

Strategic Marketing Plan for the Creation
of a Commodities Market in Bolivia

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ABSTRACT

This study aims to analyze and suggest a Marketing Strategy for the development of the commodities market in Bolivia.

The *first part* of this investigation defines the scope of the study, assesses the problem and potential solutions, and defines the general characteristics of the study.

The *second part* aims to define the role of the commodities market and introduce the reader to its organization and importance in Bolivia. This leads to the “Superintendencia de Pensiones, Valores y Seguros” (SPVS) tasks definition. This part also defines the financial services marketing theory, and looks at the main definitions, as well as the characteristics of the financial services market in order to understand the importance of marketing strategies in the introduction of the commodities market.

The *third part* analyzes the Bolivian environment, through a macro analysis of the country’s political, social and economic situation. An assessment of the financial sector, especially the financial market, is relevant in order to understand the conditions which affect the development of the commodities market. The regulation is a very important variable. Because the Bolivian market has not begun its operations yet, the laws provide a detailed idea of how it is going to work. The purpose of this part is not to translate the regulation, but to specify the role of each of the market participants and to describe the market operations. Then an analysis of the market operations is presented. This analysis will help the reader understand the operations of the commodities market. A few financial concepts are introduced in order to define the main characteristics of each instrument that can be used. The pricing process will be the basis for the establishment of the Strategic Marketing Plan. At the end of this chapter a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis is set out and will be the basis of this proposal.

The *fourth part* of the study focuses on the investigation and analysis of the strategies. Using the information obtained in both secondary sources (governmental reports) and primary sources (market research), the company strategic planning, the marketing strategic planning, the operative planning, and the implementation, control and feedback phases will be analyzed. A marketing strategy and the Operative Marketing Plan for the introduction of the commodities market in Bolivia are proposed. As the implementation of this plan demands the use of public resources, and given that the socio-political instability of the current government may delay its implementation.

Chapter 5 ties together the topics covered in the previous chapters and provide a summary of the results, as well as conclusions on selected aspects of the research.

AUSZUG

Ziel dieser Studie ist es eine Marketingstrategie für die Entwicklung der bolivianischen Warenbörse analysierend zu erarbeiten und vorzuschlagen.

Im *ersten Teil* der Untersuchung werden der Umfang der Studie, sowie deren Hauptmerkmale festgelegt. Darüber hinaus werden das anstehende Problem und die entsprechenden Lösungsmöglichkeiten evaluiert.

Ziel des *zweiten Teils* ist es, die Rolle der bolivianischen Warenbörse festzulegen und dessen Organisation und Bedeutung in Bolivien einleitend darzustellen. Darauf folgt eine Erörterung der von der „Superintendencia de Pensiones, Valores y Seguros“ (SPVS) wahrgenommenen Aufgaben. Um die zentrale Bedeutung von Marketingstrategien für die Entwicklung der Warenbörse darzustellen werden in diesem Abschnitt auch die Theorie des Finanzdienstleistungsmarketings, sowie die Definitionen und Hauptmerkmale des Finanzdienstleistungsmarktes erörtert.

Im *dritten Teil* wird das bolivianische Umfeld anhand einer Makroanalyse der politischen, gesellschaftlichen und wirtschaftlichen Lage des Landes untersucht. Um ein Verständnis der Rahmenbedingungen zu ermöglichen, welche die Entwicklung einer Warenbörse beeinflussen, ist hier eine Bewertung des Finanzsektors, und vor allem der Finanzbörse, von besonderer Relevanz. Eine wichtige Variable ist auch die Rechtsverordnung. Da die bolivianische Börse noch nicht in Betrieb gegangen ist, ermöglicht die Gesetzeslage einen detaillierten Einblick in deren zukünftige Funktionsweise. Es ist nicht das Ziel dieses Abschnitts die Rechtslage zu übersetzen, sondern die Rollen der einzelnen Börsenteilnehmer festzulegen und die Börsenvorgänge darzustellen. Es folgt eine Analyse dieser Vorgänge die den Leser zu einem bessern Verständnis der Warenbörsengeschäfte verhilft. Einige

finanzielle Grundkonzepte werden eingeführt, um die Hauptmerkmale der verwendbaren Marketinginstrumente festzulegen. Das Instrument der Preisgestaltung wird zur Basis der Entwicklung des strategischen Marketingplans. Schließlich wird eine SWOT (zu Deutsch „Stärken, Schwächen, Chancen und Risiken“) Analyse aufgestellt, welche als Grundlage dieses Plans dienen soll.

Der *vierte Teil* beschäftigt sich mit der Untersuchung und Analyse der Strategien. Anhand Informationen aus sekundären Quellen (amtlichen Berichten) und primären Quellen (Marktforschung) werden die strategische Unternehmensplanung, die strategische Marketingplanung, die operative Planung sowie die Umsetzungs-, Kontroll- und Feedbackphasen analysiert. Eine Marketingstrategie, sowie der operative Marketingplan für die Einführung der bolivianischen Warenbörse werden vorgeschlagen. Die Umsetzung dieses Plans ist nicht Bestandteil dieser Untersuchung, da sie von öffentlichen Mitteln abhängig ist und sich auf Grund der sozialpolitischen Instabilität der derzeitigen Regierung verzögern könnte.

Im *fünften Abschnitt* werden die in den vorherigen Kapiteln behandelten Themen verbunden und eine Zusammenfassung der Resultate, sowie Schlussfolgerungen zu einzelnen Aspekten der Forschung geboten.

KEY WORDS (SCHLAGWORTE)

Deutsch:

Waren Börse

Dienstleistungsmarketing

Marketing

English:

Commodities Market

Marketing

Financial Services

TABLE OF CONTENTS

Abstract.....	i
Auszug.....	iii
Key Words (Schlagworte)	v
Table of contents	vi
List of Figures.....	x
List of Tables.....	xii
Abbreviations	xiii

1. INTRODUCTION 1

1.1 BACKGROUND TO THE STUDY	2
1.2 RESEARCH PROBLEM.....	4
1.3 OBJECTIVES.....	7
1.3.1 MAIN OBJECTIVE	7
1.3.2 SECONDARY OBJECTIVES.....	7
1.4 THEORETICAL BACKGROUND.....	8
1.5 ANALYSIS.....	9
1.6 PROPOSAL.....	9
1.7 SCOPE AND DELIMITATIONS	9
1.8 HYPOTHESIS	10
1.9 METHODOLOGY	10
1.10 RESULTS	11
1.11 SUMMARY	11

2. GENERAL FRAMEWORK..... 13

2.1 FINANCIAL MARKET AND INSTITUTIONS.....	13
2.1.1 THE COMMERCIAL BANKING INDUSTRY	15
2.1.2 THRIFT INSTITUTIONS	16
2.1.3 INSURANCE COMPANIES	17

2.1.4	RETIREMENT FUNDS	18
2.1.5	SECURITIES MARKET	19
2.1.6	FONDESIF	21
2.1.7	NAFIBO SAM	21
2.1.8	REGULATION IN THE FINANCIAL MARKET	22
2.2	OVERVIEW OF THE COMMODITIES MARKET	23
2.2.1	LAWS AFFECTING THE BOLIVIAN COMMODITIES MARKET	28
2.2.2	THE NEED FOR REGULATION	29
2.2.3	THE “SPVS”	30
2.2.3.1	Organization.....	31
2.2.3.2	History of the Exchange Intendancy.....	33
2.3	FINANCIAL SERVICES MARKETING	34
2.3.1	THE MAIN CHARACTERISTICS OF FINANCIAL SERVICES	35
2.3.2	STRATEGIC MARKETING PLANNING FOR FINANCIAL SERVICES.....	37
2.4	SUMMARY	39
3.	<u>THE COMMODITIES MARKET IN BOLIVIA</u>	<u>41</u>
3.1	BOLIVIA: A GENERAL INTRODUCTION.....	41
3.2	ENVIRONMENT ANALYSIS	42
3.2.1	SOCIO-POLITICAL STAGE	43
3.2.2	COUNTRY ECONOMIC STAGE	45
3.2.3	FINANCIAL MARKET	52
3.2.4	COUNTRY RISK.....	56
3.2.5	INVESTMENT	57
3.2.6	CURRENCY.....	60
3.3	MARKET ANALYSIS: THE COMMODITIES MARKET ENVIRONMENT, INSTITUTIONS AND HIERARCHY	61
3.3.1	THE REGULATOR	62
3.3.2	THE INTERMEDIARIES	62
3.3.2.1	The Mercantile Exchange	63
3.3.2.2	Clearing House	65
3.3.2.3	Brokerage Houses	66
3.3.3	BORROWERS AND LENDERS	68

3.3.4	GENERAL DEPOTS	69
3.3.5	QUALITY CERTIFIERS.....	69
3.4	THE COMMODITIES MARKET OPERATION.....	70
3.4.1	POTENTIAL PRODUCTS AND THEIR CHARACTERISTICS	70
3.4.2	OPERATIONS SYSTEM	71
3.4.2.1	The Pricing Process	79
3.4.2.2	Market Efficiency	80
3.5	SWOT ANALYSIS	80
3.5.1	STRENGTHS.....	81
3.5.2	WEAKNESSES	84
3.5.3	OPPORTUNITIES	85
3.5.4	THREATS.....	87
3.6	SUMMARY	90
4.	<u>STRATEGIC PLAN</u>	<u>91</u>
4.1	STRATEGIC PLANNING	92
4.1.1	VISION AND MISSION	93
4.1.2	OBJECTIVES	94
4.1.3	KEY SUCCESS FACTORS.....	97
4.1.4	DEFINING A STRATEGY.....	99
4.2	STRATEGIC MARKETING PLANNING	100
4.2.1	MARKET SEGMENTATION	101
4.2.1.1	Borrowers.....	103
4.2.1.2	Lenders.....	104
4.2.2	POSITIONING ANALYSIS	106
4.2.2.1	Lenders' Positioning Maps	108
4.2.2.2	Borrowers' Positioning Maps	113
4.2.2.3	SPVS Desire Positioning Maps	118
4.3	OPERATIVE MARKETING PLANNING	128
4.3.1	PEOPLE	129
4.3.2	SERVICE STRATEGY	132
4.3.3	PRICE STRATEGY	135
4.3.4	PLACE (DISTRIBUTION) STRATEGY	137

4.3.5	PHYSICAL EVIDENCE	137
4.3.6	PROMOTION STRATEGY	138
4.3.6.1	International Borrowers	141
4.3.6.2	Domestic Borrowers	142
4.3.6.3	Lenders.....	143
4.4	DEFINING THE MARKETING COMMUNICATIONS MIX	145
4.4.1	PERSONAL COMMUNICATION OR PERSONAL CONTACT.....	145
4.4.2	INSTRUCTIONAL MATERIALS	148
4.4.3	ADVERTISING.....	150
4.4.4	PUBLIC RELATIONS	151
4.5	SELECTED TOPICS OF COMMUNICATION MIX	152
4.5.1	FUNCTION MANUAL PROPOSED FOR THE SPVS COMMODITIES MARKET UNIT	152
4.5.2	COMMODITIES MARKET WEB SITE FUNCTIONAL CONCEPT	156
4.6	IMPLEMENTATION, CONTROL AND FEEDBACK.....	166
4.7	SUMMARY	167
5.	<u>CONCLUSIONS.....</u>	<u>169</u>
	Appendix 1: Survey Design.....	177
	Appendix 2: Survey Results	195
	Appendix 3: Information Booklet developed by the SPVS:.....	203
	<u>BIBLIOGRAPHY.....</u>	<u>204</u>

LIST OF FIGURES

<i>Figure 1: Bolivian Financial System</i>	<i>15</i>
<i>Figure 2: Insurances Market Production.....</i>	<i>18</i>
<i>Figure 3: Stock Exchange Operations 2006</i>	<i>20</i>
<i>Figure 4: Organization of the SPVS</i>	<i>31</i>
<i>Figure 5: Strategic Planning Process.....</i>	<i>38</i>
<i>Figure 6: Bolivian Commodities Prices Rates (Base: December 1996).....</i>	<i>46</i>
<i>Figure 7: Bolivia: Investment Rate Evolution (To the third trimester of the indicated years).....</i>	<i>49</i>
<i>Figure 8: Bolivia: Financial System obligations with the public.....</i>	<i>53</i>
<i>Figure 9: Stock Exchange Operations 2005</i>	<i>56</i>
<i>Figure 10: Commodities Market Environment</i>	<i>61</i>
<i>Figure 11: Profit from Call.....</i>	<i>77</i>
<i>Figure 12: Profit from put.....</i>	<i>78</i>
<i>Figure 13: The planning levels</i>	<i>91</i>
<i>Figure 14: Strategic Planning</i>	<i>92</i>
<i>Figure 15: The Product/market expansion Grid.....</i>	<i>99</i>
<i>Figure 16: Strategic Marketing Planning.....</i>	<i>101</i>
<i>Figure 17: Survey results about the SPVS image.....</i>	<i>107</i>
<i>Figure 18: Positioning Map: Lenders risk-profitability perception</i>	<i>108</i>
<i>Figure 19: Positioning Map: Lenders Liquidity-Return rate perception.....</i>	<i>109</i>
<i>Figure 20: Positioning Map: Lenders Facilities-Prestige perception</i>	<i>110</i>
<i>Figure 21: Positioning Map: Lenders Information Transparency-Education Level perception.....</i>	<i>111</i>
<i>Figure 22: Positioning Map: Lenders Investment Access-Cost perception.....</i>	<i>112</i>
<i>Figure 23: Positioning Map: Lenders Market Clarity-Market Trustworthy perception.....</i>	<i>113</i>
<i>Figure 24: Positioning Map: Borrowers perception about Credit Access-Cost.....</i>	<i>114</i>
<i>Figure 25: Positioning Map: Borrowers perception about their Education Level-Transparency.....</i>	<i>115</i>
<i>Figure 26: Positioning Map: Borrowers Perception about market Clarity and Trustworthy</i>	<i>116</i>
<i>Figure 27: Positioning Map: Borrowers Risk-Profitability perception.....</i>	<i>117</i>
<i>Figure 28: Positioning Map: Borrowers Liquidity-Return Rate perception.....</i>	<i>117</i>
<i>Figure 29: Positioning Map: Borrowers Facilities- Prestige perception.....</i>	<i>118</i>
<i>Figure 30: Positioning Map: Lenders Gap Risk-Profit</i>	<i>119</i>
<i>Figure 31: Positioning Map: Lenders Gap Liquity-Return Rate</i>	<i>120</i>
<i>Figure 32: Positioning Map: Lenders Gap Prestige-Facilities</i>	<i>121</i>
<i>Figure 33: Positioning Map: Lenders Gap Clarity-Trustworthiness.....</i>	<i>121</i>

<i>Figure 34: Positioning Map: Lenders Gap Cost-Credit Access</i>	<i>122</i>
<i>Figure 35: Positioning Map: Lenders Gap Transparency-Education Level.....</i>	<i>123</i>
<i>Figure 36: Positioning Map: Borrowers Gap Risk-Profit</i>	<i>124</i>
<i>Figure 37: Positioning Map: Borrowers Gap Liquity-Return Rate</i>	<i>124</i>
<i>Figure 38: Positioning Map: Borrowers Gap Prestige-Facilities</i>	<i>125</i>
<i>Figure 39: Positioning Map: Borrowers Gap Clarity-Trustworthiness.....</i>	<i>126</i>
<i>Figure 40: Positioning Map: Borrowers Gap Cost-Credit Access</i>	<i>127</i>
<i>Figure 41: Positioning Map: Borrowers Gap Transparency-Education Level</i>	<i>127</i>
<i>Figure 42: 7 P's Model for the SPVS.....</i>	<i>129</i>
<i>Figure 43: SPVS-Exchange and Commodities Unit Proposed Organizational Structure</i>	<i>131</i>
<i>Figure 44: Buyer readiness stages.....</i>	<i>143</i>
<i>Figure 45: Proposal.....</i>	<i>175</i>

LIST OF TABLES

<i>Table 1: Banking Balance Sheet.....</i>	<i>16</i>
<i>Table 2: Thrift Institutions Balance Sheet.....</i>	<i>17</i>
<i>Table 3: Bolivia: Main Economic Indicators 2005-2006.....</i>	<i>48</i>
<i>Table 4: Bolivia: GNP by Economic Activity.....</i>	<i>50</i>
<i>Table 5: Bolivia: Main Economy indicators 2007.....</i>	<i>51</i>
<i>Table 6: Bolivian Financial System: Public deposits (Million US\$ and percentage).....</i>	<i>54</i>
<i>Table 7: Bolivian Financial System: Fixed term Deposits (million US\$ and percentage).....</i>	<i>55</i>
<i>Table 8: Bolivia: Domestic and Foreign Investment (January-September 2005-2007).....</i>	<i>58</i>
<i>Table 9: Bolivia: Public investment according to sectors (January-September 2005-2007).....</i>	<i>59</i>
<i>Table 10: Commodities Market Strengths, Weaknesses, Opportunities and Threats.....</i>	<i>89</i>
<i>Table 11: Market Grid for borrowers.....</i>	<i>104</i>
<i>Table 12: Market Grid for lenders.....</i>	<i>105</i>
<i>Table 13: Communication Objectives.....</i>	<i>140</i>
<i>Table 14: Proposed Lectures as a training program.....</i>	<i>146</i>
<i>Table 15: Solutions proposal.....</i>	<i>174</i>

ABBREVIATIONS

AFP	Administradoras de Fondos de Pensiones (Pension Funds Administrators)
ASOBAN	Bolivian Banking Association (Asociación de Bancos Privados de Bolivia)
ATPDEA	Andean Trade Promotion and Drug Eradication Act
BBP S.A.	Bolsa Boliviana de Productos S.A. (Bolivian Mercantile Exchange)
BBV S.A.	Bolsa Boliviana de Valores S.A. (Bolivian Stock Exchange)
BC.	Before Christ
BCB	Banco Central de Bolivia (Bolivian Central Bank)
BCG	Boston Consulting Group
BIS	Bank for International Settlements
Bs.	Bolivianos (Bolivian Currency)
CAF	Corporación Andina de Fomento (Andean Foment Corporation)
CBOT	Chicago Board of Trade
CDM	Certificates of deposit of merchandise
CFTC	Commodity Futures Trading Commission
COB	Bolivian Working Class Central
COMIBOL	Corporación Minera de Bolivia (Bolivian Mining Corporation)
CPE	Constitución Política del Estado (State Political Constitution)
CSUTCB	Confederación Sindical Única de Trabajadores Campesinos de Bolivia (Bolivian Peasants Labour Union Confederation)
DPF	Depósito a plazo fijo (Negotiable Certificates of fixed term deposit)
D.S.	Decreto Supremo (Suprem Resolution)
e.g.	exempli gratia (for example)
FDI	Foreign Direct Investment
FEJUVE	Federación de Juntas Vecinales (El Alto Neighbourhood Federation)
FIC	Funds of individual capitalization
FONDESIF	Fondo de desarrollo del Sistema Financiero (Financial Sistem Development Fund)

FPI	Foreign private investment
GNP	Gross National Product
HIPC	Highly Indebted Poor Countries
IBNORCA	Instituto Boliviano de Normas de Calidad (Bolivian Institute of Quality Standards)
IDB	Inter-American Development Bank
IDH	Impuesto Directo a los Hidrocarburos (Direct tax on Hydrocarbons)
i.e	id est (that is)
IMF	International Monetary Fund
INE	Instituto Nacional de Estadística (Bolivian National Institute of Statistics)
IOSCO	International Organization of Securities Commissions
IPO	Initial Public Offerings
MDRI	Multilateral Debt Relief Initiative
NGO	Non Governmental Organizations
NYSE	New York Stock Exchange
OAP	Operative Annual Plan
ODI	Overseas Development Institute
OTC	Over the Counter
p./pp.	Page(s)
PEST	Political, Economic, Social and Technological Analysis
RMP	Registro del Mercado de Productos (Commodities Market Register)
RMV	Registro del Mercado de Valores (Exchange Market Register)
ROI	Returns on Investment
S&P	Standard and Poor's – Rating Qualification
SBEF	Superintendencia de Bancos y Entidades Financieras (Superintendence of Banking and Financial Organizations)
SDR	Special Drawing Rights
SOAT	Seguro obligatorio de accidentes de tránsito (Obligatory insurance of traffic accidents)
SPVS	Superintendencia de Pensiones, Valores y Seguros (Superintendence of Retirement Funds, Securities and Insurances)
SIREFI	Sistema de Regulación Financiera (Superintendence of the Financial Regulation System)

SWOT	Strengths, Weaknesses, Opportunities and Threats
TBE	Transactions bills of exchange (Facturas Cambiarias de Compraventa)
UDAPE	Unidad de Análisis de Políticas Sociales y Económicas (Unit of analysis of Social and Economic Policies)
UFV	Unidad de Fomento a la Vivienda (Promotion Unit for housing)
US	United States of America
US\$	United States Dollars

STRATEGIC MARKETING PLAN FOR THE CREATION OF A COMMODITIES MARKET IN BOLIVIA

1. INTRODUCTION

International development agencies, organizations and governments all over the world are concerned about eliminating world poverty. The need to “work collectively to tackle the problems of conflict and corruption, boost investment in education and health, spread the benefits of technology and research, strengthen the international financial system, reduce barriers to trade, tackle environmental problems and make development assistance more effective” is clear and well defined.¹

The Overseas Development Institute (ODI)² describes poverty reduction as a result of the rate of growth and changes in income distribution. It also suggests that the key factors to reducing poverty are the reduction of inequality and the reduction in income differences, but the reality shows that the gap between rich and poor, or between developed and developing countries is widening.³

Many factors exist that contribute to poverty in developing countries: economic and political history, deficient economic management, problems of government, corruption, armed conflicts and external factors such as interchange relations deterioration and infrastructure or climatic problems. “Approximately in half of the 80 poorer countries, the high level of the external debt also has become a fundamental limitation for the development.”⁴

¹ See Blair, Tony (2000).

