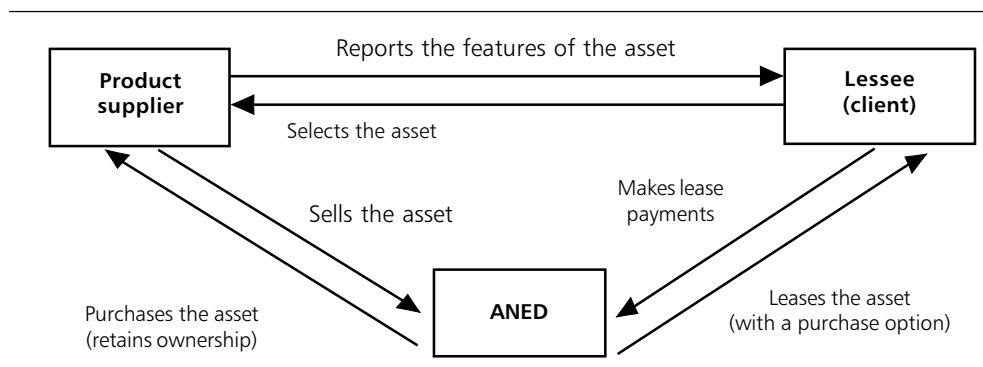
## **DESCRIPTION OF THE PRODUCT: FINANCIAL LEASING**

Based on the definition of a demand for the above-mentioned agricultural products, ANED established relationships with companies that had the most adequate supply of them. Such a relationship is of great importance because it ensures that a large part of the promotion, including instructions and training in equipment use, is taken on by companies, which considerably lowers promotion costs. In addition, the fact that ANED purchases assets wholesale ensures that the prices paid are

below what any producer would be charged individually and guarantees a stock of replacement parts for the financed.<sup>3</sup>

Through financial leasing, an operation that involves small amounts, ANED acquires a specific piece of equipment at the express request of a previously selected client. The equipment is delivered to the client for use over a specified period of time in return for regular lease payments. The equipment, however, remains the property of ANED (see Outline 10.1). Upon completion of the agreed term, the client has the option to purchase the asset, after paying an amount called surrender value. As ANED points out, the fundamental aspect of the contract is the fact that the legal property of the asset is separate from its economic use. This operation does not require any type of guarantee, as the equipment per se constitutes collateral for the operation.

#### Outline 10.1. Financial Leasing Operation



In order for this type of operation to be successful, the use of the equipment must generate sufficient income to cover both the lease payments and the cost of operating the equipment. This is the reason why, as will be seen further, ANED is very cautious not only in analyzing the cash flow of equipment use, but also in assessing the client's ability to operate the machinery.

The design of financial leasing contracts is extremely important. In fact, it is not enough for contracts to be signed by producers, they must also provide the necessary incentives for users to purchase the equipment on completion of the lease contract, since this is the ultimate goal of the program. The contract design must therefore contemplate the following points:

- (i) A first payment ranging from 15 percent to 25 percent of the value of the equipment, constituting an incentive for the appropriate use and maintenance of the equipment.

<sup>3</sup> Until the end of 1999, ANED was the largest buyer of motorized pumps in all of Bolivia.

- (ii) A contract term not exceeding two thirds of the economic value or shelf life of the equipment (including depreciation) or five years, to prevent clients from losing interest in purchasing when faced with obsolete or depreciated machinery or equipment.
- (iii) A relatively low residual value or final lease payment to motivate producers to become owners of the equipment. The goal is for the value of the equipment, minus depreciation, to be significantly higher than the amount of the residual payment.

Other conditions included in lease contracts are as follows: The leasing facility finances amounts ranging from US\$ 500 to US\$ 40,000; contract terms must not exceed five years; and the effective annual cost is 16 percent to 17 percent in dollars. In addition, payments are flexible and scheduled according to clients' cash flow. Furthermore, lease contracts set prepayment facilities, which means that clients may make payments in advance and thereby reduce the amount of interest paid and future payments. As emerges from the above, an important element in the design of ANED's financial leasing contracts is personalized service; contracts are "tailor-made" for each client. This is an important factor in improving service quality.