² See <http://www.odi.org.uk/>

³ See Shah, Anup (2006).

⁴ See International Monetary Fund (2001).

Because the main problem of development is the reduction of the world-wide poverty, the IMF (International Monetary Fund) suggests an integral strategy of reduction of poverty based on two "twin pillars": First of all, the individual efforts of the Heavily Indebted Poor Countries (HIPC) to create a basis for sustainable growth that benefits the poor population, combined with more decisive support from the international community. According to the classification made by the Statistics Service of the Economic and Social Department of the United Nations, Bolivia is one of the 20 most Heavily Indebted Poor Countries.⁵

In order to achieve sustainable growth, on 3rd April 2000, the government of Bolivia identified the need to face up the economic crisis and issued the Economic Reactivation Law. This law's purpose is *"to mobilize the productive sector of the country, achieving its reactivation in order to increase national savings, ensure sources of jobs, increase production in all sectors, achieve higher levels of social and economic development and - looking for the best possible conditions - face up to the external factors of the economic crisis and adverse natural phenomena."* Through the strategic tools defined in this law, the creation of the Commodities Market and its development plays a very important role not only within the financial sector but also as a way to impulse the productive sector.

1.1 BACKGROUND TO THE STUDY

Through commodities trading, countries can contribute to the liquidity, stability and depth of financial markets, creating conditions to diversify investments and manage risks.⁶ The benefits and opportunities of the commodities market and the importance of its instruments are reflected not only in the depth of the financial market and the economic role of channelling savings into productive investment, but also provide a reference price setting system. It gives producers and manufacturers the opportunity to shift their risks of loss caused by adverse price fluctuations. Moreover it offers an opportunity to finance operations and offers domestic and international investors the opportunity to gain returns, diversify their portfolios and even speculate.

⁵ See United Nations (2002).

⁶ See Mexican Derivates Market S.A.(2003).

Joseph Santos, professor of South Dakota State University, defines three basic purposes for a futures market: The first is to enable hedgers to shift price risk – asset price volatility – to speculators in return for basis risk. The second fundamental purpose of this market is to facilitate firms' acquisitions of operating capital and the third fundamental purpose is to provide information to decision-makers regarding the market's expectations of future economic events.⁷ Even when the market participants take most of the economic benefits, this economic trade is translated into growth of the productive sector and stability in the financial market.

Indeed, in order to increase Gross National Product (GNP), achieve better competitive financial conditions, encourage the domestic investment, avoid the domestic flight of capital, attract international investments and develop the application of financial mechanisms for the risk administration, the Government of Bolivia in 2000 agreed on the creation of a commodities market.⁸ Supporting this law, the Bolivian Government issued rules for the creation of this market and gave the responsibility of control, inspection and development of this market to the “Superintendencia de Pensiones, Valores y Seguros” (SPVS).⁹

As such, the laws that rule the market are already established. According to the SPVS,¹⁰ the market participants (Clearing Corporation, Brokerage Houses and Mercantile Exchange) have already expressed their intention of starting operations in the commodities market. However, “high-quality rules are just one of the factors that can help to build a strong, deep securities market and, in fact, the value of their contribution may be quite small.”¹¹ The creation of a Bolivian Mercantile Exchange is already in progress, but it can take a long time for the structure to be completely developed and the market to reach the desired education/knowledge level.

According to the experience of the Bolivian Stock Exchange, the creation of a new market

⁷ See Santos, Joseph. Pp. 3-4.

⁸ See Bolivian Law 2064 (2000).

⁹ See Supreme Act No.26325 (2001). The “Superintendencia de Pensiones, Valores y Seguros” (SPVS) is a Non profit Institution created for the regulation of the financial sectors excluding the Banks. Under its supervision develop three markets: Stock Exchange, Retirement Pensions Funds Administrators and Insurances Companies.

¹⁰ Source: Ana Maria Pacheco (Financial Analyst Responsible of the Public Register- SPVS). October, 2004.

¹¹ See Ferran, Eilís (2004). p. xiii.

requires an aggressive marketing strategy.¹² The creation of the stock exchange market in Bolivia has been a very long process. The laws were issued in 1979, the Stock exchange (Bolsa Boliviana de Valores S.A.) was also established in 1979 but trading only began on 16th November 1989, ten years later. During these 10 years, technical and financial assistance was required as well as a qualifications program for the brokers, which was held in Mexico. But the main barriers were the lack of knowledge about and distrust in the new market, as well as the inconstant work by the regulator.¹³

Based on this experience the support of the SPVS for the development of the commodities market is required not only because it provides a legal and operative structure but also because it allows for the development of a strategic marketing plan.

With the implementation of a strategic marketing plan, the SPVS will be able to educate and inform potential traders on the characteristics and operations of this market and introduce and position the commodities market in Bolivia.

1.2 RESEARCH PROBLEM

Until the 1950s, the Bolivian economy depended on mining exploitation. After the Chaco war, the farming industry was about 30% of GNP and the cause of the country's substantial economic underdevelopment. This is because the landowners did not cultivate their own land; Bolivia was a classic example of the American large estate-owner system that led to large inequalities in land distribution that permitted control over cheap manual labour farmers. In 1952, the government started implementing the Agrarian Reform¹⁴ that abolished the large estate-owner system; the land became the property of the indigenous workers with the exception of Santa Cruz Province which, because of its relatively smaller population, became the property of commune farmers.¹⁵

In the last few decades, the government's protectionist policies and the program of "alternative production" (financed by the USA in order to reduce coca leaf production) tried

¹² Armando Alvarez CEO Bolivian Stock Exchange, December 2005.

¹³ See Bolsa Boliviana de Valores S.A. <http://www.bbv.com.bo/bbv.historia.asp>

¹⁴ See Bolivian Law 3464 (1952).

¹⁵ See Klein, Herbert (1987).

to stimulate agriculture. Consequently, farmers have never acted according to the market; they are used to producing whatever they can. As such, quantity, quality or presentation does not determine production, as they benefited from a “secure market” financed by the USA.¹⁶

The globalization tendency of the last decade has driven governments to make structural changes to their production policies, such as the suppression of subsidies, reduction of tariff barriers, or the establishment of commercial agreements in order to open markets and reduce price anomalies. This means that farmers now need to think about quality, quantity, timing, costs, and market prices. Farmers’ competitiveness now increasingly depends on the information available, financing conditions and timing, among others. Obstacles to effective commercialization include the lack of road infrastructure, short term price fluctuations, insecurity in supply conditions, variations in product quality, lack of information, price setting mechanism is not transparent, high commercialization costs as a result of market dispersion, and black markets.

Bolivia is rich in natural resources; history shows that this country has survived through the exploitation of these resources. But Bolivia is a country of many contrasts, it has 8.274.325 inhabitants,¹⁷ but in 2004 Gross National Product (GNP)¹⁸ was Bs.24.791.763 (or about US\$3.127.785¹⁹), which means that each inhabitant produced less than one dollar per year. The unemployment rate is about 10.36%²⁰ and the country surface is 1.098.581 Km², which means that each square kilometre produces less than US\$ 5 a year. This ratio shows a very poor production capacity.

In the past years, the public deficit has increased considerably; by September 2004 the public debt was US\$ 4.669.560.000²¹. In order to face up to this economic crisis, on 3rd April 2000, the government issued the Economic Reactivation Law. One of the strategic tools defined in this law was the creation of the commodities market.²² Through this market the government aims to give extra impetus not only to the financial sector but also to the productive sector.

¹⁶ See Lizarazu Murillo, Luis José (2001) Pp.15-16.

¹⁷ See National Institute of Statistics (2004) Pp.101-102.

¹⁸ See National Institute of Statistics (2004) p. 397.

¹⁹ Considers the Official Average Exchange Rate. See National Institute of Statistics (2004) p.397.

²⁰ See National Institute of Statistics (2004) p 6.

²¹ See National Institute of Statistics: Bulletin December (2004) p.3.

²² See Bolivian Law 2064 (2000). Art.29.

Studies made for the creation of the Commodities Mercantile Exchange highlight the agrarian market as the target. The agrarian commodities market are wholesale markets where operations of sale- purchase are made through the physical description of the farming product specifying their origin or destination that will be given and received in effective form in a determined date and a place.²³ The great importance of this mechanism, especially for perishable goods, is that the negotiation can be made before the harvest, sacrifice or capture and the commodities do not need to be taken to the market. Usually, the commercialization of perishable goods needs to happen fast in order to maintain quality; this gives producers less negotiation capacity.

An agricultural commodities market concentrates buyers and sellers in an exchange where prices can be determined with transparency through public supply and demand. Products' quality standards are defined instead of the need for physical inspection of the products. And the mechanisms are created in order to provide impartial information for buyers and sellers.²⁴

Most Bolivian farmers are illiterate (it is estimated that in rural areas the average period of study of the population is just 3 years)²⁵. They live in small towns and produce a variety of products, but on a low scale (most of them are subsistence farmers; they produce in order to eat). Nowadays, farmers face credit limitations. According to the law, farming property cannot be used as mortgage, which limits the acquisition of rural credit.

At present, farmers have little access to sources of credit; normally they receive financing based on pignoratious guarantees (such as the harvest) and in them the capacity of operations is limited. A farmer who has a credit need, has to resort to a local moneylender, who imposes high interest rates and even the risk of losing property. Law INRA establishes that the State will grant credits of promotion and development to small proprietors and indigenous communities, but the main provider of financial resources - the private financial capital - tend to stay away since they face a high risk environment for the positioning of commercial credits.²⁶ The commodities market through the operations mechanism and information transparency could act as a viable alternative to farmers looking to finance their operations through private investment.

²³ See Lizarazu Murillo, Luis José (2001) Pp. 18.

²⁴ See Lizarazu Murillo, Luis José (2001) Pp. 19.

²⁵ See National Institute of Statistics (2004) P 184.

²⁶ See Dipp, Jhonny Eduardo (2007) p. 3.

As a result, this study will attempt to analyze the state of the commodities market in Bolivia; to evaluate the knowledge level of the target participants of the market; to analyze the positioning of the market (if it exists); to analyze the role of information and knowledge levels, and finally to determine a strategy to promote operations in the Bolivian commodities market.

1.3 OBJECTIVES

1.3.1 Main Objective

The main goal of this study is to propose a Strategic Marketing Plan to the SPVS²⁷ in order to promote the development of a commodities market in Bolivia. This plan will help the positioning and introduction of the Bolivian commodities market, promote operations in this market in order to attract domestic and international investment and provide Bolivian farmers with the opportunity to shift their risks of loss caused by adverse price fluctuations and to finance their operations.

The implementation of a Marketing Plan will be strategic in the first years following the creation of the Bolivian commodities market because the participants and the potential traders have poor and inadequate information about commodities trading. Communication and education play a predominant role in the development of this market, so educational information and special training will be required in order to prepare the participants of this market for the introduction of this new concept. Marketing activities will be necessary in order to promote market transparency and to promote the rapprochement with other economic agents who can participate as investors or as commodities suppliers.

1.3.2 Secondary Objectives

To reach this goal this study aims to, first analyze the knowledge, credibility and degree of confidence of investors in order to promote the operations of a commodities market and

²⁷ See Meidan, Arthur (1996). This author present two specific definitions, he defines Marketing planning as the “planning of the total marketing resources of a financial services firm for the achievement of quantified objectives within a specific period of time” and establish that “Strategy describes those critical boundary-spanning decisions that define the framework and direction for overall financial services marketing organization.” pp.295-297.

consequent growth and, second, to identify marketing tools to promote trade in the commodities market as a tool for the development of Bolivian producers' supply.

International or domestic investors build their investment portfolios by analyzing all their possibilities. The sooner they accept the Bolivian commodities market as part of their alternatives, the sooner trade in this market will have the opportunity of being financially evaluated according to its own characteristics.

To promote the market it is necessary to have a wide commodities supply. As the market is introduced in Bolivia, producers' knowledge will most likely be general and basic. It is therefore necessary to incentivise people and educate them about the trading system and the market's function.

1.4 THEORETICAL BACKGROUND

The literature review of this study includes two areas: the first is related to the financial system in Bolivia and the conditions in which the commodities market will be developed. The second includes the main definitions of marketing applied to financial services. The literature that can be found on both subjects is broad; nevertheless this study does not try to act as a compilation of existing information, but specifically aims to establish theoretical definitions and concepts that will enable the later understanding of this study's methodology and analysis.

Because the commodities market is part of the financial system and in order to understand the market conditions (characteristics, size and regulation), this chapter begins with a description of the state of the financial market in Bolivia and the institutions operating in it. The role of the commodities market, the laws affecting it and the need for regulation are the main part of this chapter.

Some marketing concepts, especially service marketing concepts, are also introduced in this chapter and will be used as background to the analysis that will be made in the following chapter. The various marketing tools used in this chapter will be explained to enable a total understanding of the study.

1.5 ANALYSIS

This phase of the investigation starts with the study of the environment in which the commodities market should develop. First, the political, economic and social situation will be analysed within the particular conditions of the Bolivian financial environment.

A description of the participants' role in the commodities market and of the possible operations within it (according to Bolivian law) allows us to analyze the limitations and opportunities presented in this market and the importance of the intermediaries and traders for its development.

Finally, in order to achieve a better understanding of the commodities market, the conclusions of this analysis will be presented as a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis, which will be the basis of this proposal.

1.6 PROPOSAL

Taking into account the theoretical model and the analysis of the Bolivian environment and market, a strategic marketing plan is proposed. This strategic marketing plan leads to an operative marketing plan, which determines the positioning of the commodities market and the education of the potential borrowers, lenders and intermediaries. Given that the Marketing Communication Mix, from which this study derives, stands out, special emphasis will be made in the description of the suggested activities.

1.7 SCOPE AND DELIMITATIONS

The investigation's scope is defined according to the project developed by specialized consulting companies that advise on the constitution of the Commodities Exchange (Bolsa Boliviana de Productos S.A.). The first results of this study, based on a profitability analysis, propose to implement the commodities market in the agrarian sector as a first phase.²⁸

²⁸ A description of the Commodities Exchange and the state of the research is developed in Chapter 3.

This study aims to establish the introduction of the agrarian commodities market in Bolivia. As such, the study will be based on this first stage, by analyzing the Bolivian agrarian sector as a target group, as well as the potential national or foreign investors interested in this market.

As a result, the scope of this study is not to define the strategies for the SPVS in all its areas. This study focuses on the introduction of the agrarian commodities market in Bolivia.

As a governmental organization, the SPVS is a non-profit organization. The financial resources required for the implementation of this project are not considered because of the possibility of receiving financial support from international organizations. In fact, most of the resources required for the implementation of qualifications and technology are provided by international organizations.

The regulation and control of governmental organizations made by the Republic General Controlling Unit are established by law, and modifications can not only be difficult but also take a long time. This imposes some limitations to this work because of the difficulty of modifying aspects like processes. Therefore, this subject is not within the scope of the present study (as seen in Chapter 4). Nevertheless, modifications to Administrative Resolutions (which can be made by the SPVS) are proposed within the scope of this study.

1.8 HYPOTHESIS

The design of a Strategic Marketing Plan is necessary in order to start operations in the Bolivian agrarian commodities market.

1.9 METHODOLOGY

A descriptive analysis²⁹ was made in order to study the environment and to evaluate the actual strategies developed by the SPVS in order to introduce the Commodities Market. Following

²⁹ See Hernández, Roberto; Fernández, Carlos; and Baptista, Pilar (1995) p. 27.

this analysis, exploratory research³⁰ methods were implemented in order to obtain insights and perspectives on the target group.

Secondary sources were used to analyze the environment, market structure, intermediaries and the actual organization of the SPVS.

- Governmental information published through laws, supreme acts, Administrative Resolutions and official sources (INE, BCB)
- SPVS bulletins and internal material
- Newspapers
- Publications from international organizations and Risk Qualification
- Commodities Exchange internal information and consulting studies results

Primary information sources were used in order to analyze the information and propose a Strategic Marketing Plan.

Surveys were made in Bolivia using a face-to-face methodology in order to facilitate communication and identify the knowledge levels of the interviewed individuals. This process is explained in the appendix.

1.10 RESULTS

The results are presented in the corresponding appendix and the explanation is the basis for the analysis made in section 4 of this document. The study aims to analyze the results at length and in detail in order to define the marketing strategy.

1.11 SUMMARY

The need to activate the Bolivian productive sector, increase national savings levels, generate more jobs, increase production and reverse the economic crisis all served to stimulate the government into promoting the creation of a commodities market. Through commodities

³⁰ See Kumar V; Aaker, David; and Day Georges (1999) p.73.

trading, the government in Bolivia aims to achieve better competitive financial conditions that will further encourage investment and develop financial mechanisms for the management of risk. The commodities market has been seen as a tool to provide the productive sector with the opportunity to acquire operating capital in order to increase production levels. The commodities market operations will contribute to the liquidity, stability and depth of financial markets.

The SPVS was established as the institution responsible for the control, inspection and development of this market. Their task is to begin the operations in the commodities market. A marketing strategy is required in order to achieve this goal. This strategy should educate the market's participants, spread information related to mechanisms, responsibilities, advantages and disadvantages of operating in this market, and also encourage intermediaries to initiate operations in the short term.