Finally, most of the equipment purchased and delivered in financial leasing is not insured, except in the case of very costly equipment such as trucks. Moreover, the maintenance of the leased machinery or equipment is directly assumed by the client. An important characteristic of the financed assets and equipment is that there is a secondary market for them, so that, when lessees do not buy them, that is, when they decide not to use their option to purchase, ANED may sell the assets or equipment without incurring excessive costs or losses. This ensures the Program a minimum degree of profitability.

### Typical Clients

Typical clients of ANED's Financial Leasing Program are *campesinos* who, in general, have three to four months' experience with financed equipment. The level of education of these producers is quite basic: 55 percent have completed elementary school and only 5 percent have finished high school. In the case of complex equipment such as farm tractors, clients must prove they have at least two years of experience using such equipment. Finally, those who use motorized pumps, which are the most frequently leased item, are *campesinos* who grow from 0.2 to two hectares of vegetables.

### Screening and Recovery Criteria

Since financial leasing is used in places where ANED has worked for quite a long time, the institution has accumulated prior knowledge of the area. Some producers are even past clients of ANED's, having used others of its financial

products. This obviously provides a first information base for the institution to carefully screen clients who wish to acquire equipment or machinery through a financial leasing product.

Requisites for clients seeking financial leasing with ANED include: not having outstanding debts with the institution and demonstrating from six months to two years of experience in the activity for which the piece of equipment or machinery is to be used. As mentioned above, experience in equipment use is very important in order to lower the probabilities of misuse and default on lease payments.

Officially, for clients to take part in a financial leasing operation, the steps outlined below must be followed:

- (i) Clients visit an ANED office and express their interest in acquiring a specific type of equipment.
- (ii) Assisted by loan officers, clients obtain the cost estimate on the equipment and attach it to the financial leasing application form, which is filled with the help of the officers.
- (iii) Clients receive a visit from an ANED loan officer, who sets up a cash flow outline taking the household as unit for the analysis, based on the income expected from the acquisition of the new piece of equipment minus, evidently, the lease payments and other expenses resulting from equipment use. At this stage, the lease payments that will enter into the contract are planned out.
- (iv) The probable impact of the equipment on the community environment and the risks associated with its operation and maintenance are examined.
- (v) If the result of the analysis of the above-mentioned factors is positive, the loan officer recommends approval of the application.
- (vi) The application is then passed on to the Lease Committee to be approved or rejected.
- (vii) If the application is approved, ANED purchases the equipment.
- (viii) ANED and the supplier deliver the equipment and the lessee makes the first payment, which usually ranges from 15 percent to 25 percent of the equipment's value.

The procedure followed by ANED when dealing with machinery or equipment suppliers is as follows:

- (i) ANED finds the equipment supplier that best fits the client's needs.

- (ii) ANED asks the supplier for a confirmation of prices, warranties and services.
- (iii) ANED agrees with the supplier on the method and form of payment and makes the purchase.
- (iv) ANED requests the equipment to be sent to a specific community, following coordination with its regional office.
- (v) The supplier issues and delivers the bill of sale to ANED.

Since the equipment is generally new and under warranty, there is no further monitoring of its use. Usually, suppliers offer courses on the use and maintenance of their equipment and answer any questions that may come up when operating it. The financial leasing contract concludes when clients make the final payment and use their option of purchase.

In case of default on a payment, ANED sends a written reminder about the payment and warns that measures will be taken if the current behavior persists. Once 15 days have passed, a late fee is charged. If non-compliance persists up to 60 days, ANED proceeds to recover the equipment, which may be leased again or sold.

## RESULTS

### Outreach of the Financial Leasing Program

Until October 1999, equipment had been financed for over US\$ 623,000, of which 94.6 percent was agricultural machinery and the remainder, to traditional handicrafts, which has a great impact on nonfarm rural employment. As shown in Table 10.2, in over two years of operation, the Program has financed a relatively wide variety of equipment, despite of an important focus on two pieces of equipment: motorized pumps and tractors. On one hand, 82.8 percent of financed assets resulted in the purchase of motorized pumps to improve irrigation systems, followed far behind by farm tractors, with 5.4 percent. On the other hand, 53.2 percent of the total value of the contracts signed was for tractors and 28.7 percent for motorized pumps.

The average contract was for an amount of US\$ 1,895, which leads to the conclusion that the financed machinery is meant for small rural producers. In addition, 86 percent of borrowers were men, since generally the head of the household, who also operates the equipment, signs contracts.