2. GENERAL FRAMEWORK

This chapter is divided into three main parts; the first one defines the Bolivian financial market and briefly describes the role of the financial institutions that form it. For a better understanding, the commodities market is analyzed in depth in the second part of this chapter. The tasks of the SPVS, as regulator of this market, are explained in detail because of the importance of these on this investigation. The laws related to the commodities market and the legal systems are investigated in order to understand the influence of the SPVS as a governmental institution, as well as the responsibilities and limitations of each participant. In order to understand the scope of this research, the third part will review the financial services marketing theory and the tools needed to establish a Strategic Marketing Plan. The aim is not to scrutinize the theory in detail, but to analyse the principal background information and define the tools to be used in order to determine a strategy.

2.1 FINANCIAL MARKET AND INSTITUTIONS

“Financial institutions are what make financial markets work. Without them, financial markets would not be able to move funds from people who save to people who have productive investments opportunities. They thus also have important effects on the performance of the aggregate economy as a whole”³¹

Financial markets have an important function in the economy; they allow monetary resources to move from people who lack productive investment opportunities to people who have such opportunities. In doing so, they contribute to higher production and efficiency in the economy and improve economic welfare overall in society.³²

³¹ See Mishkin, Federic and Eakins, Stanley (2000) p. 9.

³² See Mishkin, Federic and Eakins, Stanley (2000) Pp.14-16.

The flow of funds made through financial institutions can be made through the Indirect Financial System also called Financial Intermediation and/or the Direct Financial System, also known as the Securities Market.

The Indirect Financial System channels resources through private sector financial institutions, including banks, insurance companies, re-insurance companies, mutual savings and loans, cooperatives for savings and loans and finance companies. All of them attract savings, assume the risk of the yield agreed with the client (normally the yield is fixed) and channel such resources according to their priorities, without the participation of the people who save.

The securities market channels surplus resources towards deficit resources through the emission of securities (also called financial instruments). All the operations are made through intermediaries such as securities exchange, brokerages houses and investment funds (SAFIs). These financial operations are made by setting a direct relation between the surplus agent and the deficit one. As such, the people who save have the ability to decide where to place his or her resources.

In Bolivia both markets are heavily regulated by the government.³³ The intention is to determine the laws and rules for all intermediaries of the system. This is for three reasons: to ensure the soundness of the financial system, to improve control of the monetary policy and to increase the information available to investors. Figure 1 shows the general structure of the Bolivian financial system.

³³ See Montero, Marcelo (2003) p.1.

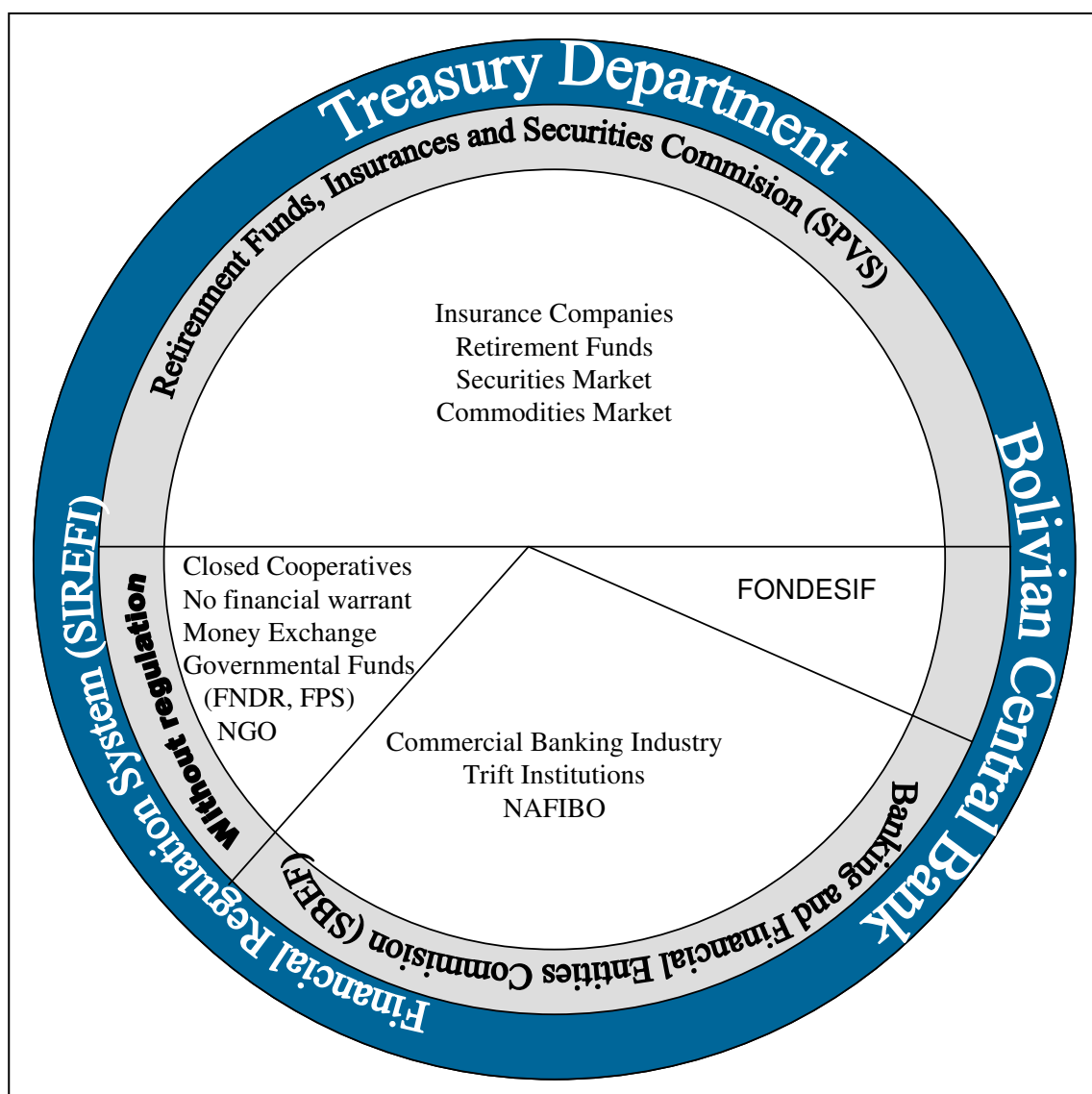


Figure 1: Bolivian Financial System

Source: Montero, Marcelo (2003) p.2

2.1.1 The Commercial Banking Industry

The banking industry is the dominant financial institution in Bolivia. It is composed of 11 privately owned banks, which represent 79% of the assets of the financial system, 79% of liabilities and 74% of patrimony.

These banks have 1.006 branches in the entire Republic, which represents 59% of the financial system. They have around one million accounts totalling US\$ 3.700 million and generate more than 6.220 jobs.³⁴

³⁴ See ASOBAN: 50th Anniversary Report (2007) p. 4.

Table 1: Banking Balance Sheet

October 31st, 2007 (in thousands of Bolivians)

Total Assets	39.960.347
Total Liability	36.264.378
Total Patrimony	3.695.969

Source: SBEF (own elaboration)

All commercial banks hold a substantial part of their assets in primary reserves, consisting of cash and deposits held with other banks in order to meet short term contingencies. The total amount on 31st October 2007 was 511.923.000 Bolivianos. From this amount the legal reserve established by law and held by the BCB was 252.456.000 Bolivianos.

Because of the political situation, international banking has been reduced to the presence of Banco do Brasil with a representative office in La Paz, Bolivia. Other banks like Citibank and Boston Bank were closed.

2.1.2 Thrift Institutions³⁵

Many other financial services institutions exist in the Bolivian market. On 31st December 2006 there were 23 Savings and Loan Associations (Cooperativas de Ahorro y Crédito) with about 89 branches and 1.057 employees; 6 Private Investment Funds with 170 branches and 2.559 employees; 9 Mutual Savings and Loans Companies with 37 branches and 528 employees; and 3 other companies providing financial services (General Depot and Leasing) with 9 branches and 50 employees.

Table 2 shows the general balance sheet accounts in order to get a clear idea of the industry's size and of the participation of each type of institution in the financial system.

³⁵ Thrift Institutions are defined as Non-profit depository financial institutions originally established to provide limited banking services, often to specific groups that were not adequately offered by traditional banks. The primary thrift institutions are savings and loan associations, and mutual savings banks. In recent decades these thrift institutions have broaden the range of financial services, especially offering checkable deposits, and thus operate as banks. See http://www.amosweb.com/cgi-bin/awb_nav.pl?s=wpd&c=dsp&k=thrift+institutions .

Table 2: Thrift Institutions Balance Sheet

October 31st, 2007 (in Bolivians)

	<i>Total Assets</i>	<i>Total Liability</i>	<i>Total Patrimony</i>
General depots (*)	21.259.203	5.324.727	15.934.476
Development bank(*)	1.240.940.253	912.549.427	328.390.826
Financial renting (*)	179.713.475	140.268.750	39.444.725
Loan and savings associations	3.010.474.861	2.560.384.433	450.090.428
Private financial funds	4.213.094.198	3.818.385.295	394.708.902
Savings and loans Mutuals	4.150.605.015	3.653.650.325	496.954.691

(*) Last data 30th September 2007

Source: Bolivian Banking Association ASOBAN (own elaboration)

It is important to understand the difference between the banking sector and non-thrift institutions. Although the Savings and Loans Mutuals are those of greatest movement between non thrift institutions, they only account for 10,39 % of the assets of the bank, 10,08% of their liabilities and 13,45% of their patrimony. Moreover, all thrift organizations put together only have 32,07% of the banking sector assets and 46% of its patrimony.

2.1.3 Insurance Companies

The patrimony of the insurance market in 2006 was of US\$ 95 million, 6,2% more than in 2005. The technical reserves of the market grew to US\$ 338,4 million, 6,5% more than the previous year. The permissible investments of the insurance companies increased by 10,46% with respect to 2005. The direct production considering cancellations of the insurance market was of US\$ 185,7 million, 11,7% more than in 2005. The accumulated casualties were of US\$ 88.8 million, 14,8% more than in 2005. The obligatory insurance of traffic accidents (SOAT) covered 78% of the entire vehicle fleet in 2006 and saw its greatest penetration since its creation in 2001. It benefited more than 71.000 people, fulfilling the social objective with which it was created.³⁶

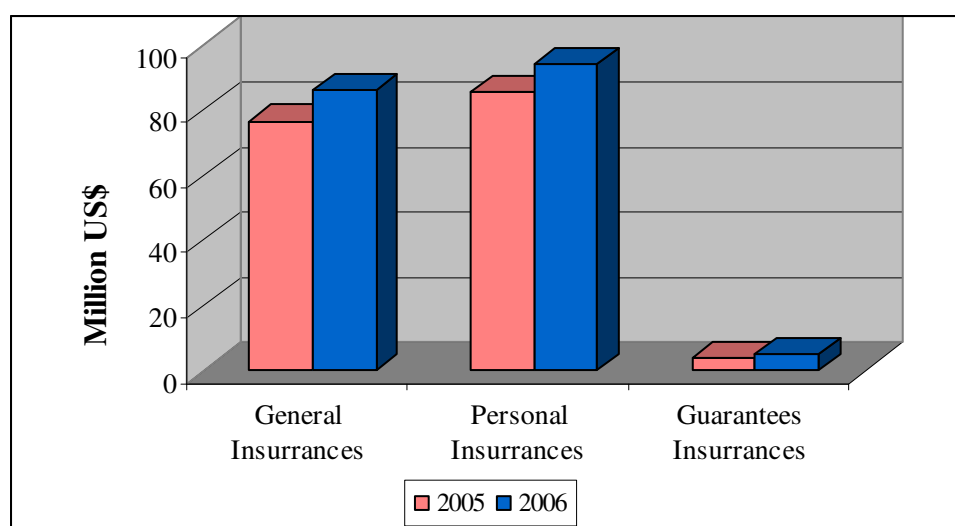
The production and the capitalization of the insurance organizations increased, reaching the

³⁶ See SPVS Annual Report (2006) pp. 63-88.

quantity of technical reserves and investments in the Bolivian securities market.

In 2006, the total patrimony of the insurance market reached US\$ 95 million, a 6,2% increase on 2005 (US\$89,5 million). The patrimony by type of companies showed a greater concentration in life insurances. It increased from 56,3% of participation in 2005 to 58,4% in 2006, due to the requirements of capital for the administration of the preventive insurances and the results obtained by these companies. In 2006, the insurance market registered a net direct production of US\$ 185,7 million, 11,7% more than those registered in 2005 (US\$ 166,2 million).

Figure 2: Insurances Market Production



Source: SPVS Annual Report 2006

The accumulated casualties during 2006 were of US\$ 88,8 million, a growth of 14,8%, in relation to 2005 (US\$ 77,4 million).

2.1.4 Retirement Funds

Retirement funds have an important role to play in the dynamics of the Bolivian economy, because they contribute to the development of the internal capital market and to the financing of the private and public sector. According to the SPVS, as the Funds of Individual Capitalization (FIC) grow, it will achieve greater: i) transference of resources of capital from the people who save to the investors; ii) demand of long term values ; iii) information

requirement; iv) development of the examining industry of risk; and v) greater activity in the securities market. Moreover, a deeper development of the capital markets will imply: i) greater possibilities of financing to productive companies generating multiplying effects in the economy; ii) more issuers and negotiable instruments in the markets; iii) a deepening in the process of financial disintermediation; iv) the promotion of financial innovation, competition and efficiency of the market; and v) an improvement in the market's transparency, among others. In December 2006, the pensions Fund administrators (AFP) destined to the public sector grew by 78,3% and the private sector by 21.7% of the investments with resources of the FIC. The contribution to the economy was as follows: Banking Financial system (11,9%), Electrical (3,5%), Hydrocarbons (3,1%), Farming (1,7%), Construction (1,1%) and other sectors as percentage of the Portfolio of the ICF. On 31st December 2006 there were 988.967 registered affiliates, with a growth of 5,8% from 2005.

The departments of La Paz, Cochabamba and Santa Cruz encompass 78,6% of the total affiliates. During 2006 a total of Bs. 2.173.253.681 (US\$ 274.1 million) was collected; 11% more than in 2005.³⁷

2.1.5 Securities Market

The decreasing tendency in the Stock Exchange held since 2003, had its inflection point in 2006. The total volume of operations was US\$ 1.870,6 million, which signified a growth of 17,5% in relation to 2005. The clients portfolio administrated by the brokerage houses was US\$ 765 million (a growth of 52,8% in relation to 2005). The number of clients increased to 536, an 8% rise on the previous year. The total portfolio value of the brokerage houses achieved US\$ 41 million, 90% more than in 2005. The portfolio of the open investment funds on December 31st 2006 was US\$ 323,9 million, 208.000 less than in 2005. The average value by participant was US\$ 11.547,5 (7,1% less than the value registered in the same period of 2005). The number of participants of the investment funds reached 28.051; 8% more than 2005, which means an increase of 1,981 participants.

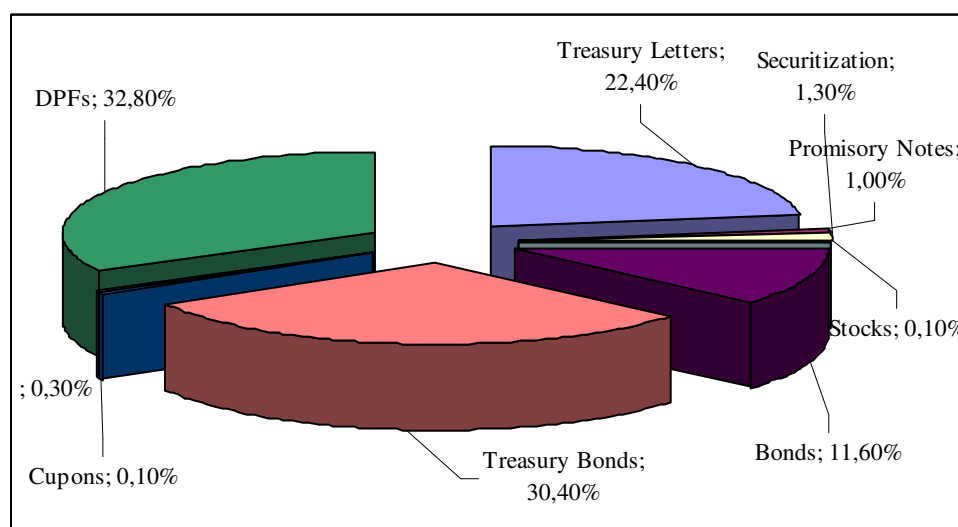
During 2006 the Stock Exchange was worth US\$ 1.871 million, divided as follow: US\$1.676

³⁷ See SPVS Annual Report (2006) Pp. 12-30.

million in organized exchanges; US\$187 million in the third market³⁸ and \$8,3 million in OTC³⁹(Over the Counter) operations.

The operations consisted mainly of DPF's (US\$ 97 million), Treasury Letters (US\$ 52 million) and Treasury Bonds (US\$ 38 million). The values with greatest rotation were the DPF's with US\$ 549 million, the Treasury bonds with US\$ 509 million and Treasury Letters with US\$ 375 million.

Figure 3: Stock Exchange Operations 2006



Source: SPVS Annual Report 2006

On December 31st 2006, 53 societies maintained their subscribers and paid stocks, a total of Bs. 10.861.695.641, equivalent to US\$ 1.352.639.557 represented by 258.981.658 stocks. The corporative bond emissions totalled US\$ 81.782.123. The subscription of treasury bills represented 89% of the authorized total of bond emissions during 2006. Values of securitization were emitted for US\$ 7.085.123; the emissions of DPF's until December 2006 were about US\$3.563 million (including emissions and renovations). Promissory Notes Emissions for US\$ 8.990.660 were authorized.⁴⁰

³⁸ "The market for securities listed on a stock exchange but traded over the counter is known as the third market" Rose, Peter S (1997) p. 617.

³⁹ As defined by the NYSE glossary "Over-the-Counter (OTC): A market for securities made up of dealers who may or may not be members of a securities exchange. OTC firms conduct business over the telephone and act either as principals or dealers (buying and selling stock from their own inventory and charging a markup) or as a broker or agent and charging a commission." <http://www.nyse.com/cgi-bin/google.pl?q=over+the+counter&restrict=nyse&x=0&y=0>

⁴⁰ See SPVS Annual Report (2006) pp. 41-56.

Since the commodities market is considered as part of the securities market, this will be analyzed in depth in later sections.

2.1.6 FONDESIF

The purpose of this governmental institution is to support the development of micro finances in Bolivia, extending cover, diversifying supply and democratizing credit access in order to facilitate the economic initiatives of people with limited financial resources.⁴¹

This institution is also responsible of supporting the governmental initiatives in the fortification of the financial sector, consolidating the micro-financial market, promoting the sustainability and efficiency of the micro-financial organizations, extending the cover of services, diversifying supply and extending the access to financial services in peri-urban, rural and urban areas.

FONDESIF was created as a decentralized institution in order to support the development of the Bolivian financial system and to fortify the private banking organizations by extending its patrimonial base. In this way, it provides a suitable mechanism through which risk can be managed and contained. Supreme Act No. 25338 defines the role of the institution in the field of micro-finance as granting a fundamental presence in the task of guaranteeing access to financial services of great layers of the Bolivian population, as well as bearing the responsibility of facilitating the development of this sector.

2.1.7 NAFIBO SAM

NAFIBO SAM is a development bank organization of financial intermediation. This organization was created to intermediate resources towards private financial organizations that rely on licenses of operation of the SBEF.⁴² In addition, it acts like a trust company, managing independent as well as active patrimonies and financial components. It operates like an investment bank, through NAFIBO Securitization Society S.A., and an issuer of

⁴¹ See Supreme Act No. 25338 (1999) Art. 6.

⁴² See Supreme Act No. 25338 (1999) Art. 27-28.

securitization and debt instruments to finance special projects. NAFIBO was created in order to contribute to the development of the country, to offer resources of medium and long term oriented to support investment, to canalize bottoms resources microcredit and to contribute in the execution of governmental programs, directed to improve the financing of projects and activities of the deprived sector. The institutional mission defines the following roles for NAFIBO: Development bank; Trust company; Investment bank; and Support to Strategies of Development

2.1.8 Regulation in the Financial Market

“Financial Institutions are one of the most heavily regulated of all businesses in the world. Around the globe these financial service firms face stringent government rules limiting the services they can offer, the territories they can enter or not enter, the makeup of their portfolios of assets, liabilities, and capital, and even how they price and deliver their services to the public.”⁴³ Its main purpose is to reduce the number of failed financial services firms, promote stable financial markets, reduce discrimination in public access to financial services, and also control monetary policy.

As shown in Figure 1, Bolivian Financial System, the Treasury Department through the Retirement Funds and Financial Services Department (Viceministerio de Pensiones y Servicios Financieros) has under its tuition the Bolivian Central Bank (BCB), General Superintendence of the Financial Regulation System (SIREFI), Superintendence of Banking and Financial Organizations (SBEF), and the Superintendence of Retirement Funds, Securities and Insurances (SPVS). This department is responsible for analyzing and evaluating all the financial policies related to retirement pensions, securities, insurances and other financial services; to establish general norms of the financial system; to determine politics of financial services, and to attain subjects of monetary and financial policy.⁴⁴

The objective of the Bolivian Central Bank⁴⁵ is to research the stability of the internal spending power of the national currency and to develop the payments system, taking into

⁴³ See Rose, Peter S. (1997) p. 165.

⁴⁴ See Suprem Act No. 28631(2006) Art. 59.

⁴⁵ See Bolivian Law 1670 (1995) Art.1-5.

account the economic policy of the government dictated by the Treasury Department. The BCB recommends the adoption of activities to the Government, as well as laws and norms that it considers opportune to make the fulfilment of its objectives possible.

The SIREFI sits under the General Superintendence and is integrated into the SBEF, SPVS and the Companies Superintendence. In order to safeguard the fulfilment of laws and regulations, it is oriented to defend and protect the institutionalism of the supervisors that belong to the SIREFI.⁴⁶

The main function of the SBEF within the financial intermediation system is to strength on the competences of all the actors, to identify, measure and control the risks of each financial intermediation organization within the system as a whole; so that it will contribute to the development of a healthy, efficient and reliable financial system that will benefit the security of the public's savings. The Banking Law establishes as its main objective the following: to maintain the confidence of the public in the financial system through regulation and supervision oriented towards obtaining transparent, efficient and reliable operations of financial organizations that guarantee:

- the protection of the public's savings;
- the rights of clients and financial users; and,
- the benefit of services of optimal quality.⁴⁷

Finally, it is necessary to mention the SPVS as the regulating organism of the securities, retirement funds and insurance sectors. In later sections a deeper explanation about the functions and reach relating to the securities market will be assessed in greater depth.

2.2 OVERVIEW OF THE COMMODITIES MARKET

A commodity may be defined as any agricultural product, mineral, precious metal or anything useful that can be turned to commercial advantage. Or, as defined by the Commodity Futures Trading Commission (CFTC), "all articles, and all services, rights, and interests in which

⁴⁶ See Bolivian Law 1732 (1996) Art. 44.

⁴⁷ See SBEF <http://www.sbef.gov.bo>

contracts for future delivery are presently, or in the future may be, dealt.”⁴⁸

It is believed that the creation of the first commodities market dates back to 2000BC. “when the merchants of what is now Bahrein Island took goods on consignment for barter in India”, it is also believed that this trading was used during the Greco-Roman times.⁴⁹

Commodity markets have existed for centuries because producers and buyers of agricultural products and other items have always needed a common place to trade. All trading at first was by barter (the exchange of two products), a condition which limited the volume and efficiency of commerce. To eliminate these limitations, societies used different common denominators, from livestock and tobacco to gold, silver and copper as the most stable medium of exchange.⁵⁰

With the introduction of metallic money, cash transactions were most common, but sometimes “forward”⁵¹ agreements were also made – deals to deliver and pay for something in the future at a price agreed upon in the present. There are records, for example, of “forward” agreements related to the rice markets in seventeenth century Japan; most scholars agree that forward arrangements actually date back much further in time.

The immediate predecessors of futures contracts⁵² were “to arrive” contracts. These were simple agreements to purchase designated goods when they arrived by ship, and they were used for centuries when shipping was the primary mode of international trade.⁵³

In America, as early as 1752, an exchange was established in New York to trade domestic production. The first attempt at establishing a formal organization of the New York Stock market was in 1792, but it did not become effective until 1817.⁵⁴ In 1848 the Chicago Board of Trade (CBOT) was created as a commodities exchange⁵⁵, in which all kind of commodities

⁴⁸ See Commodity Futures Trading Commission (2005): <http://www.cftc.gov/>

⁴⁹ See Markham, Jerry (1987) p.3.

⁵⁰ See Baer, Julius; and Glenn Saxon, Olin (1949) Pp. 3-26.

⁵¹ “*Forward Contract*: A contract that obligates the holder to buy or sell an asset for a predetermined delivery price at a predetermined future time.” See Hull, John (2003) p.706.

⁵² “*Future Contract*: A contract that obligates the holder to buy or sell an asset at a predetermined delivery price during a specified future time period. The contract is marked to market daily.” See Hull, John (2003) p.706.

⁵³ See Markham, Jerry W (1987) Pp. 3-4.

⁵⁴ See Baer, Julius; and Glenn Saxon, Olin (1949) p.10.

⁵⁵ The Chicago Mercantile Exchange, define the Commodities exchange as “An incorporated, not-for-profit

trading was possible. The merchants traded grain, beef, pork, lumber, salt, wine, alcohol, wood, lead, wool and many others. Initially, the Chicago Board of Trade had difficulty in attracting members. “Indeed, by 1853 Board attendance was so poor that it had to be encouraged by free lunches”⁵⁶.

Regulation became important and, in 1859, the Chicago Board of Trade was authorized by law to hear all business disputes between members. An Arbitration Committee⁵⁷ was created, as well as an Appeals Committee. The exchange imposed disciplinary rules too. Around 1865, the first future contracts were developed in order to promote agricultural trade. Rudiments of a clearing system⁵⁸ – one that freed traders from dealing directly with one another – were in place by the 1870s.

During the 1800’s many other exchanges in North America were organized: The Milwaukee Chamber of Commerce (1858), New York Commercial Association (1861), The Merchant Exchange of St. Louis (1876) and many others. In Europe, futures markets on copper and wool were also developed in Great Britain (London and Liverpool) at the end of the 19th century.

The commodities market remained focused on the trading of futures on agricultural products. But a remarkable change occurred in the industry in 1971, with the introduction of futures based on financial products.

Until 1971, world currencies had been pegged to an international gold standard, but that year the gold standard was abolished and currency values were allowed to “float.” Industry leaders recognized that a currency whose value was determined by market forces had become a commodity like any other, and therefore futures could be traded on it. There was an enormous forward market for currency trading, but until then there were no exchange-traded,

association of members that formulates rules and procedures for the trading of futures and options on futures contracts, provides the physical facilities for trading and oversees trading practices.”
<http://www.cme.com/edu/course/resources/glossary.html?letter=C>

⁵⁶ See Lurie, Johnathan (2005) p.6.

⁵⁷ *Arbitrage*: A trading strategy that takes advantage of two or more securities being mispriced relative to each other”. See Hull, John (2003) p.700.

⁵⁸ *Clearing* can be defined as the procedure through which the Clearing House becomes buyer to each seller of a futures contract, and seller to each buyer, and assumes responsibility for protecting buyers and sellers from financial loss by assuring performance on each contract. This is made through the clearing process, whereby transactions are matched. See <http://www.cmegroup.com/education/glossary.html>

standardized futures on currencies. As with futures on agricultural commodities, currency futures offered an opportunity to hedge⁵⁹ against risks in price changes, as well as to profit from changes in values.⁶⁰

In 1974 the US Congress created the Commodity Futures Trading Commission as an independent agency with the mandate to regulate commodity futures and options markets in the United States.⁶¹

During the 1980s, commodities trading benefited from a strong and stable position; the stocks volume in options contracts⁶² registered daily exceeded the stocks volume negotiation in the New York Stock Exchange (NYSE).⁶³

By the end of the 1980s and especially during the 1990s many other countries in Central and South America had created a Commodities Exchange: Argentina (1854), Brazil (1917), Colombia (1979), Mexico (1998), Venezuela (1999) and Peru (1999) among others.

Interest in the commodities markets all around the world has grown because not only do they represent an attractive investment alternative, but they also establish the price for base commodities. As such, all business activities have become more sensitive to their availability.⁶⁴ The commodities market is no longer just the trade of goods for human consumption; they now include financial commodities (mortgages, commercial papers, foreign currencies and government debt along with precious metals).

According to data from the Bank for International Settlements (“BIS”)⁶⁵ at the end of June

⁵⁹ *Hedge*: The initiation of a position in a futures or options market that is intended as a temporary substitute for the sale or purchase of the actual commodity. For example: the sale of futures contracts in anticipation of future sales of cash commodities as a protection against possible price declines, or the purchase of futures contracts in anticipation of future purchases of cash commodities as a protection against the possibility of increasing costs. <http://www.cmegroup.com/education/glossary.html> “A trade designed to reduce risk” Hull, John (2003) p.700.

⁶⁰ See Chicago Mercantile Exchange: <http://www.cme.com>

⁶¹ See Markham, Jerry W. (1987) p. 28.

⁶² *Option*: A contract which gives the holder the right, but not the obligation, to purchase or to sell the underlying futures contract at a specified price within a specified period of time in exchange for a one-time premium payment. See Hull, John (2003) p.710.

⁶³ See <http://www.cmegroup.com>

⁶⁴ See Ginsberg, Phillip M. and Seidel, Andrew D (1983) Pp. xxi-xxii.

⁶⁵ The Bank for International Settlements (BIS) is an international organisation which fosters international monetary and financial cooperation and serves as a bank for central banks. <http://www.bis.org>

2004, the total amount of outstanding OTC⁶⁶ derivative contracts was US\$220 trillion. By the third quarter of 2004, the combined value of trading in interest rates, stock indexes and currency contracts amounted to US\$288 trillion and the volume of transactions amounted to US\$266 trillion. A continued growth during the first half of 2005, transactions rose to US\$270 trillion at the end of June of that year.⁶⁷

The economic functions of the commodities exchange can be explained through five main functions: financing function, information-spreading function, regulation function, price setting function, and insurance function (risk reduction).⁶⁸

The main benefit received by investors from the commercialization in a commodities market is the risk transference or risk reduction. The operations made in this market can provide a mechanism of risk optimization. The commodities exchange provides liquidity and relative price stability through continuous market operations. It also “regulates organized speculations so as to prevent abuses and assures that it will be conducted under just and equitable rules to serve the public interest.”⁶⁹ The standardization of contracts, price mechanisms, and inspections promote uniform trade dealings and enforce disciplinary action between participants.

The main function of the commodities market is financing: by uniting suppliers and demanders it offers the opportunity to finance operations at a market price (achieved through the bids system). In order to conduct operations efficiently, opportune information and transparency are required, as well as a legal framework that ensures fair behaviour.

For a better understanding of the insurance function, the example presented by Seidel and Ginsberg (1983) in their book “Commodities Trading” will be analyzed.⁷⁰ It is about a winemaker in the 16th century who produced and distributed wine. Domestic production required planting, maturation, harvesting and processing. These activities required a long period of time and the winemaker had to take the risk of a bad crop, financial risks and the

⁶⁶ *Over the Counter*: The trading of commodities, contracts, or other instruments not listed on any exchange. OTC transactions can occur electronically or over the telephone. This transaction is also referred to as Off-Exchange. <http://www.cmegroup.com/education/glossary.html>

⁶⁷ See Bank for International Settlements (2004).

⁶⁸ See Baer, Julius; and Glenn Saxon, Olin (1949) Pp 30-31.

⁶⁹ See Baer, Julius; and Glenn Saxon, Olin (1949) p 29.

⁷⁰ See Ginsberg, Phillip M. and Seidel, Andrew D. (1983) Pp.8-9.

risk of changes in wine prices from the time the production expenses were incurred to the date of sale. While the price of wine could increase at any time, leading to a favourable variation in profit margins, if the price decreased this brought about big losses.

The producer can cover his or her risks. For example, to reduce financial risks, forward operations can be made. With forward contracts the winemaker could borrow against forward sales receipts to finance current production costs. At the end of this forward contract, the winemaker would pay back the money plus interest, presumably the difference between the costs plus interest and the revenues left to the winemaker with profit.

2.2.1 Laws affecting the Bolivian commodities market

There are several law categories. The most important ones are laws issued by the National Congress, which can be modified through another law. Then, there are Supreme Acts which are determined by other laws and issued by the ministers' cabinet. Finally, there are the Administrative Resolutions, which respond to a Supreme Act and are decreed by the SPVS in coordination with the Committee of Financial Norms of Prudence, which is composed by the representatives of the Bolivian Central Bank, a Vice-minister of the Treasury Department, the Superintendent of Banking and Financial Entities and the Superintendent of Pension Funds, Stock Exchange and Insurance. Changes in the Administrative Resolutions can easily be determined in periodical meetings of this committee. The participation in this committee of representatives of all the regulating institutions of the financial sector provides great flexibility and speed to emit the norms necessary to promote transparency in the financial market, without any risk to the security and stability of the market.

Having clear rules is the basis of a transparent commodities market. Investors and producers should know what they can expect from each of the market participants, they should also be able to understand the market's operations.

The Bolivian Law is very specific:

- Law 1834, 31st March 1998: Allows the creation of the commodities market as a complement to the securities market.

- Law 2064, 3rd April 2000: Establishes the creation of the commodities market as a tool for the Economic Reactivation of Bolivia.
- Supreme Act No.25317: Defines the responsibility and obligations as Regulator of the SPVS.
- Supreme Act No.25420: Regulation fees for all participants in the securities and commodities markets are established.
- Supreme Act No.26156: Presents the general conditions to sanction or fine any participant breaking the law.
- Supreme Act No.26325: Establishes the rules for the creation and function of the commodities exchange, clearing corporation, brokerage houses, and brokers. Specifies the role of the SPVS.
- Administrative Resolution SPVS -IV-N° 646: Approves the prudence rules for the commodities market and its participants.
- Administrative Resolution SPVS –IV –N° 113: Approves the regulatory procedures of the commodities market and modifies the minimal social capital required for the constitution of commodities exchanges and brokerage houses.

But the regulation comes not just from the government and laws. In this case, each participant has “self regulation” clauses established in their codes of conduct, and maybe in the future in their Corporate Governance statements.

2.2.2 The need for regulation

The need for regulation in the commodities market arises from the idea of looking for an organized market on the basis of security, transparency and clear information. The institution responsible of this duty is the Superintendence of Retirement Funds, Securities and Insurances (SPVS). According to the law⁷¹, the trading of commodities must be approved by this institution. Brokers, brokerage houses, clearing corporations, products and exchanges must be registered in its Public Register. Therefore, the image of a clear and equitable organization is required in order to generate confidence in the market.

⁷¹ See Supreme Resolution D.S. N° 26325 (2001) Art.4. And SPVS Administrative Resolution SPVS-IV-N° 646.

According to the Economic Reactivation Law, the SPVS must develop the strategic tools towards the development of the commodities market.⁷² Based on this law, the SPVS analyzed and created the regulation for this market.

The task now is to promote operations in this market, but the population and potential market participants have poor knowledge about the commodities market. A strategic marketing plan is needed to define incentives for operations and to provide producers and potential investors with the necessary information about their investment alternatives, the operations in the market and their responsibilities.

2.2.3 The “SPVS”

The Superintendence of Retirement Funds, Securities and Insurances (SPVS) is a Bolivian non-profit institution created for the regulation of the financial sector, excluding banks and loan and savings cooperatives. Under its supervision three markets are in development: Stock Exchange, Retirement Pensions Funds Administrators and Insurance Companies.

This institution was created by law⁷³ on 15th June 1998. This law defines its main purpose as the control, regulation and inspection of the Retirement Pensions, Insurance and Stock Exchange markets. It establishes as its objective the implementation of transparent operations.⁷⁴ Its activities are defined by law: The Law of Pensions, the Law for the Insurance Market and the law for the Stock Exchange Market.⁷⁵

The law gives this institution administrative and technical autonomy, but strategically it still depends on the Finance Ministry.

⁷² See Bolivian Law No. 2064 (2000) Art.29. And Bolivian Law No.2152 (2000).

⁷³ The Law No.2064 dated the 3rd. April 2000, issued the Government plan for Economic Reactivation, this plan establishes the creation of the Commodities Market. By September 22nd 2001, with Supreme Act No.26325, the Government issues the rules for the creation of the Commodities Market, and designed to the “Superintendencia de Pensiones, Valores y Seguros” as the institution responsible of the control, inspection and development of this market.

⁷⁴ See Bolivian Law 1864 (1998). Art.2.

⁷⁵ The law considers the Commodities Market as an extension of the Exchange Market.

2.2.3.1 Organization

By law, the SPVS appoints a superintendent and five directors, one for each administrative division: Stock Exchange, Retirement Pensions Funds Administrators, Insurance Companies, Institution Operations, and Share Out supporting the Retirement Pensions Funds Administrators Division.

The development, supervision and control of the commodities market are tasks assigned to the stock exchange Intendancy, specifically to the Intermediaries area.

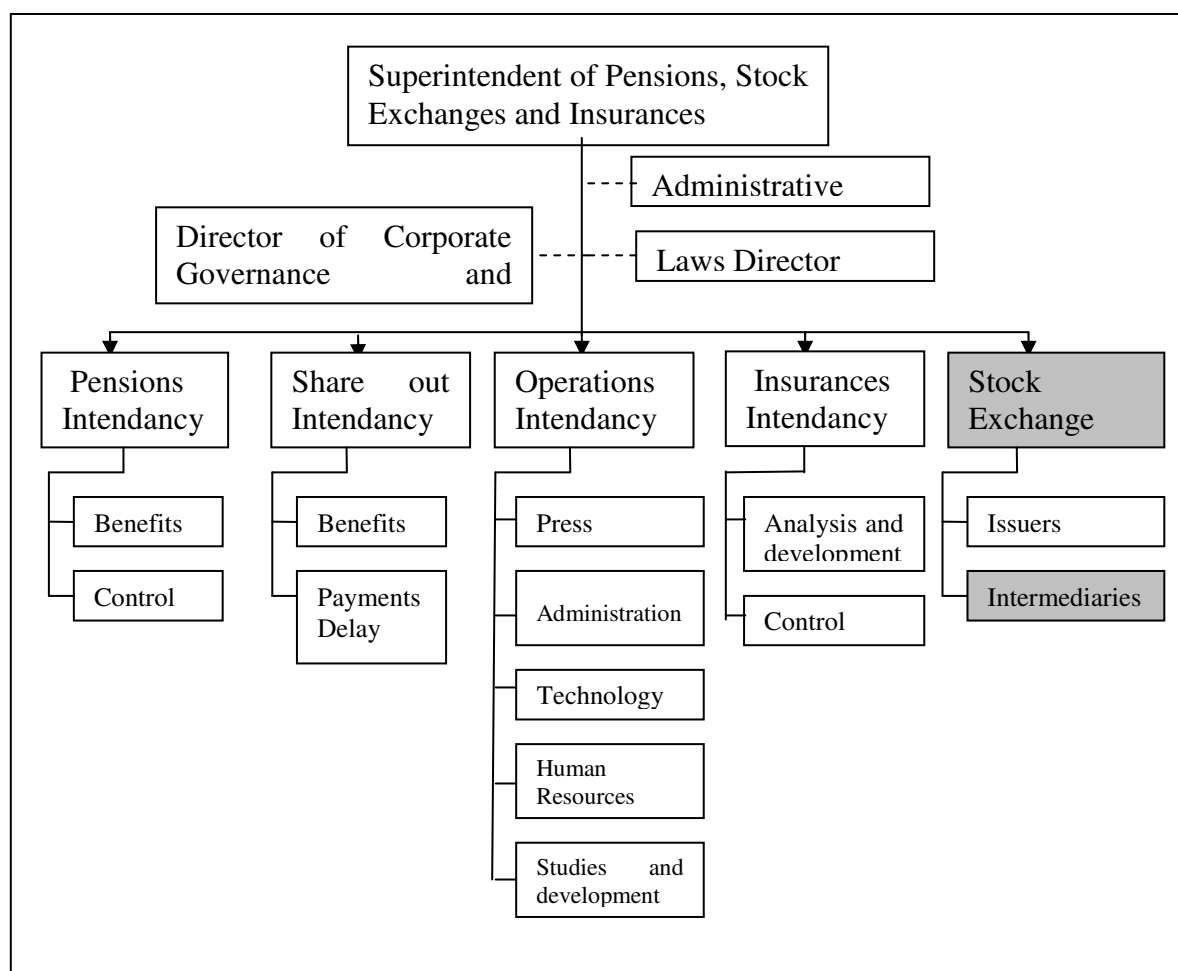


Figure 4: Organization of the SPVS

Source: SPVS

The intendency of pensions has the function of guarding the payment of benefits, the pickup of quotations, the security, solution, liquidity and yield of the Pensions Funds. Therefore, it is

in charge of emitting norms in order to develop and improve long term obligatory social insurance and the benefits of capitalization funds. Their main function is to supervise and control the Pension Funds Administrators protecting the pension funds and verifying the opportune payment of benefits.