**Table 10.2. Financial Leasing: Financed Equipment**  
(Up-dated as of October 1999)

Type of equipment	Contract value (US\$)	%	Number of assets	%
Farm plow	15,689	2.5	10	2.8
Electrical pumps	1,800	0.3	5	1.4
Farm truck	17,800	2.9	1	0.3
Cultivator	971	0.2	1	0.3
Metalworking equipment	10,254	1.6	2	0.6
Electrical ovens	3,000	0.5	1	0.3
Measuring tape	1,424	0.2	1	0.3
Real estate	8,000	1.3	1	0.3
Shoemaking equipment	950	0.2	1	0.3
Motorized pumps	178,880	28.7	294	82.8
Grader	2,392	0.4	1	0.3
Farm roller	11,036	1.8	5	1.4
Harvester	12,000	1.9	1	0.3
Additional services	9,749	1.6	7	2.0
Flat loom	12,800	2.1	4	1.1
Farm tractor	331,846	53.2	19	5.4
4 x 4 Pickups	5,000	0.8	1	0.3
Total	623,591	100.0	355	

Source: ANED.

With respect to the geographic outreach of the Program, in October 1999, ANED ran financial leasing operations in six Departments (Table 10.3); the two main regions were La Paz (45 percent of the contract value up to October 1999) and Oruro (27 percent), which were both pioneers at the Program's onset. Nevertheless, and important rise in these operations has been observed in the Department of Tarija (18 percent).

**Table 10.3. Financial Leasing: Outreach According to Department**  
(Up-dated as of October 1999)

Department	Contract value (US\$)	%	Number of contracts	Number of clients
Chuquisaca	6,555	1.1	10	20
La Paz	281,214	45.1	25	37
Oruro	168,530	27.0	283	283
Potosí	11,950	1.9	2	2
Santa Cruz	45,210	7.2	2	13
Tarija	110,132	17.7	7	52
Total	623,591	100.0	329	407

Source: ANED.

An important characteristic of the Financial Leasing Program is the high level of growth it has registered and, hence, its perspectives for the future seem very promising. In fact, on December 31st, 1997, the leasing facility only had 143 clients (0.4 percent of ANED's total clientele) and a portfolio balance of US\$ 126,058 (2.2 percent of ANED's total portfolio). On December 31st, 1998, there 251 registered operations or outstanding contracts, for 322 clients,<sup>4</sup> with a balance of US\$ 239,005 (3.7 percent of ANED's portfolio); that is, a growth of 125 percent in the number of clients and 90 percent in portfolio balance (see Table 10.4).<sup>5</sup> This data demonstrates the great success this financial product has had.

**Table 10.4. ANED: Portfolio Distribution According to Facility, 1998**

Facility	Balance		Loans		Average balance (US\$)	Borrowers			Over due (%)
	(US\$)	%	Number	%		Number	%	% Women	
Village banks	226,472	3.5	265	1.4	855	3,440	8.2	100.0	0.1
Associated loan	4,084,159	63.3	1,145	6.0	3,567	18,757	44.9	10.3	5.3
Individual loan	71,004	1.1	207	1.1	343	237	0.6	23.6	6.0
Financial leasing	239,005	3.7	251	1.3	952	322	0.8	7.8	0.0
Lines of credit	335,195	5.2	89	0.5	3,766	1,974	4.7	47.9	7.0
Solidarity loan	1,496,105	23.2	17,072	89.7	88	17,073	40.8	39.4	5.8
Total	6,451,941	100.0	19,029	100.0	339	41,803	100.0	31.4	5.2

Source: ANED.

Table 10.5 shows that 35.9 percent of the payment terms of financial leasing operations to finance agricultural activities has been established according to a payment plan "tailor-made" for each activity. In addition, there are very few operations for which payments are made monthly or bimonthly. Rather, in most cases, payments are two or three times a year. Such a payment schedule demands from the employees in charge that they manage their liquidity quite skillfully in order to be able to cover their monthly operating costs. The requisite that payment terms "fit" one after another is of great importance for the Program, especially if, as employees wish, it is to operate independently from ANED's other programs.

4 As part of this type of leasing is by group, more than one client may take part in one operation.

5 The difference between the accumulated figures and the portfolio balance is not only explained by the distinct dates on the information, but also by the fact that the payments made are not considered in the portfolio balance, only payments owed are.