The Share out Intendancy has the task of supervising the fulfilment of the management goals proposed by the National Service of the Distribution System, limiting itself to emitting quarterly, impartial, independent and objective information.

The Operations Intendancy is divided into five main areas. The first one is in charge of communication and press management. Therefore, coordination with other intendancies is required. The second one is in charge of the emission of the financial statements and internal audit by fulfilling the policies of austerity dictated by the government. It gives special emphasis to the strict fulfilment of Law SAFCO⁷⁶ and the application of the basic norms and specifics of the different governmental management systems and control. The Technology Intendancy is responsible for the information systems and the development of the software required in each Intendancy. The Human Resources area is responsible for the recruitment, hiring and evaluation of staff, as well as the obtainment of financial resources for the qualification of personnel according to the technical requirements of each intendancy.

The Intendancy of Insurance aims to promote the growth of the insurance and reinsurance sectors. Therefore, it is responsible for the analysis and emission of corresponding regulation.

The Stock Exchange Intendancy is the unit in charge of the good operation of the values and products markets. Through the reliable and opportune information it spreads about the operative and financial situation of the emitters and about its perspective, it offers a legal and regulatory framework, as well as secure, honest and egalitarian access to the stock exchange and commodities markets.⁷⁷

⁷⁶See Bolivian Law N° 1178 (1990).

⁷⁷ See SPVS Annual Report (2004) p.4.

2.2.3.2 History of the Exchange Intendancy

The *National Exchange Commission* was created by Law No.16995 on 2nd August 1979, in order to regulate, supervise and control the Stock Exchange Market. But, because of government problems, it only started to operate in 1982. During the first years of its creation the government did not support this market. As such it could not develop.

Between 1983 and 1985, Bolivia suffered a deep economic crisis. As a result of the “de-dollarization”⁷⁸ of the economy, the currency was devalued and an inflationary process began. The result of this hyperinflation was the 10,000-fold loss of monetary value. Of course under these conditions the market was not able to develop.

In 1989 the government signed an “understanding letter” with the US government; this letter established US support for the financial markets. With these extra resources, the stock exchange was able to operate for three years.

By 1999 and as a result of a capitalization process⁷⁹ in Bolivia, the government decided to join the National Exchange Commission to the Superintendence of Insurances and created the Retirement Pensions Funds Administrator Division. As a result, the SPVS was created.

Under the supervision of the SPVS the market has developed. Today 52 companies trade stocks; 15 companies have issued bonds for about US\$ 517.500.000; 3 companies have issued credit documents for about US\$ 27.700.000, US\$ 67.800.696 of negotiable certificates of fixed term deposits and US\$ 66.953.036 of negotiable certificates of fixed term deposits in repo were negotiated during 2004.⁸⁰

The government plan for Economic Reactivation establishes the creation of the commodities market. On 22nd September 2001, through Supreme Act No.26325, the government issued

⁷⁸ The process made in order to strengthen Bolivian currency and to prevent the excessive use of US dollars was called de-dollarization.

⁷⁹ The Government used to own different Service Companies, which used to sustain the governments operations, but also brought inefficiency to the system. In order to change its role, the government sold these companies. This process was called Capitalization Process. For more information see Bolivian Law No.1544 (1994).

⁸⁰ See SPVS Bulletin issued on November 2004, p.14

the rules for the creation of the commodities market and nominated the SPVS as the institution responsible of the control, inspection and development of this market.

Currently the SPVS is faced with the challenge of promoting investments and increasing production through the development of the commodities market. In order to achieve this goal, an analysis of marketing tools for the introduction of a new financial service in the Bolivian market is proposed.

2.3 FINANCIAL SERVICES MARKETING

In order to develop a “Strategic Marketing Plan” it is necessary to establish some general definitions.

“Marketing”: Several definitions have been made; the most traditional definition is the one made by Phillip Kotler and Friedhelm Bliemel (1999)⁸¹:

“Marketing is the socio-economic process which leads people or groups of people to satisfy their needs and wishes, while a product or other valuable thing is being produced, supplied and interchanged.”

One of the most innovative and complete definition is the one proposed by Grönroos⁸², who defines marketing as a process which includes four main parts:

- “1. An understanding of the market and individual customers through market research and segmentation analysis, as well as through the use of database information on individual customers;
2. so that market niches, segments and individual customers can be chosen;
3. for which marketing programs and activities can be planned, implemented and followed up; and finally,
4. to prepare an organization for the successful implementation of marketing programs and activities (internal marketing)”

⁸¹ See Kotler, Philip and Bliemel, Friedhelm (1999) p. 12.

⁸² See Grönroos Christian (2000) Pp.232-233.

The services marketing literature presents several definitions, two will be analyzed here:

Phillip Kotler:

“...any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product.”⁸³

Kasper, van Helsdingen and de Vries jr. (1999):

“Services are originally intangible and relatively quickly perishable activities whose buying takes place in an interaction process aimed at creating customer satisfaction but during this interactive consumption this does not always lead to material possession.”⁸⁴

Finally, “financial services” can be defined “as activities, benefits and satisfactions, connected with the sale of money, that offer users and customers financial related value”⁸⁵

As a result of these definitions we can define *Financial Services Marketing* as a process that offers financial value in order to satisfy customer needs and generate satisfaction.

2.3.1 The main characteristics of financial services

Many authors make a distinction between traditional marketing oriented to goods and services marketing. Others define these differences as characteristic of services. This study will take the last approach, defining what makes services so different and what impact it has on the financial sector.

Intangibility: Financial services are activities, experiences, not “things”; they are developed in order to meet a general rather than a specific need. Specific differences between companies are apparent and depend on the message sent to the public.

As these services are intangible (not material), activities like transportation and inventory control are not required, but they often need direct channels of distribution.

⁸³ See Kotler, Philip and Bliemel Friedhelm (1999) p. 772.

⁸⁴ See Kasper, Hans, van Helsdingen, Piet and de Vries jr., Wouter (1999) p.13.

⁸⁵ See Meidan, Arthur (1996) p.1.

“Many companies try to make their intangible offer as tangible as possible, while many manufacturers try to create an intangible image around their products”.⁸⁶ In Bolivia the stock exchange market has used the physical document form of bonds and stocks to transmit this tangibility, but this situation is changing with a dematerialization process developed by the compensation chamber.

Inseparability: The consumption, distribution and production of financial services are simultaneous; this implies that these services can be affected by human beings.

The main concern is usually to have the service in the right place and at the right time. The consumer has to participate in the production of the services and most of the time he or she knows the person who provides the service: they are part of an interaction process. In this case, the environment in which the customers receive the service is important, as well as the level of training and behaviour of the staff, and even the customer’s own mood and needs.

Individualized distribution system: Financial organizations provide their services with few traditional distribution channels. They try to locate their branches in convenient places, so their clients can easily find them. Having their own branches is necessary because they need to provide professional information and to have qualified personnel available for customers.

Image or special identity: It is difficult for a customer to evaluate the service, as the customer usually relates the service with “the package”. Because they cannot see the service, they relate it to the branch locations, staff, services, reputation, advertising, and even to the offer of new services.⁸⁷

Inconsistency or heterogeneity: Financial services always relate to the needs of the customer, in different areas, and because customers participate in the process, standardizing the services can be difficult.

In the commodities market, even when the application has manuals with guidelines, a high level of automation and parameters, each trade is inevitably different. The degree of heterogeneity in the service is affected by many variables and situational factors.

⁸⁶ See Kasper, Hans, van Helsdingen, Piet and de Vries jr., Wouter (1999) p. 14.

⁸⁷ See Meidan, Arthur. Marketing Financial Services (1996). p3.

Fluctuation in demand: The demand for financial services can fluctuate significantly depending on national economic activity and political situation. People can assume that they are buying “risk” so there is great need for good information and clear processes.

Human resources intensive: Providing this kind of services requires not just technology, but also qualified personnel. Personalized services can be costly because of the education and training required. The difference between two services often lies in the quality of employees.

Difficult to evaluate: Most physical goods are evaluated according to their search properties (those characteristics that can be evaluated prior to purchasing it such as colour, shape, price, etc.). Other goods and many services may have experience properties, those which can be discerned only after the purchase or while consumption is taking place (taste, ease of handling, etc). There are also services with properties which can be defined only by experts, customers cannot define them and can only trust (surgery, technical repairs, etc.).⁸⁸

The Time factor Assumes great importance: In commodities markets, time is money, as the price of commodities may vary between the time one person places an order until it is really performed. Therefore it is possible to define time limits to the order, but even so, customers have expectations about how long their investments will take.

2.3.2 Strategic Marketing planning for Financial Services

“Planning and plans are useful tools to make choices and anticipate future developments”.⁸⁹
Strategic planning is based on the fact that companies should know three basic things;

1. What they want to achieve (goals),
2. Which possibilities the market offers (strategies),
3. The direction they should take in order to achieve the goals (operative).

⁸⁸ See Lovelock, Christopher; Wirtz, Mochen (2004) Pp.12-13.

⁸⁹ See Kasper, Hans, van Helsdingen, Piet and de Vries jr., Wouter (1999) p. 304.

Marketing planning includes strategic, tactical and operational aspects as shown in Figure 5.

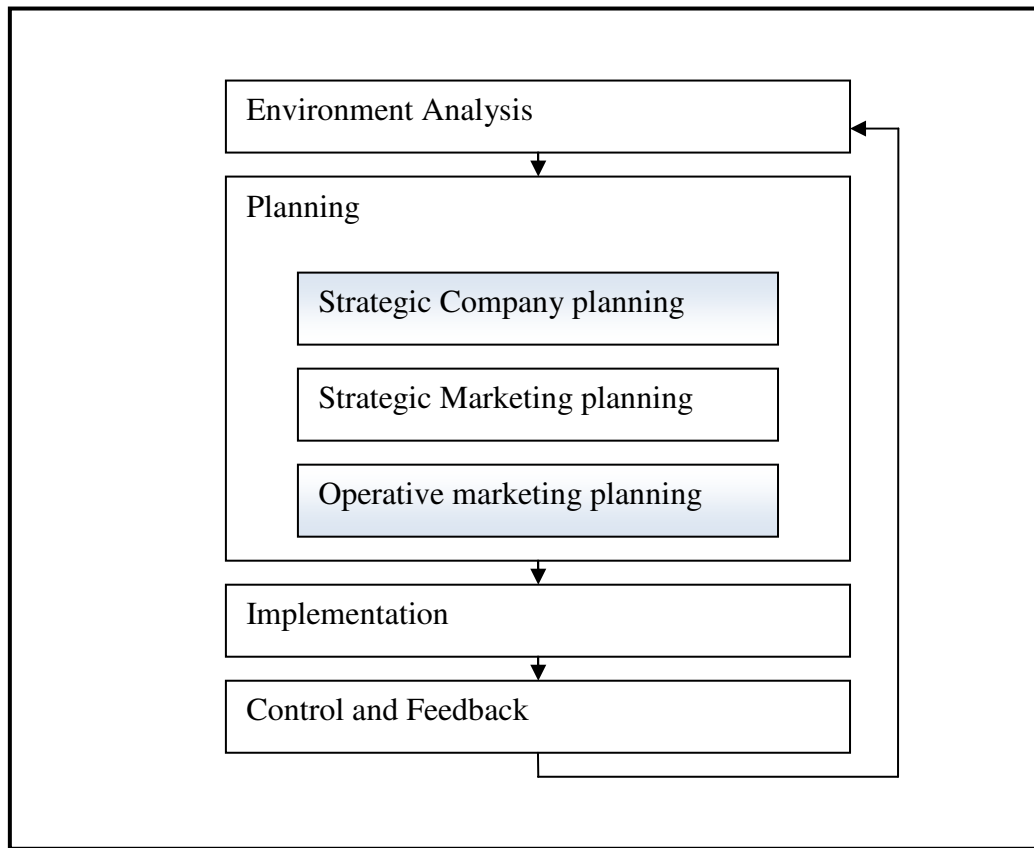


Figure 5: Strategic Planning Process

This process can be defined in 4 phases:

1. Environment analysis,
2. Planning: Strategic planning, strategic marketing planning and operative marketing planning
3. Implementation
4. Control and Feedback

The planning process should start with the *environment analysis*, which means knowing the environment inside the company and outside in the market. The external environment analysis should look into the market, the industry, the rivals, the target group and the macroeconomic environment which can affect the company's operations. The internal environment analysis includes all the resources of the company.

During the planning phase, the main purpose of the company needs to be considered in detail, as success will come from achieving the strategic corporate goals. For this reason it is important to define the business. The next step is to design a marketing plan related to the company strategies, in this instance a more specific view must be achieved and a general budget will be a final task. With more detail, the third step will be to design the activities and the operating plan, staying close to the goals and budget.

Once these steps have been completed, the implementation should define responsibilities and timing. In services marketing extra care should be placed here because this phase depends on personnel. It is important to remember that one of the financial services characteristics is that it is “human resources intensive”.

At the end of the figure is the *control and feedback*. This is a continuous activity and will help us to find new inputs to the process and improve it constantly.

2.4 SUMMARY

The financial system in Bolivia is heavily regulated by the government; the main intention is to determine the laws and rules for all intermediaries in order to ensure the system’s soundness, improve control of the monetary policy and increase the information available to investors. The financial market shows stability especially in the banking sector, which is the main participant of the market.

Given the commodities market’s functions (financing, insurance, price setting, information-spreading and regulation), the establishment of laws governing the market play an important role. The general rules are already established as a result of team-work between the Bolivian regulating entities of the financial sector. This aspect represents a great opportunity for the SPVS to present laws that give extra impetus to the growth of the market, while safeguarding the existing financing mechanisms. These laws also act as the framework under which the SPVS, as the regulating organization, should develop to promote an organized growth, safeguarding the security, fairness and transparency of the market.

In order to analyze and determine the best strategy for the development of the commodities market in Bolivia, and according to financial services marketing theory, the study is divided into four main parts:

- environment analysis,
- strategic planning,
- strategic marketing planning, and
- operative marketing planning.

Due to the political uncertainty in Bolivia, the phases of implementation and control will not be part of this study. Nevertheless, some recommendations for each phase will be considered in the last chapter.

3. THE COMMODITIES MARKET IN BOLIVIA

This chapter analyzes the Bolivian commodities market and its environment. It starts with a general analysis of the country's situation. An analysis of the financial sector, especially the commodities exchange market, is then presented, followed by a SWOT analysis required for the marketing plan.

As the market is not in operation yet, regulation plays an important role. The laws can give us a detailed idea of how it will work. The regulation is general and flexible, but it specifies the role of each of the market's participants. This chapter will also give a general idea of the market's operations and will help to understand the main concept of each instrument that can be used.

3.1 BOLIVIA: A GENERAL INTRODUCTION

Since its creation, Bolivia's economy has depended on the exploitation of its natural resources. Bolivia has been a mining country ever since its colonisation by the Spanish. Following the decline of silver exploitation from 1895, the country experienced a "stain boom" led by private companies. Nowadays, mineral exploitation has substantially decreased and it is hydrocarbon exploitation that maintains the economy.⁹⁰

In the past years, the Bolivian economy has not been able to take advantage of favourable external factors and conditions due to the prevailing political situation.

In 2007, the Bolivian government re-defined the political agenda. It transformed the State

⁹⁰ See Bolivians Harvard Club (1999) Pp.1-19.

Political Constitution (CPE: Constitución Política del Estado)⁹¹. However, this process was deteriorated through anomalies and illegalities that invalidated the process for great parts of the population. This caused confrontations between sectors of the population, polarized positions and increased the risk of internal civil conflict. This had a profound (and negative) impact on the investment grade of the Bolivian economy.⁹²

Moreover, the CPE project, approved by the Constituent Assembly, contains unfavourable elements for future growth and development perspectives. The project establishes unfavourable conditions for investment largely because the guarantees established for legal security and private property are ambiguous and damage the confidence of private investors.⁹³

The government of Evo Morales has also impacted the productive sector. The decision not to negotiate long term commercial agreements with the United States has generated uncertainty regarding the use of existing tax preferences within the ATPDEA and has restrained investments. The decision not to initiate negotiations with the European Union in order to generate a free trade area with the Andean Community not only affects investment but also harms neighbouring countries.

The prevailing political climate in the country has created unfavourable conditions for investment. The country is delaying its chances of achieving higher growth rates, better employee conditions and more favourable living conditions for the population. Alarming for many observers, the country is currently failing to take advantage of the favourable conditions offered by its natural resources and external, continent-wide surroundings.⁹⁴

3.2 ENVIRONMENT ANALYSIS

The environment analysis will be divided into socio-political and economic stages. Given that the commodities market will be part of the financial market, an analysis of the financial situation, the country risk perception, investment incentives and currency will be outlined as the main factors affecting the development of a commodities market.

⁹¹ Bolivia's President Evo Morales has enacted a new constitution that aims to empower the country's indigenous majority and allows for land reform. See Asamblea Constituyente de Bolivia (2007) Art.2-6.

⁹² See Milenium Foundation (2007) Pp.1-10.

⁹³ See UDAPE (2008). Economic Evaluation 2007 p.4.

⁹⁴ See UDAPE (2008). Economic Evaluation 2007 Pp.6-7.

3.2.1 Socio-political stage

Bolivia is defined as a *democratic* country. In 1982 Hernán Siles Zuazo assumed the Presidency after many years of dictatorship. Since then, 9 Presidents have governed the country. The socio-political scenery changed dramatically through the strong social movement of the presidential elections of June 2002; because no candidate won the absolute majority *Gonzalo Sanchez de Lozada* was elected President by the Congress.

In October 2003 Bolivia faced severe social unrest and violent protests erupted against the pro-foreign investment economic policies of President Sanchez de Lozada. This led to the President's resignation and the cancellation of plans to export Bolivia's natural gas reserves to large northern hemisphere markets.

According to the law, the Vice-president *Carlos de Mesa Gisbert* became President⁹⁵. Foreign investment dried up and companies adopted a “wait and see” attitude regarding new President Carlos Mesa's willingness to protect investor rights⁹⁶ in the face of increased demand by radical groups asking the government to expropriate foreign-owned assets⁹⁷. Mesa was not a member of any political party, he claimed himself an independent. This meant that his government faced the opposition of many parties with congressional representation. He was unable to establish strong and stable strategic economic policies or pass reform laws.

On 6th March 2005, President Mesa offered his resignation, which Congress rejected on Tuesday, March 8th 2005. The president tried to promote a hydrocarbon bill that would (among other things) permit the exploitation of the country's natural gas reserves. However, political and social groups vehemently opposed his move.⁹⁸ While a group led by Congressman Evo Morales unified and radicalized their positions, radical groups led by the Bolivian Working-class Central (COB), El Alto Neighbouring Federation (FEJUVE) and Bolivian Peasants Labour Union Confederation (CSUTCB) demanded the nationalization of hydrocarbon resources.⁹⁹

⁹⁵ For more information review the newspaper “La Razón”, October 17, 2003. (www.la-razon.com).

⁹⁶ See CIA: The World Factbook. Bolivia, Pp.1-12.

⁹⁷ See Newspaper “La Razón” January 10 to 14th, 2005.

⁹⁸ See Briozo, Sebastian (2005) Pp. 1-3.

⁹⁹ See Newspaper “Pulso”: Who are they and what are they looking for?”. 3-9 June, 2005. Pp. 12-13.

Protest marches, demonstrations and blockades not only paralyzed the economy and generated daily losses estimated at 17 million Bolivians¹⁰⁰, but they also generated significant internal division. Businessmen and producers of the eastern part of the country clamoured for departmental autonomy in order to exploit their own natural resources, among them, natural gas reserves.

Carlos de Mesa Gisbert presented his resignation on 9th June 2005. He was replaced by *Eduardo Rodríguez Veltze*, President of the Supreme Court. The main task for Rodríguez was to call an election for December 2005.

On 18th December 2005, the results of the election surprised the national and international political arenas. For the first time in Bolivian history, an indigenous president was elected, Juan Evo Morales Ayma, with 53,7% of the votes. Evo Morales assumed the presidency on 22nd January 2006. Great expectations were placed on his new government whose rise to power was a manifestation of the population's desire for radical change: Morales promised to end the traditional political system characterized by corruption and to grant better living conditions to the indigenous population that constitutes the majority of Bolivians. Although this message proposed change and greater fairness and equality across the population, the electoral campaign also encompassed messages of socialist tendencies which conflicted clearly with the policies of the US government towards Bolivia.¹⁰¹ It had clear nationalist undertones that foreign investors could interpret as a threat to investments in Bolivia.¹⁰²

During the first year of government, the Morales government considered a set of actions on the basis of an anti-liberal ideology with nationalist and populist characteristics. The main change was the state recovery of depletable resources, their industrialization and land distribution. On 1st May 2006 the government established the "nationalization" of hydrocarbons, which instead of being the expropriation or confiscation of a private good, was an adjustment of the contracts with the oil companies. The bill modified the tax imposed on hydrocarbon production and enabled oil companies to continue working under the laws established in 2005. Today the oil situation is concerning. The result of political and economic instability is a marked deceleration of the growth of this sector and the definitive

¹⁰⁰ See Santa Cruz Economics: Bolivia should face an economic shock to get back on it's feet. 12 June, 2005. pp. 10-11. *El Juguete Rabioso: Social Movements toward the Nationalization*, 29 May 2005.p.8.

¹⁰¹ See Evo Morales (2006) The Presidential Speech held in Tiawanacu on 22nd January 2006.

¹⁰² See Milenium Fundation (2005) p.4.

loss of the export markets of Mexico and California. On 28th November 2006 a new agrarian reform, also referred to as the “agrarian revolution law”, expressed the intent to make structural modifications to land possession regulations in the medium term. It has contributed to a deepening of the insecurity in farming activity.

Even though the election of Evo Morales to the presidency presented a new opportunity for the country, the factors that dominate the political debate at the moment elevate the degree of fragmentation of the country and do not contribute to stability. Indeed, there have been many requests for greater autonomy by some regions of the country. The government of Evo Morales faces growing challenges to maintain basic levels of governability. The fragility of political institutions in Bolivia does not allow them to act as an anchor of stability during a period of political transition. Therefore, the political agenda of the government in the last months has focused mainly on containing the growing social and political unrest, more than on obtaining a basic consensus that would enable the country to achieve a more stable framework in the short to medium term.¹⁰³

3.2.2 Country economic stage

The economic growth experienced by the USA and especially the People’s Republic of China is increasing the global demand for commodities. As a result, international prices of many commodities like copper, gold, oil and coal, produced in the Andean region of South America, have increased.¹⁰⁴ This growth represents a big opportunity for the development of the commodities market in the Andean region.

According to the analysis of the Social and Economic Policies Unit (UDAPE), between January and October 2005, “the economy showed a positive response in the productive structure towards a favourable external context; higher demand and better international prices for the exportable supply allowed exports levels to beat those of 2004”. The forecast for the international context aims to continue growing world-wide production for the next years. The positive performance of Latin American and the Caribbean economies responds to the high international prices of basic commodities and raw material, and to the higher price of fuels.¹⁰⁵

¹⁰³ See Standard and Poors report 22nd, December 2006.

¹⁰⁴ See Briozo, Sebastian (2004) p.2.

¹⁰⁵ See International Monetary Fund (IMF) Economic Outlook (2005) p.37.

The period between January and September 2005 showed a favourable development of commodity prices for the Bolivian economy, especially for minerals and natural gas. Nevertheless, the unfavourable behaviour of prices in agrarian products showed a weakening in the international markets.¹⁰⁶

The latest study of the Bolivian commodities rate (Figure 6) was created from the analysis of a basket of 13 products (including hydrocarbons), and reached an average level of 122 that is 2, 28% higher than the 2004 level (120), while the rate without considering hydrocarbons showed a decrease of 3,2% compared to 2004. This fall can mainly be explained by the price reduction of agrarian products: soya (25%), soya flour (33%), soya oil (21%), cotton (25%) and woods (11%), compensated with the higher price of coffee (39%) and sugar (28%).¹⁰⁷

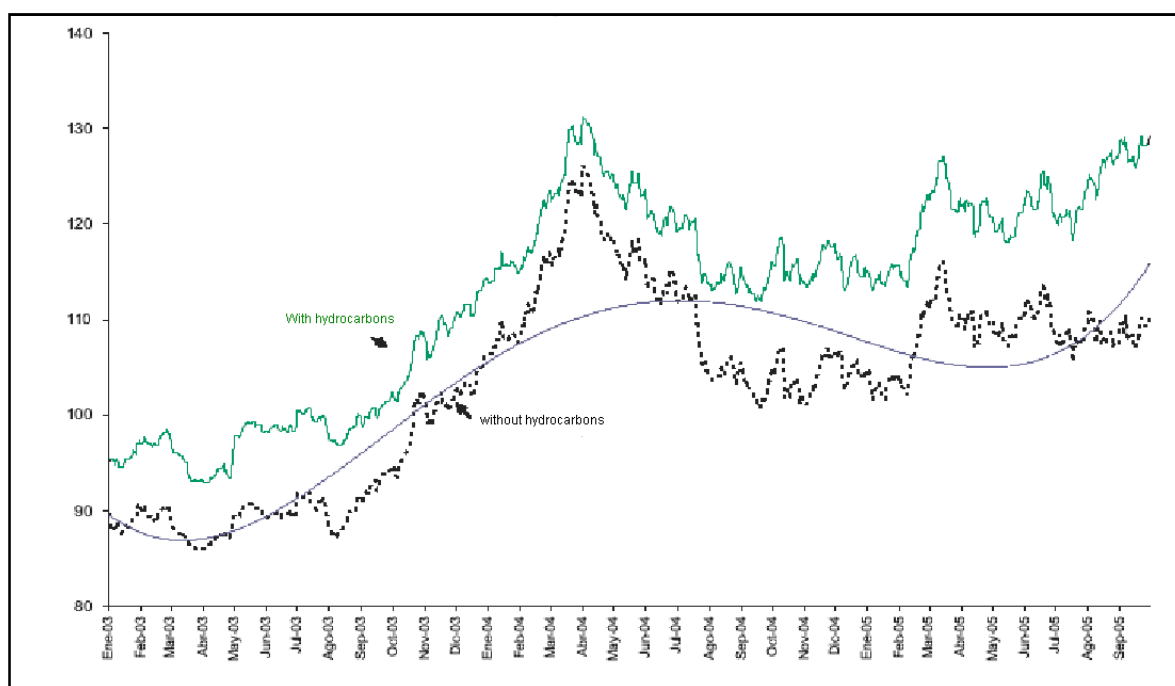


Figure 6: Bolivian Commodities Prices Rates (Base: December 1996)

Source: Social and Economic Performance until the third trimester 2005. UDAPE p.8. January 2006.

Bolivia is considered one of the poorest and least developed Latin American countries. It is estimated that by 2006 40% of the population will be living in extreme poverty¹⁰⁸. Because of its public deficit, Bolivia remains dependent on foreign aid from multilateral lenders and

¹⁰⁶ See UDAPE (2006) p.8.

¹⁰⁷ See UDAPE (2006) Pp.9-10.

¹⁰⁸ See World Bank. <http://web.worldbank.org>

foreign governments. By the end of 2005 the International Monetary Fund, through the Multilateral Debt Relief Initiative (MDRI), granted debt relief to the 19 poorest countries in the world, among them Bolivia, which constitutes a determining factor for the fight against poverty and promotion of development of the country. The total amount of the debt relief was US\$ 231.000.000¹⁰⁹ (the total public debt is estimated at US\$ 4.767,60 million)¹¹⁰. In 2007 the Inter-American Development Bank (IDB) provided debt relief to Bolivia for US\$ 1.171 million.

The economic indicators achieved in 2006 showed a good economic state based on the simultaneous good performance of the real sector, external sector, fiscal sector and financial sector. This situation has not been seen for a long time in Bolivian economic history (Table 3). The projections for 2007 were also positive.

The real sector showed a growth rate of about 4,5%, the highest rate achieved since 1998 (5%) with the boom of foreign investment, a low inflation rate (4,8%), similar to 2005, and a lower unemployment rate of 7,6%.

The external sector showed a record in exports level (US\$ 4.100 million), a commercial surplus of more than US\$ 1.300 million, a surplus in savings accounts (11,6% of the GNP), a record in international reserves of about US\$ 3 billion, and a public debt balance in the medium term of US\$ 3.234,5 million, the lowest achieved since 1984.

The fiscal sector registered the highest surplus in 66 years, about 5,9% of GNP as a result of the hydrocarbon tax equivalent to 6,6% of the GNP.

Finally, the financial sector showed a solid position with deposits nearing US\$ 4 billion, which implies a recovery of the sector after the decline that followed the financial boom of the 90's.

¹⁰⁹ See International Monetary Fund <http://www.imf.org/external/np/exr/facts/spa/mdris.htm>

¹¹⁰ See Bolivian Central Bank www.bcb.gov.bo.

Table 3: Bolivia: Main Economic Indicators 2005-2006

	2005 (p)	2006 (e)
<i>Real Sector</i>		
Gross National Product (million US\$)	9.358	10.582
GNP Growth (%)	4,06	4,50
Inflation (%)	4,91	4,80
<i>External Sector</i>		
Savings Account (% GNP)	6,6	11,6
Commercial Surplus (MM \$us)	513	1.308
FOB export (MM \$us)	2.856	4.100
CIF import (MM \$us)	2.343	2.765
International Reserves Net (MM \$us)	1.714	3.150
<i>Fiscal Sector</i>		
Fiscal Balance (+surplus / -deficit)	-2,3	5,9
Hydrocarbon Tax (%GNP)	3,0	6,6
<i>Financial Sector</i>		
Total Deposits	3.590	4.043
Deposits Dollarization (%)	84	76
<i>Social Sector</i>		
Population (million inhabitants)	9,43	9,63
Unemployment Rate- Urban area (%)	8,15	7,64

(p) Preliminary Data

(e) Estimates according to official information

Source: UDAPE, BCB, INE, SBEF

Some economic analysts associate these results to favourable external conditions; others explain them in terms of good internal policies, although these were related to the presence of an “automatic pilot” in the economy.¹¹¹ The economic data shows that the high economic performance achieved in 2006 is associated with a conjunction of factors: first, the favourable external conditions, expressed by high prices of exports (favourable in terms of interchange) and the elevated external remittances. Second, the application of good monetary, exchange

¹¹¹ See Milenium Foundation (2007) Pp.7-14.

and fiscal policies, which maintained the scheme designed by the D.S. 21060 (August 29, 1985) and encouraged the adoption of budget balances and macroeconomic stability. Third, the transcendental political change expressed by a new government which applied new policies for the hydrocarbons sector, contributing to a structural reversion of a chronic fiscal deficit into a surplus in 2006. This in turn led to positive fiscal balances in the next years, as the hydrocarbon tax increased state income by more than 70%.¹¹²

In production, 2006 registered moderate growth, smaller than the average in Latin America (5,3%). By examining the GNP, it is noticeable that the most dynamic component was the export of goods and services that grew by 13,2%. Nevertheless, this growth in export was not accompanied by a growth in investments. At a rate of 12% until the third quarter of 2006, it is one of the lowest achieved since 1991 (Figure 7). Investment levels also began to deteriorate in 2000, when the democratic process and legal security came under strain. This initiated a process of economic uncertainty that affected private investment, mainly foreign investment, which because of the current government’s policies has felt threatened by possible “nationalizations” or “recoveries” in favour of the state.¹¹³

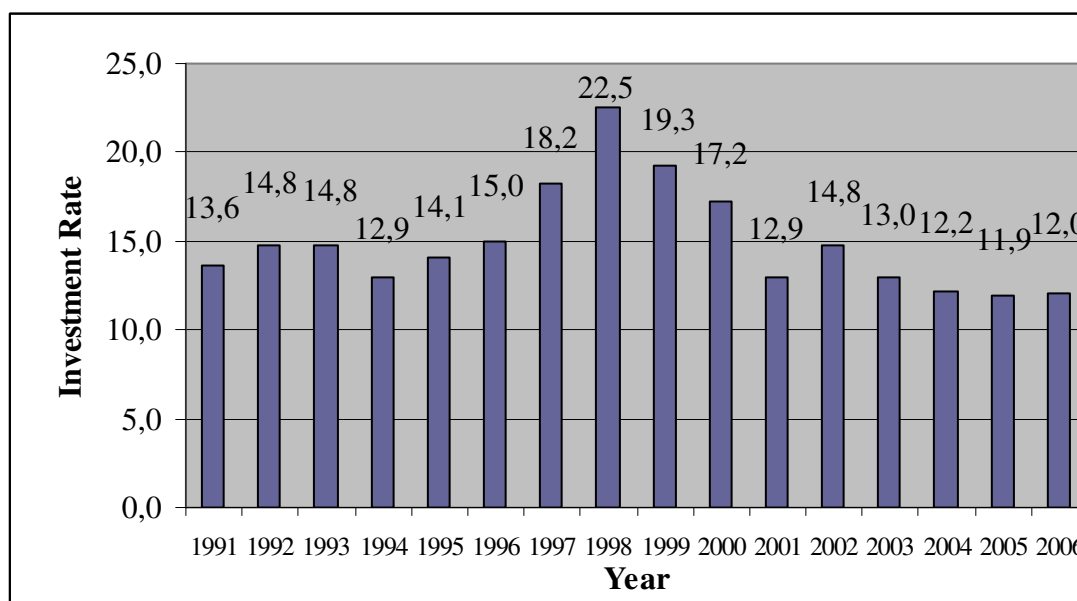


Figure 7: Bolivia: Investment Rate Evolution (To the third trimester of the indicated years)

Source: Economic Report of the Millennium Year 2006. Information obtained by the National Statistics Institute

¹¹² See Suprem Act No. 28701 (2006).

¹¹³ See Milenium Fundation (2007) p.107 and UDAPE (2007) p.4.

During 2006 the manufacturing industry had the greater incidence over the growth (0,9%), followed by financial establishments and agriculture and livestock farming (0,4% each). The mining sector achieved the highest growth rate, 11,4%, followed by hydrocarbons with 6,6%. However hydrocarbons saw a decline compared to 2005 (16,5%). The cause of this appears to be the nationalization of hydrocarbons.

Table 4: Bolivia: GNP by Economic Activity

(To the third trimester of the indicated years)

Activity	Value (Millions of Bs of 1990)		Growth rate (%)		Incidence (%)	
	2005 ^(P)	2006 ^(P)	2005 ^(P)	2006 ^(P)	2005 ^(P)	2006 ^(P)
Manufacturing	3.231,1	3.410,1	3,5	5,5	0,6	0,9
Agriculture and livestock farming	2.973,8	3.097,5	5,3	4,2	0,8	0,6
Financial establishments, insurance, real estate and services to other companies	2.230,2	2.357,1	0,5	5,7	0,1	0,7
Transport and communications	2.138,2	2.215,1	3,1	3,6	0,3	0,4
Public Administration	1.610,6	1.658,6	0,8	3,0	0,1	0,2
Commerce	1.596,9	1.671,7	3,5	4,7	0,3	0,4
Other services	1.428,7	1.460,0	1,3	2,2	0,1	0,2
Oil and natural gas	1.282,2	1.366,4	16,5	6,6	1,0	0,4
Mining	754,6	840,7	7,7	11,4	0,3	0,4
Construction and public works	472,4	483,1	0,5	2,3	0,0	0,1
Electricity, gas and water	363,2	378,8	2,6	4,3	0,0	0,1
Rights and taxes on imports	1.771,6	1.896,6	7,8	7,1	0,7	0,6
GNP to market price	19.281,0	20.158,5	4,1	4,6	4,1	4,5
GNP to basic price	17.509,5	18.261,9	3,8	4,3	3,4	3,9

Source: INE (<http://www.ine.gov.bo/cgi-bin/piwdie1xx.exe/TIPO>)

The economic results obtained during 2007 are less encouraging than the previous year. Three economic events characterize the year 2007, which was the second year of the Morales government: increasing inflation, low investment levels and the modest growth.

For the first time since 1995, inflation reached two digits, achieving 11,73% in December 2007. A higher amount compared to the average in Latin America of 6,1%. Many factors explain this situation: First, the excess of liquidity in the economy. Due to the growth in currency inflows, the monetary base grew by 55% between December 2006 and December 2007, and by 42% between December 2005 and December 2006. These levels have caused an excess of liquidity and, consequently, demand pressures. Secondly, the negative effects of farming production at the beginning of 2007, caused by climatic changes, led to a reduction in internal agricultural supply. And thirdly, the increase in the price of food on a global level (See Table 5).

Table 5: Bolivia: Main Economy indicators 2007

	2007 (e)
GNP Growth (%)	4,03
Accumulated Inflation rate (%)	11,73
Commercial Surplus (MM \$us)	1.349,70
Balance of payments (MM \$us)	1.758,50
International Reserves Net (MM \$us)	5.308,10
Public Sector Surplus (GNP %)	1,78
Public Sector Surplus (MM \$us)	229,50

Source: Milenium Fundation

The anti-inflationary policy in the monetary scope was concentrated mainly on the accomplishment of open market operations and led to the appreciation of the Boliviano. Although the government applied several policies oriented to decreasing the volume of exports, releasing imports of foods and other products, subsidizing the price of foods like flour, rice and meat, and creating state companies for the production and commercialization of food, none of the measures reached the objective of moderating inflationary pressures. Moreover the open-market operations led to an increase in the internal debt. The appreciation of the national currency hit exports negatively and then impacted local production. Finally,

the intervention measures only served to stimulate speculation and increased prices. The efforts of the Central Bank to absorb liquidity were neutralized by expensive fiscal policies to inject liquidity in the economy and encourage demand.