**Table 10.5. Financing of Financial Leasing According to Terms and Activities**  
(Updated as of October 31st, 1999)

Payment Schedule	Agricultural	%	Micro business	%	Total
Monthly	8,000	1.4			8,000
Bimonthly	20,170	3.4	5,000	15.0	25,170
Trimonthly	18,750	3.2	19,478	58.3	38,228
Quarterly	172,470	29.2	950	2.8	173,420
Six months	158,908	26.9			158,908
According to payment plan	211,865	35.9	8,000	23.9	219,865
Total	590,163	100.0	33,428	100.0	623,591

Source: ANED.

### Financial Performance

The financial information obtained on ANED's Financial Leasing Program only refers to income and costs. However, since this facility represents barely four percent of ANED's total portfolio, its performance is in no way representative of the NGO's entire portfolio.<sup>6</sup>

In 1998, the portfolio of all of ANED's credit programs amounted to US\$ 6.45 million, included 41,803 clients and had grown 11 percent with respect to 1997. On the financial performance side, return on equity (ROE) has been relatively important in recent years, despite a drop of 2 percent in 1998 (from 12 to 10 percent); while return on assets (ROA) was very modest (around one percent), which prevented ANED from reaching levels of financial self-sufficiency. In addition, despite its low ROA, profits from granted loans in 1998 were higher than the opportunity cost of capital. Finally, the delinquency rate remained at acceptable levels with respect to the risk associated to the client segment, at only 5.1 percent (see Appendix 10.1 for a more detailed description of ANED's performance as an organization).

### The Financial Performance of the Financial Leasing Program

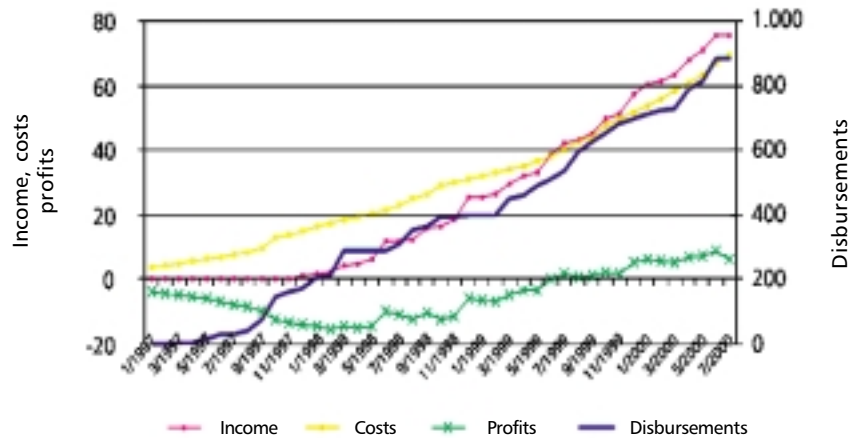
Although it has been impossible to obtain data on this Program's profitability and sustainability, information was available on the income, costs, disbursements and profits generated by the Program. As shown in Table 10.6, in its first year in operation, no positive net profits were registered, due to the fact that financing by means of financial leasing is long-term, five years on average, and it is natural that the first months turned out greater costs than

<sup>6</sup> The difficulty in separating the financial results of ANED's different programs is due not only to the way in which the information is produced, but also to the fact that, in general, ANED offices and loans officers handle several of the financial products offered by the institution.

income; only as early as 1998 did positive net profits began to show and there are clear signs that profit growth will increase, in 1999, profits were 30 percent greater than in 1998.

Furthermore, as displayed in Figure 10.1, the accumulated profits of the Financial Leasing Program started to be positive in June 1999, which is why accumulated profits began to show positive results and a growing trend as recently as 1999 (Table 10.6). However, the expenses incurred in the purchase of leased out machinery and equipment are not included in the operating costs. If they had been, profits would continue to appear negative until the year 2000.<sup>7</sup>

**Figure 10.1. Financial Leasing Income, Cost and Profit Progression: 1997-2000**  
(Thousands of US\$)



Source: ANED.

As Program disbursements include the purchase of machinery and equipment as part of the financial leasing scheme, the total amount could be a proxy indicator of the Program’s equity. In this sense, the “return on accumulated equity” could be estimated by dividing accumulated profits by accumulated disbursements. This Program indicator has been rising and has moved from 0.6 percent in 1997, 6.3 percent in 1998 and 8.2 percent in 1999 to 8.5 percent in July 2000, which may be a good profitability indicator.