The economic growth of about 4% in the third trimester of 2007 was below the average of Latin America (5,6%), which again demonstrates that Bolivia is not taking advantage of the favourable conjuncture in order to obtain higher economic growth, which in turn would cause a fall in the unemployment rate and serve as a basis for the reduction of poverty.

A low investment rate leads to modest growth. The domestic investment rate in Bolivia was 12,4%, while the regional average was 21,1%. Legal instability caused by regular violations of property rights and the uncertainty created by the Constituent Assembly may help to explain this situation. Low levels of investment do not allow the growth of production capacity and it is replacement investment only.¹¹⁴

The economic data, the need for an improvement of productive capacity and low guarantees for investors represent not only a difficult marketplace for the Bolivian commodities market, but also a big challenge for channelling domestic private investment into production.

3.2.3 Financial market

Regulation and laws applied to the financial system make for a solid market with adequate liquidity and prevision rates, which show stability in the market.

For the third consecutive year, public deposits in the national financial system registered an increase due to favorable internal and external macroeconomic conditions and to greater public confidence. On 31st December 2007, deposits reached US\$ 5.168 million, US\$ 1.069 million (26%) more than in December 2006 (Figure 8).

¹¹⁴ See Milenium Foundation (2008) Pp.1-5.

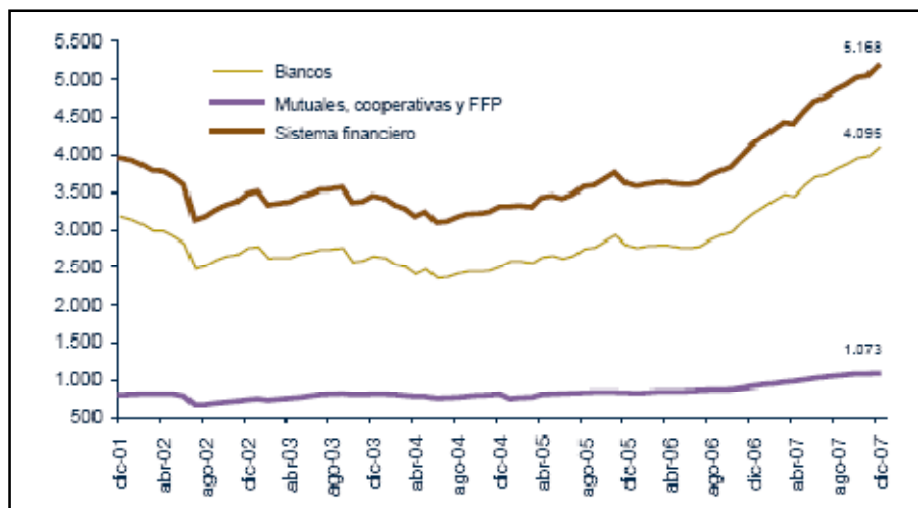


Figure 8: Bolivia: Financial System obligations with the public

Source: Bolivian Central Bank. Memory 2007, p. 92

The pickup was concentrated in banks (US\$ 893 million) and private financial funds or FFP (US\$ 109 million), with increases of 28% and 45% respectively. Altogether the deposits of the saving mutuales and cooperatives increased by US\$ 67 million (Table 6).

Table 6: Bolivian Financial System: Public deposits (Million US\$ and percentage)

	2006	2007	Variation	
			Absolute	Relative
Commercial Banking	3201,9	4094,9	892,9	27,9
Sight deposits	866,5	1083,7	217,2	25,1
Savings	940,6	1378,3	437,7	46,5
Term	1366,0	1592,7	226,7	16,6
Others	28,8	40,1	11,3	39,2
Mutual Savings and Loans	397,6	422,6	25,0	6,3
Sight deposits	-	-	0,0	0,0
Savings	187,0	231,8	44,8	23,9
Term	209,2	189,5	-19,7	9,4
Others	1,4	1,4	-0,1	3,8
Savings and Loans Associations	253,7	295,3	41,6	16,4
Sight deposits	-	-	0,0	100,0
Savings	101,5	140,9	39,3	38,8
Term	151,9	154,2	2,3	1,5
Others	0,3	0,3	0,0	2,1
Private Financial Funds	246,0	355,4	109,4	44,5
Sight deposits	0,9	0,6	-0,4	39,6
Savings	75,5	135,3	59,8	79,1
Term	164,1	217,0	52,9	32,2
Others	5,3	2,4	-2,9	54,7
Financial System	4099,2	5168,1	1069,0	26,1
Sight deposits	867,5	1084,3	216,8	25,0
Savings	1304,7	1886,3	581,6	44,6
Term	1891,1	2153,4	262,2	13,9
Others	35,9	44,2	8,3	23,2

Source: Bolivian Central Bank. Memory 2007, p. 93

The public showed a clear preference towards depositing their savings in banks, which in 2007 increased by US\$ 582 million (45%). 75% of these deposits were concentrated in banks. Fixed term deposits (DPF) grew by US\$ 262 million, mainly thanks to the DPF on credit majors to 1,080 days (US\$ 134 million) and between 361 and 720 days (US\$ 107 million). Consequently, the effective term average of the DPF increased from 578 to 627 days (Table 7).¹¹⁵

¹¹⁵ See Bolivian Central Bank (2007) Pp. 92-106.

Table 7: Bolivian Financial System: Fixed term Deposits (million US\$ and percentage)

	2006	2007	Variation	
			Absolute	Relative
Fixed term Deposits	1891,1	2153,4	262,3	13,9
Up to 30 days	155,3	166,8	11,5	7,4
31 days to 60 days	29,4	23,8	-5,6	19,0
61 days to 90 days	105,4	103	-2,4	2,3
91 days to 180 days	262,5	263	0,5	0,2
181 days to 360 days	352,1	329,6	-22,5	6,4
361 days to 720 days	436,3	543,8	107,5	24,6
721 days to 1.080 days	176,2	215,3	39,1	22,2
More than 1.080 days	373,9	508,1	134,2	35,9
Average term (days)	578	627	49	8,5

Source: Bolivian Central Bank. Memory 2007, p. 94

The financial market, stable in the banking sector, introduced the concept of a Stock Exchange in 1979 with the creation of the “Comision Nacional de Valores” (Stock Exchange National Commission), now known as the “Superintendencia de Pensiones, Valores y Seguros”, and the creation of the Stock Exchange (Bolsa Boliviana de Valores S.A.). During the first ten years, the stock exchange faced difficult obstacles in terms of investment promotion and organization and it was only in 1989 that it launched its first operations. This market is unique: the difference with international markets is that the current transactions are basically in bonds and negotiable bank certificates of fixed term deposits¹¹⁶ (Figure 9). Stocks are rarely negotiated and the investments are made by two well defined institutional segments: the Retirement Pensions Funds Administrators and the Insurance Companies. Individual investments are rarely made.¹¹⁷

¹¹⁶ According to the SPVS Bulletin issued on November 12th 2004, the last day of Stocks negotiation was October 28th 2004. Bonds and Bank Deposits on Term are daily negotiated.

¹¹⁷ See SPVS (2004) p.7.

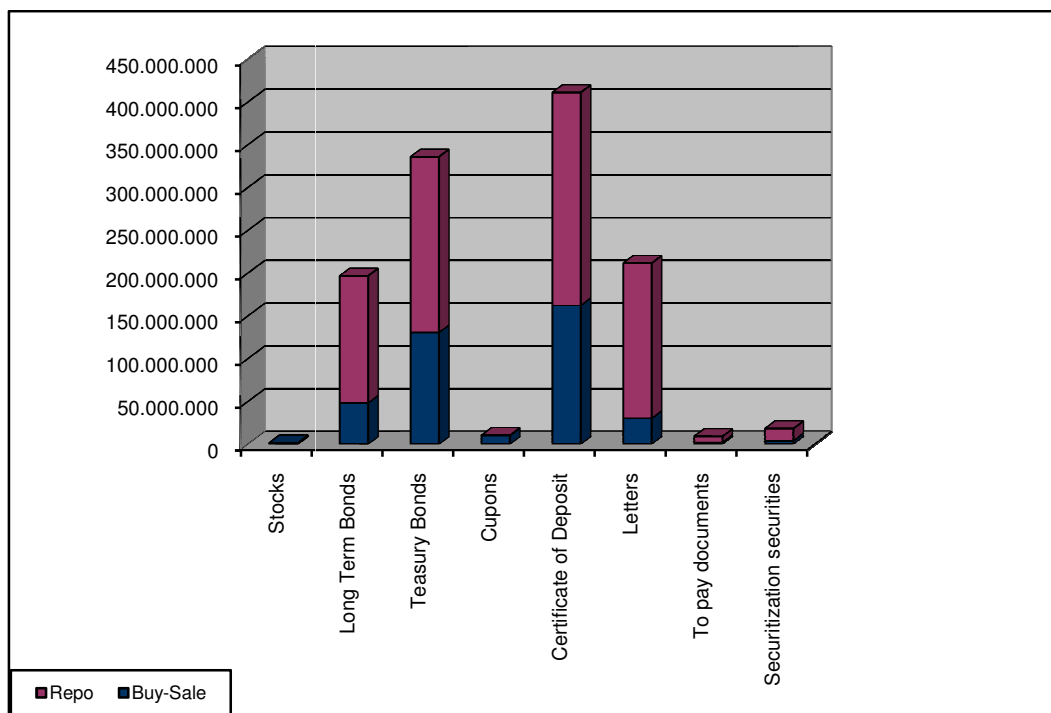


Figure 9: Stock Exchange Operations 2005

Source: Superintendencia de Pensiones Valores y Seguros Bulletin

3.2.4 Country risk

The “Country Risk” is a financial indicator which indicates the capability of one country to pay its debts. When a country’s spending is higher than its income, and when the government cannot maintain a budget in the black, the government issues bonds and then pays an interest rate; this rate indicates the investment risk of bond issues.¹¹⁸

In theory, the safest investments in a market are governments bonds. In the US for example these are considered at 0% risk. Companies like Standard & Poor’s and Moody’s put a ceiling on foreign-currency bonds and notes for every country (or separate monetary area) in which there are rated obligors. The ceiling generally indicates the highest rating that can be assigned to a foreign-currency denominated security issued by an entity subject to the monetary sovereignty of that country or area. In most cases, the ceiling will be equivalent to the rating that would be assigned to foreign-currency denominated bonds of the government.

Country risk considerations are a standard part of the analysis for credit ratings on any issuer or issue. Currency of repayment is a key factor in this analysis. An obligor's capacity to repay

¹¹⁸ See Standard & Poor’s (2005).

foreign currency obligations may be lower than its capacity to repay obligations in its local currency due to the sovereign government's own relatively lower capacity to repay external versus domestic debt. These sovereign risk considerations are incorporated in the debt ratings assigned to specific issues.¹¹⁹

On 2nd November 2007, Standard & Poor's Ratings Services¹²⁰ reviewed Bolivia's sovereign credit qualification and assigned it a rank of "B-/Stable/C" (B = long term sovereign credit qualification. C = stable perspective and short term sovereign credit qualification). The report supporting this qualification adds that "the stable perspective reflects the antecedents of Bolivia to adhere to stable macroeconomic policies and of the improvements in important economic and vulnerability indicators. It is probable that the political turbulence will continue, nevertheless, Standard & Poor's anticipates that the tendencies of the government will not be modified". The ratings reflect "strong support from the international donor community; and abundant natural resources, with one of the world's largest reserves of gas" and are constrained by "high political instability, characterized by severe political polarization and a fragmented society; the challenges of increasing the investment level; and a commodity-based economy highly dependent upon external conditions."

On 29th July¹²¹ 2007, Fitch Rating changed the country risk qualification for debt in foreign currency from "negative" to "stable". The report suggests that international confidence in Bolivia has improved since the multilateral initiative of debt relief, which reverted the previous deteriorating tendency caused by external conditions and liquidity ratios.

On 16th April 2003 Moody's Investors Service ranked Bolivia's sovereign risk at B3 with a "Downgrade" Rating Action.¹²²

3.2.5 Investment

Comparing the third trimester of 2007 with the same period in 2006, an increase in total investment of US\$ 132,6 million is registered due to an expansion of public investment of

¹¹⁹ See Moody's (2005).

¹²⁰ See Standard & Poor's Soveran Ratings Bolivia.

¹²¹ See Newspaper "La Razón" 29 July 2007.

http://www.la-razon.com/versiones/20070729_005982/nota_262_459637.htm

¹²² See Moody's (2007).

US\$ 173,9 million. In that time, however, foreign private investment fell by US\$ 41,3 million (see Table 8).

Table 8: Bolivia: Domestic and Foreign Investment (January-September 2005-2007)

Concept	Value (Millions of US dollars)			Percentage structure (%)		Growth Rate (%)	
	2005	2006	2007 ^(p)	2006	2007 ^(p)	2006	2007 ^(p)
Public ⁽¹⁾	302,1	394,7	568,6	80,5	91,2	30,7	44,1
Private	-51,4	95,9	54,6	19,5	8,8	-	-43,1
Foreign ⁽²⁾	-51,4	95,9	54,6	19,5	8,8	-	-43,1
Domestic	n.d.	n.d.	n.d.	---	---	---	---
TOTAL	250,7	490,6	623,2	100	100	95,7	27,0

Source: Fundación Milenio based on information provided by the Bolivian Central Bank and the Department of Public Investment and external financing

⁽¹⁾ The information was dolarized using the sales average exchange rate for the indicated period of time.

⁽²⁾ According to the payment balance

n.d. no data

^(p) preliminary

The structure of investments during 2007 continued to show greater presence of public investments and less foreign private investment or foreign direct investment (FDI), which fell lowered by almost half in comparison to 2006.

The fall in FDI clearly demonstrates the loss of confidence in the country. This is partly caused by the policy of expropriations and nationalizations carried out by the Morales government in the last two years. Moreover, during 2007, events like the creation of a Constituent Assembly and the expropriation of mining property worsened the investment climate. The political situation influenced the behaviour of foreign economic agents, as well as national economic agents. This fact is clearly reinforced by the way these agents made their investments, limiting themselves just to replacement investments. This situation of uncertainty is aggravated by the political crisis that possible changes to the new State Political Constitution would bring about, particularly concerning investments in strategic sectors of natural resources.

Public investment in infrastructure and social projects reached 86% of total investment, which helps to underline the importance of these in the allocation of public resources. In infrastructure, the main investment was in transportation. Growth rate in energy investments also stands out in relation to the registered figures for the same period in 2006 (see Table 9).

Table 9: Bolivia: Public investment according to sectors (January-September 2005-2007)

SECTORS	Value Million US\$		Percentage Structure (%)		Growth Rate (%)	
	2006	2007 ^(p)	2006	2007 ^(p)	2006	2007 ^(p)
Infrastructure	217,1	334,2	55,0	58,8	33,6	53,9
Transport	187,2	279,0	47,4	49,1	29,1	49,0
Energy	17,0	40,4	4,3	7,1	65,6	137,6
Hydro resources	12,1	14,4	3,1	2,5	74,1	18,9
Communications	0,7	0,3	0,2	0,1	175,4	-54,8
Social	113,1	154,7	28,7	27,2	20,1	36,8
Urbanism and house	26,4	45,4	6,7	8,0	-9,6	71,8
Education and culture	27,0	45,0	6,8	7,9	16,5	66,9
Basic cleaning	27,9	35,1	7,1	6,2	21,2	25,6
Health	31,8	29,2	8,1	5,1	69,3	-8,1
Productive	45,7	57,6	11,6	10,1	22,0	23,0
Farming	34,3	40,1	8,7	7,0	7,5	16,7
Industry and tourism	6,7	5,7	1,7	1,0	68,3	-14,7
Mining	1,8	7,5	0,5	1,3	16,4	310,7
Hydrocarbon	2,9	4,4	0,7	0,8	47,0	51,1
Multisector	18,9	22,1	4,8	3,9	4,2	17,4
Total Investment	394,8	568,6	100,1	100,0	526,4	44,0

Source: Fundación Milenio based on information provided by the Bolivian Department of Public Investment and External Financing (www.vipfe.gov.bo).

^(p) preliminary

Social investments witnessed important growth rates, encouraged by the investment in urbanism, housing, education and culture. In the productive sector a fall of investments in industry and tourism can be observed. On the other hand, the mining sector noticed an exceptional rise of 310,7% in relation to the previous year, due to the increase of investment

in the COMIBOL ¹²³

In 2007, the financing structure of public investment was sustained by internal resources, despite the increase of external resources. Within the structure of internal resources, the Direct Tax on Hydrocarbons (IDH) contributed to that increase thanks to its 30,9% growth (175,9 million US\$). Two factors contributed to the increase of external resources: credits of US\$ 155 million and donations of about US\$ 50,4 million.

Investment Incentives for the commodities market:

In theory, as risk increases, investors ask for higher returns on investment. In this case, countries tend to establish investment incentives.¹²⁴ Actually, Bolivia defined some incentives by law; indeed Law No. 2064 establishes *tax exemptions* for:

- Debt values issued for terms of over 3 years
- Portfolio transfers are exempted from the Transactions Added Value Tax and the payment of registration taxes.
- All transactions registered in the Public Register of the SPVS are exempt from the Transactions Tax, Added Value Tax and the payment of registration taxes.

3.2.6 Currency

The high level of “dollarization” existing in Bolivia allows investors to make transactions in Bolivians or in US dollars.¹²⁵ As US dollars are more stable, bonds in the securities market are all issued in this currency. There is no legal restriction for this. As a result, investors and suppliers can choose the currency in which the transaction will be made; this gives flexibility to trade conditions.

Last year, banking transactions were also offered in Euros as a result of this currency’s stability.

¹²³ Bolivian mining corporation.

¹²⁴ Risk-Rentability Theorie.

¹²⁵ See SPVS Administrative Resolution No. SPVS-IV- RMV-187.

3.3 MARKET ANALYSIS: THE COMMODITIES MARKET ENVIRONMENT, INSTITUTIONS AND HIERARCHY

In order to understand the commodities market, it is necessary to understand its operating structure, the role of the different participants and their responsibilities.

Figure 10 represents the network and relationship between the commodities market participants.