<sup>7</sup> These negative profits amount to US\$ 185,000. Nonetheless, given the nature of the equipment that is financed, it would be difficult for ANED’s Financial Leasing Program to register positive profits if costs such as those incurred when buying the assets that are to be leased were included. This is why the inclusion of such costs would distort the results of the Program.

**Table 10.6. Financial Leasing: Financial Indicators at the End of the Fiscal Year**

Indicator (US\$)	1997	1998	1999	2000 <sup>a</sup>
Income	989	24,236	31,914	18,239
Accumulated income	989	25,225	57,139	75,378
Expenditures	15,100	15,852	20,978	17,238
Wages	6,636	9,504	12,924	11,434
Other operating expenditures	8,464	6,348	8,054	5,804
Accumulated expenditures	15,100	30,952	51,930	69,168
Profits	-14,111	8,384	10,936	1,001
Accumulated profits	-14,111	-5,727	5,209	6,210
Disbursements	172,454	225,081	299,194	186,846
Accumulated disbursements	172,454	397,535	696,729	883,575
Accumulated income/ Accumulated disbursements	0.6%	6.3%	8.2%	8.5%

<sup>a</sup> Accumulated up to July.

Source: ANED.

On the other hand, although no data on the Program's financial returns are available, going through the simple exercise of assuming that the funds used for the portfolio in 1998, US\$ 239,000 were obtained in Bolivia's financial system at an effective lending rate of 15.6 percent and that financial income came from the interest rate charged 17 percent on the portfolio balance, the result would be a financial margin of US\$ 3,346, equivalent to 1.4 percent of the portfolio balance. Although obtained jointly by all of ANED's programs, this return indicates that the Financial Leasing Program can generate net positive profits while operating in market conditions.

The Program's delinquency rate was nil in December 1998 (see Table 10.4) and under eight percent in October 1999 for payments five days overdue and more. Finally, in terms of loan officer productivity, out of 19 of ANED's officers, seven are working in the Program, albeit not exclusively and only the Head of the Program is full time. Assuming that the seven officers dedicate half their time to the Financial Leasing Program, their average productivity as of October 1999 was around US\$ 180,000, which is quite a considerable level.

## CHALLENGES TO THE FINANCIAL LEASING PROGRAM

The Program has filled a very significant void by making the financing of fixed assets possible for small rural producers in Bolivia. Nonetheless, it is our understanding that the Program must still face challenges before addressing the issue of its expansion on a massive scale. The first challenge has to do with financing *per se*. The Program has operated with funds from international cooperation, but these are reduced compared to what is required to acquire fixed assets. In addition, it is extremely

important that the financing obtained be in accordance with the terms of the operations; that is, it must be long- and medium-term financing with interests allowing the conduction of operations at moderate interest rates, as has been the case up until now. Financing offered on the market is either very expensive or demands mortgage as collateral, in the case of banking institutions. With respect to guarantees, ANED is currently assessing the possibility of the portfolio itself serving as collateral through mechanisms such as contract securitization, since the property titles of goods are in ANED's hands.

A very significant related aspect is portfolio diversification. Although ANED has broadened its Financial Leasing Program to other Departments in recent years, its portfolio remains highly concentrated in two Departments and two types of machinery, farm tractors and motorized pumps, which together add up to 81.9 percent of the amount financed, and expose the institution to a high risk of default in the case of an external event, such as a flood or a pest infestation that would affect the repayment of clients having leased the equipment.

The lack of an insurance market is another element that affects the Program's exposure to risk. Due to this, the risk of equipment loss remains and would also affect farmers' ability to pay as well as the payment of the financial leasing installments to ANED. The institution has currently only insured the equipment with high operation risks, such as trucks being used in rugged geographic areas. However, most of the equipment financed is not insured. In that sense, the development of an insurance system would undoubtedly contribute to the massive expansion of the Program and reduce its exposure to risk.

Another challenge ANED faces is the need to consolidate and widen the relationships established to date with the commercial suppliers of the leased goods. This implies working on two aspects. First, maintaining and strengthening the relationships that have allowed suppliers to take part in the promotion of products at accessible prices, training in equipment operation and availability of a stock of spare parts, with the aim of increasing the number of suppliers, the type of machinery and the areas where the service is currently provided.<sup>8</sup> Second, searching for suppliers who offer products suitable to answer the needs of small producers, since, in general, the fixed assets offered to small farmers are quite limited, given that most companies import farm equipment more suitable for medium- and large-scale agriculture. An alternative is for ANED to become a direct importer of such equipment.

One of ANED's requirements to Financial Leasing Program applicants is proof of experience in the use of the equipment to be financed. This is understandable in order to minimize the risks associated with the incorrect use of the machinery.

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<sup>8</sup> ANED works closely with six suppliers: two for motorized pumps, two for farm machinery and two for solar-energy equipment. It also has more sporadic contact with eleven other suppliers, who periodically inform ANED on the equipment they sell.

Nevertheless, as the Program grows, it will obviously become increasingly difficult to find applicants with this characteristic. Furthermore, those who most need to use fixed assets may precisely be people who have never handled such equipment beforehand. For this reason, an aspect to be addressed in the Program's expansion is how to train users without significantly raising the products' operation costs and the interest rate charged to users.

In other respects, ANED's Financial Leasing Program operates in a legal limbo. The Banking Law is not clear, as it states that financial leasing companies in which financial companies own part of the equity are subject to regulation by the Superintendencia de Bancos (Superintendency of Banks). Hence, ANED's Financial Leasing Program could be interpreted as not requiring supervision, since no financial institution holds part of its equity. However, it must be taken into account that ANED owns equity shares in a financial institution, Ecofuturo Private Financial Fund (Fondo Financiero Privado, FFP), which could be interpreted as grounds for the regulation of its financial leasing operations. According to some interpretations, such operations are even limited to regulated financial institutions authorized to conduct them. Be as it may, the expansion of ANED's Financial Leasing Program will have to undergo a legal framework definition.

Evidently, this legal limbo would disappear if the Program was adopted by the Ecofuturo FFP, but ANED has rethought its ownership of the FFP and is in the process of selling its shares in the institution. Furthermore, ANED considers that if the Program were offered within a financial institution, a great deal of the product's potential would be affected, as loan officers would only consider financial leasing as an option among others and would not give the Program the same promotion and drive as a specialized firm.

This is why ANED aspires to build an institution specialized in financial leasing, apart from the other programs and products it offers. A related issue is that producing systematic information on the Program to assess its profitability and sustainability remains difficult. Such information is fundamental not only in decision making by directors and managers, but also if external funds are expected to be obtained for the Program.

In addition, ANED's Financial Leasing Program faces the challenge of technically training its loan officers in order to increase their efficiency in guiding applicants in their search for the equipment most suitable for their economic and production situation. Clients often do not have a clear idea of the most appropriate equipment to answer their needs and much less of what is available on the market. Officers should therefore be constantly updated to offer users the best possible guidance.

Finally, an issue that is out of ANED's hands, is taxes. Three taxes apply to financial leasing operations the value added tax (*impuesto al valor agregado*, IVA) (13 percent of the purchase value), the transaction tax (*impuesto a las transacciones*) (three percent)

and the tax on profits (*impuesto a las utilidades*). All of this generates a cost of approximately two percent of the interest rate ANED charges to clients on such operations. Reducing the tax burden involves developing public awareness and creating a lobby to approach legislators and change the tax framework. This task has yet to be taken on.

## CONCLUSIONS

ANED has succeeded in creating a financial product very well received by Bolivia's small producers, as it enables them to have access to machinery and equipment that they could not afford to acquire through ANED's other financial products, as well as through other financial institutions. Despite its short time in operation, the Financial Leasing Program appears to have great perspectives for future consolidation as an alternative for a large sector of small rural producers.

Nonetheless, as seen above, great challenges must be faced in order to achieve massive expansion of the product. A feature of these challenges is that, although conditions external to ANED are involved in several of them, such as the machinery present on the market and financing available for the Program, most of them come under the responsibility of the institution *per se*, as explained below.

A crucial aspect of the Program is its funding, because of both its important impact on the area in which small producers operate as well as its role in achieving self-financing and in the creation of a company specialized in microleasing operations with small rural producers. While obtaining financing for machinery is difficult for farmers, international cooperation does not offer a great deal of financing either for a program such as this one.

Furthermore, although the resources offered on the financial market may be abundant, the requirements that accompany them are impossible for an institution such as ANED to satisfy. The massive expansion of the Program will therefore require a great deal of product promotion work, not so much among producers and suppliers, aspects also important to consider, but among fund providers. In this sense, efforts must be made to demonstrate the Program's impact on producers, as well as to generate positive financial results and good perspectives for the future. This must start by working to produce financial information on the Program that shows profitability and sustainability in a clear and straightforward manner.

In the same perspective of massive expansion, it is indispensable to explore markets, consolidate and broaden relationships with suppliers of machinery and equipment suitable for the market demand, that is, demand by small rural producers. These tasks could in a sense divert the funds and efforts of those in charge of ANED's Program, which is why it is important for the institution to carry out specific projects aiming at achieving these objectives.

With the expansion of the Program, new possibilities open up such as responding to the demand of applicants without any experience in equipment use, a problem that could be addressed either through agreements with machinery suppliers or by specific training programs, to ensure that neither the costs of the Program nor the interest rate charged would be significantly affected.

It will also be important to clear up the confusion still existing in the legal framework that regulates this promising financial product. If this is not done, attracting funding sources and investors willing to grant the resources needed to expand the outreach of the Program will become increasingly difficult.

In terms of guarantees, although financial leasing presents advantages that ANED's other financial products do not have, the fact that most of the operations are guaranteed by equipment ownership which, in turn, are not protected by insurance mechanisms, increases ANED's risk exposure. At the same time, the difficulties in promoting an insurance market for equipment financed through ANED's financial leasing operations are great and are beyond its means; however, they constitute elements that must be considered among the measures to expand the product.

## **Appendix 10.1**

### **Financial performance of ANED**

In 1998, ANED globally managed to reach a level of activity that enabled it to achieve operating self-sufficiency, measured as the percentage of operating income required to cover operating costs, but this surplus was relatively modest. As can be seen below ANED has yet to achieve financial self-sufficiency (Table 10.7).<sup>9</sup>

In terms of profitability, in 1998 the return on equity was of 10 percent. This was due relatively small amount at equity, the position of the equity, that year, ANED had US\$ 8.6 million in liabilities and only US\$ 820,000 in equity. Nonetheless, the net profits obtained were not enough to generate important returns on assets and on the portfolio, barely one percent and 1.2 percent of net profits, respectively. In spite of this, ANED managed to obtain a negative capital return subsidy, which meant that the profits made by granting loans were greater than the opportunity cost of capital.

On the other hand, although the delinquency rate rose in 1998, it still remained at only 5.1 percent, an acceptable level considering the risk associated to this client segment.

The productivity of ANED's loan officers remains relatively high when considering the portfolio amount and, especially, when taking into account the number of borrowers. On average, a loan officer worked with 1,608 borrowers, which is by far the highest number registered among all the organizations studied. This may be explained by the fact that ANED also has one of the lowest average loan size (portfolio balance/number of borrowers), since it works with a large number of clients whose loans are small, particularly in the case of village banks.

Finally, 1997 and 1998 cost indicators reached acceptable levels, especially in view of the fact that a large number of clients had received financing in small amounts.

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9 The data on sustainability has not been adjusted for subsidies.

**Table 10.7. ANED: Financial Indicators at the End of the Fiscal Year**

<b>Indicator</b>	<b>1997</b>	<b>1998</b>
Operating efficiency (%)		
Operating costs/ Total assets	10.3	13.0
Operating costs/ Portfolio balance	14.8	19.0
Operating self-sufficiency (%)		
Operating income/ Operating costs	99.1	105.3
Financial self-sufficiency (%)		
Financial income/ (Operating + financial costs)	67.5	76.4
Profitability (%)		
Net profits/ Equity (ROE)	11.7	9.6
Net profits/ Total assets (ROA)	1.0	0.8
Net profits/ Portfolio balance (ROC)	2.7	1.2
Capital adequacy (Equity/ Assets)	8.8	8.7
Delinquency (%)		
Overdue portfolio / Total portfolio	4.8	5.1
Subsidy Dependence Index (SDI) (%)	N. A.	N. A.
Financial subsidy		N. A.
Capital return subsidy		-2.7
Direct subsidies		1.9
Productivity		
Active portfolio per loan officer (US\$)	232,341	248,152
Active portfolio per office (US\$)	341,677	379,526
Number of borrowers per loan officer	1,389	1,608
Number of borrowers per office	2,043	2,459
Costs (%)		
Average portfolio cost	14.8	19.1
Average portfolio financial cost	3.3	3.7

N. A.: Not available.

Source: ANED.