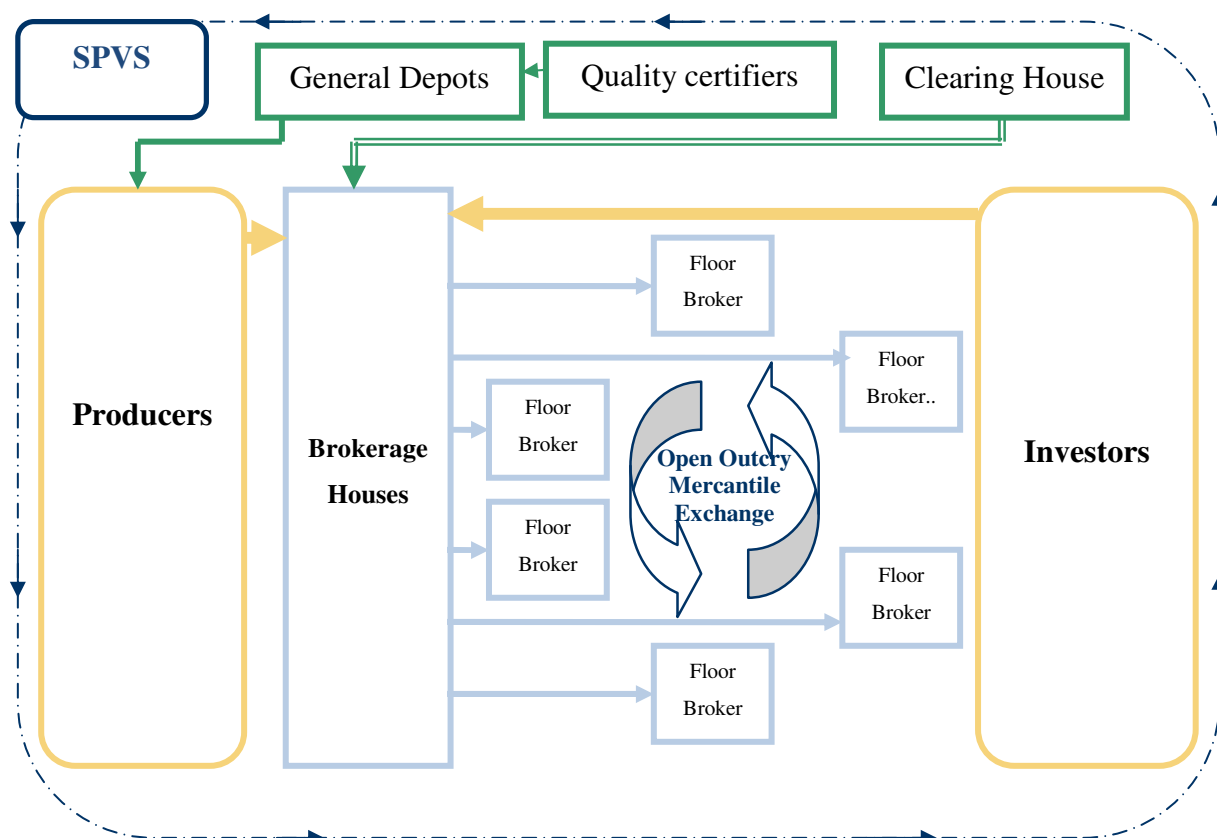


Figure 10: Commodities Market Environment

As previously seen, the need for regulation in the commodities market arises from the idea to have an organized market based on security, transparency and clear information. The institution responsible of this is the SPVS. According to the law¹²⁶, commodities exchange trading must be approved by this institution, and brokers, brokerage houses, clearing corporations, products and the commodity exchange must be registered in its “Public Register” (Commodities Market Register or RMP because of the Spanish abbreviation)¹²⁷.

¹²⁶ See Supreme Act N° 26325, Administrative Resolution SPVS-IV-N° 646.

¹²⁷ See SPVS Administrative Resolution SPVS-IV-N°113-2005: Art. 4-11.

The commodity exchange is responsible for providing brokers with the necessary infrastructure and mechanisms for transactions. The negotiations made in the commodity exchange must be safe, egalitarian, competitive and clear. In the commodity exchange, negotiations are allowed for all kinds of products related to agriculture, fishing, forestry and mining, and the values which represent these products.

In Figure 10, brokers are represented as brokerage houses and as floor brokers. The brokerage houses are the intermediary between buyers and sellers in the commodities market. Only floor brokers are authorized to trade products in the commodities exchange.

The clearing corporation guarantees both producers and investors, or buyers and sellers, that the contract will be satisfied. This compensation can be made through the mercantile exchange or through an independent organization.

3.3.1 The Regulator

The Bolivian commodities market regulator is the SPVS and according to the law it is responsible for:

- Approving the enrolment and registration of all participants in the commodities market.
- Approving the transaction of commodities in general.
- Looking for transparency of the commodities market.
- Watching over the performance of the law.
- Watching over the spread of information.
- Establishing control mechanisms for the participants in the market.

3.3.2 The Intermediaries

Intermediaries are all those participants that make trading in the commodities market possible. As shown in Figure 10, the principal intermediaries are the mercantile exchange, the clearing

Company and the brokers. All of these intermediaries have their own role and are under the supervision of the SPVS.

3.3.2.1 *The Mercantile Exchange*

The mercantile exchange is a private company created in order to inform the marketplace about where transactions will be made, but its role goes further. Commodities must meet strict specifications for quality and quantity, and it is the mercantile exchange that establishes a clear framework to facilitate transactions. The operations in the exchange should be efficient and reliable, so that the quotations derived from these transactions can be used as pricing standards by companies and individuals around the globe.

The marketplace provided by the exchange should be focused on price setting, liquidity and financial guarantees in order to enable thousands of merchants to operate efficiently, and thus more competitively, which is of vital importance in today's global economy.

The SPVS should authorize the creation of mercantile exchange once they meet the requirements established by law¹²⁸. They should own a capital of at least US\$ 350.000¹²⁹, which should amount to contributions from at least 25 shareholders. In order to start operations at least 3 brokerage houses should be registered.

The principal responsibilities of the mercantile exchange are:

- To establish the rights, obligations and responsibilities acquired by negotiating in the exchange.
- To inspect and authorize services such as warehouses or any other required for the negotiation of commodities.
- To establish negotiation mechanisms and the process for the authorization of commodities negotiations.
- To control and supervise operations on the trading floor
- To promote information-spreading related to trading and the market.
- To offer specific schedules for negotiations.

¹²⁸ See Supreme Act N° 26325 and SPVS Administrative Resolution SPVS-IV-N° 646 Art. 4 to 7.

¹²⁹ See SPVS Administrative Resolution SPVS-IV-N°133 -2005, Art. 31.

The principal benefits provided by the mercantile exchange are:

- To create the mechanisms for a price setting system.
- To provide an alternative to risk optimization.
- To establish quality parameters.
- To promote the opportune and clear diffusion of information.
- To provide an alternative source of operations financing.

The project for the creation of the mercantile exchange

In 1998 the Agrarian Chamber of the Orient and the Interamerican Institute of Agrarian Cooperation sponsored meetings between their members in order to promote the creation of a mercantile exchange. This was the first attempt in Bolivia towards the creation of a commodities market. But it was not until the year 2000 that an enterprise group, composed of national farming institutions, the agrarian sector, financial institutions and the stock exchange, launched this initiative with capital contributions and a formal project plan. The participation of the Bolivian Stock Exchange S.A. and the Agrarian National Exchange S.A. (Colombian mercantile exchange) as shareholders was an important contribution in term of experience and technology transfer.¹³⁰

In January 2004, in order to promote the laws and regulation, the SPVS held informative seminars in La Paz, Cochabamba and Santa Cruz. On 20th July 2004 the stakeholders signed an agreement that established the participation of the Colombian mercantile exchange and the Bolivian Mercantile exchange (BBP). The following positive results are expected: i) analysis of the market's economic situation; ii) structure of commercialization and financing instruments; iii) design and revision of operation processes of the exchange and the clearing house; iv) elaboration of internal procedures; v) elaboration of a market plan in order to position the organization; vi) qualification of human resources and, vii) qualification of the brokerage houses.¹³¹

The World Bank, through the Vice-ministry of Financial Services, sponsored the realization of consulting studies about: i) the organizational structure of the mercantile exchange; ii) the

¹³⁰ See Bolivian Mercantile Exchange (2004).

¹³¹ See Bolivian Mercantile Exchange (2004).

acquisition of the software system and tools required in order to operate; and iii) the qualification of human resources related to IT. The Mercantile Exchange of Venezuela also donated operative software in order to make transactions and to provide information about the market to participants.¹³²

As a result of the studies, the BBP concluded to start operations exclusively in the agrarian sector. The main farming products to be traded were sunflowers, soya, sugar cane, sorghum, rice, cotton, corn, wheat, sesame and quinoa. The main livestock products were cows, pigs and poultry.¹³³

3.3.2.2 *Clearing House*

Clearing means the registration and settlement of a trade that includes provisions for margin requirements and performance guarantees. The clearing house not only reconciles every sale made during the trade day, it also makes the delivery of all commodities bought and receives payment for it.

The clearing procedures are important for the proper development of a commodities market, since they ensure the fulfilment of the operations agreed in the exchange, through the constitution of guarantees made by brokerage houses and the execution or liquidation of the guarantees in order to cover the possible price differences that could arise from a possible breach.

In order to carry out its activities, the compensation mechanism should analyze the risk involved and manage the guarantees that allow the compensation changes in the prices. As a result, the clearing house will be the guarantor of the fulfilment of the operations in which it participates. Because of the heterogenic products negotiated in the commodities market, the guarantees scheme applied to each operation must be complemented with general guarantees made by brokers as well as the guarantee fund and other specific guarantees. For that reason, the evaluation of risk will be a financial evaluation of the mechanism of compensation.¹³⁴

¹³² See Bolivian Mercantile Exchange (2005).

¹³³ See Bolivian Mercantile Exchange: Business Plan (2005) Pp.18-56.

¹³⁴ See Bolivian Mercantile Exchange: Business Plan Pp.101-102.

Therefore the need for a risk qualification of the clearing house is demonstrated, in order to evaluate the risk assumed by the clients of the commodities market.

The Bolivian law considers the clearing activity as a function of the mercantile exchange through which all trades made must be confirmed, matched and settled each day until offset or delivered.

The BBP suggests that, as has occurred in other countries, especially for the initiation phase, the clearing house activities should be considered as part of the mercantile exchange.¹³⁵

3.3.2.3 Brokerage Houses

Brokerage houses are anonymous societies authorized by the SPVS to act as an intermediary in the negotiation of commodities in the Bolivian commodities market.¹³⁶

Their principal activities are:¹³⁷

- To trade for themselves or for their clients according to the laws
- To advise their clients in all subjects related to commodities, commodities trading and the commodities market.
- To hire the services of values custody.

In order to start their operations they should:¹³⁸

- Make public their organization manual, orders system, procedures manual and ethic code.
- To establish a guarantee of fair administration of about US\$ 30.000¹³⁹
- To prepare and train their human resources, especially brokers.
- To establish a minimum social capital of US\$ 100.000.

¹³⁵ See Bolivian Mercantile Exchange: Business Plan p.101.

¹³⁶ See Supreme Act N° 26325 and Administrative Resolution SPVS-IV-N° 646 Art. 3.

¹³⁷ See Supreme Act N° 26325 Art. 22.

¹³⁸ See SPVS Administrative Resolution SPVS-IV-N° 646 Art. 52-75.

¹³⁹ See SPVS Administrative Resolution SPVS-IV-N°133 -2005, Art. 32.

Brokerage houses' operations are regulated by the SPVS, which in order to promote a clear market, established as their principal obligations:

- To ensure that their clients will receive the commodities according to the characteristics established in the trade orders.
- To verify that the contracts which formalize the negotiation coincide with the clients orders.
- To manage the commodities acquired for clients independently of their own capital.
- To promote clear information in the market by having clear diffusion of information.

Their prohibitions are:

- To cause confusion to their clients or potential clients or to induce (by giving wrong information) the transaction of commodities.
- To make differences between clients.
- To obtain illegitimate profits for themselves or for other people.
- Not to execute the orders given by their clients and related with commodities trading.
- To assign clients' resources (monetary or commodities) to operations that are different to the commodities trade.
- To associate with other participants in the market in order to cause damage to others.
- To charge commissions not established in their price list or specific contracts.
- To buy, rent, use or exploit the commodities or other assets from their clients.
- To manipulate the market prices by giving wrong information, create confusion or by using privileged information¹⁴⁰.
- To manipulate market prices by making operations in the exchange or outside.
- To manipulate market prices by trading wrongly or by simulating trading operations.

Brokers are all natural persons authorized by the SPVS to work in a broking agency. Brokers who want to receive authorization to operate should take tests and prove that they are qualified to advise clients and trade on the exchange floor.

¹⁴⁰ It is considered as Privileged information all the information provide to the Agency Brokers by their clients in order to trade commodities or information related to their clients operations in the market. See SPVS Administrative Resolution SPVS-IV-N° 646 Art. 84-85.

Brokers can trade in the mercantile exchange solely through the orders received officially by clients. They cannot trade for themselves. All the trading activities executed by the broker are the responsibility of the brokering agency in which he or she works.

3.3.3 Borrowers and Lenders

Borrowers (producers) and lenders (investors) are non-members of the exchange. Hence their orders must be executed by brokers.

In order to realize their operations they should be well informed about market rules and commodities trading. This information can be provided by the brokers, the Exchange and the SPVS, which has created a public register containing information about the market and its participants.

Although the commodities market was introduced in the world in 2000 B.C., in Bolivia this is a new concept. Indeed, a large proportion of citizens live in small towns and produce a variety of products on a low scale¹⁴¹. They tend to have limited financial resources to invest and increase production. The commercial banking system usually fails to give low income people credit because they cannot provide guarantees. Moreover they do not have the business knowledge required to present a project or an investment plan to a bank manager. One alternative increase production would be to trade on the commodities market, but they need to be informed about the market, the trading advantages and the responsibilities taken on when trading in this market. They should also be able to evaluate their financial alternatives.

Investors can be classified as institutional or personal investors. The main institutional investors are insurance companies and pension funds. By law, Bolivian pension funds have many restrictions to their investments in other countries, but the Bolivian securities market does not guarantee sufficient profits, so during the last years, they have had to invest in treasury bonds (with low margins) because they have had few other alternatives. Insurance companies are the second principal investors in the securities market and the commodities

¹⁴¹ Bolivian PIB for the year 2003 was 43,785,000 Bs. See INE <http://www.ine.gov.bo/>

market can represent an interesting alternative. Personal investors require information about the market.

3.3.4 General Depots

General depots and quality certifiers are organizations registered on the commodities market register (RMP) which attempt to ensure organized, transparent and safe operations on the market. This register takes into account the security, efficiency and safety qualities of the general depot.

General depots will be used only when required; in such cases they should ensure that the deposit will not affect the compromised norms of quality. The main activity of general depots is to store, conserve and guard the merchandise and property of third parties, as well as emitting certificates of deposit and article bonds.

The main activities of the general depots are:

- To register all operations and to emit certificates about the execution of operations.
- To emit certificates of deposit with a nominal value equivalent to 100% of the market value of the merchandise
- To demand that the insurance policy for the merchandise represented in the certificate of deposit is issued.
- To certify that the merchandise has been deposited in their own enclosures, indicating the real date of the deposit of the merchandise and its origin.
- To verify the fulfilment of the technical requirements and quality
- When the certificates of deposit are destined to repo operations, to indicate that the respective form of the bond is annulled.

3.3.5 Quality Certifiers

Quality certifiers or laboratories are responsible for certifying the normalization and quality standards of the products negotiated in the mercantile exchange. In order to promote

transparency and trustworthiness it is important to have more than one quality certifying organization. This company should be independent and cannot be related to any of the market participants in order to avoid conflicts of interest.

According to the BBP plan, the mercantile exchange will be based on the standards determined by IBNORCA¹⁴² and, when these standards are not yet fixed, international norms will be used. The commodities negotiated must fulfil the quality established by the norm, unless the brokers, the buyer and the seller agree on the application of different norms.

3.4 THE COMMODITIES MARKET OPERATION

3.4.1 Potential Products and their Characteristics

According to Bolivian law¹⁴³, the commodities that can be traded on the mercantile exchange are:

- All commodities resulting from agriculture, fishing, forestry and mining activities.
- Financial instruments related to these commodities.
- Commodity contracts authorized by the SPVS.

In order to start the negotiation of a commodity, the mercantile exchange can require the registration of any commodity in the public register of the SPVS; in this case the full description of the quality standards should be presented.

As explained in this document, in the first period of implementation the commodities to be negotiated include: i) in the agrarian sector: sunflower, soya, sugar cane, sorghum, rice, cotton, corn, wheat, sesame, and quinoa; ii) in livestock products: cows, pigs and poultry.¹⁴⁴

¹⁴² Bolivian Institute of Quality Standards.

¹⁴³ See Supreme Act No 26325, Art. 11.

¹⁴⁴ See section Mercantile exchange- implementation project Bolivian Mercantile Exchange: Business Plan pp.18-56.

3.4.2 Operations System

According to the law, the mercantile exchange can define trade mechanisms. It is therefore important that it is responsible for providing the necessary tools in order to achieve clear, safe and efficient operations.

Brokerage houses have the following obligations¹⁴⁵:

- They should give their clients the documents related to their trade according to their order.
- Maintain privacy related to their clients' operations.
- Be responsible for the terms and conditions of the commodities contracts made on the floor.
- Ask their clients to provide guarantees for operations they will make according to the law.
- Pay or deliver the commodities on time without exceptions.
- Operations begin when the client places an order with the brokers, this order should be reflected in a document which brokerage houses must keep. On the trading floor, brokers must follow their clients' orders.

Every bid¹⁴⁶ or offer¹⁴⁷ presented by a broker on the trading floor becomes an obligation for the brokers to trade (buying or selling) with other broking agencies interested in this trade.

Trading can be made through a sample or a description of the quality conditions of the commodity. Tools such as photos, videos or presentations can be used. The traded commodities can be stored in a warehouse authorized by the exchange until the trade's date. Commodity contracts can vary in time, location and can be performed with a variety of instruments¹⁴⁸ so it is very important that contracts specify:

Price: Transactions in US dollars and Boliviano are accepted, so they should specify the currency. The price can be set in absolute terms or relative to another.

¹⁴⁵ See Supreme Act N° 26325 Art 29.

¹⁴⁶ A motion to buy a futures or options contract at a specified price.

¹⁴⁷ A motion to sell a futures or options contract at a specified price.

¹⁴⁸ See Administrative Resolution SPVS-IV-N° 646 (2002).

Delivery conditions: The range of dates during which the commodity should be delivered, as well as the location.

Quantity: The quantity can be fixed or variable (for example no more than 10.000 bushels of wheat)

Quality: In the market the quality is classified by specific grades that make transactions easier and more homogeneous.

According to the study made by the BBP and an independent consulting group, the operations are, in the first phase of implementation, designed to be:

Open market operations: implemented through open outcry trading, directed by the Outcry Director of the BBP. In an open outcry trade, the brokers make operations announcing their positions of purchase or sale. The bids announced on the outcry will define the rate or price of the securities. The outcry will operate on fixed days and according to a schedule determined by the BBP depending on market needs.¹⁴⁹

Physical market: this includes operations completed with products that exist or that are in process to exist. Alternative operations include: i) Operations over available physical products (according to delivery or payment). The trading negotiation can also be made using a sample or an accurate description; and ii) Forwards.

Financial Market: Repo operations and contracts upon maturity.

Open Outcry

Open Outcry is a method of public auction in which verbal bids and offers are made in the trading rings or pits. This method of trading publicly ensures that each trader has a fair chance to buy or sell.¹⁵⁰ In Bolivia, this auction will be made in pits or rings¹⁵¹

¹⁴⁹ See Bolivian Mercantile Exchange: Business Plan Pp. 85-89.

¹⁵⁰ See Commodities Futures Trading Commission. See Glossary: http://www.cftc.gov/opa/glossary/opaglossary_o.htm

¹⁵¹ Pit is "a specially constructed area on the trading floor of some exchanges where trading in a futures contract or option is conducted. The term ring designates the trading area for commodity contract. See Commodities Futures Trading Commission. See Glossary. http://www.cftc.gov/opa/glossary/opaglossary_p.htm

Trading in a pit, ring post, or other similar place provided by an exchange can only be made through floor brokers. They will execute orders on behalf of another person for the purchase or sale of any commodity.

A “Director” designed by the BBP will preside over the pit in order to ensure that operations are made according to laws and market rules. This Director is responsible for the registration of operations, as well as calling the start and end of sessions. In the first phase of implementation of the BBV, the pit will operate in reduced time schedules.

Positions should be presented by the floor brokers specifying the broking agency’s name, operation (purchase or sale), product, quality, quantity, delivery place, packaging, delivery date, payment and price. In the case of financial contracts, trading positions information about the underlying commodity should be presented,¹⁵² as well as the terms of use, the contract, the future and present value of the negotiation and the rate. Once the position is presented, bids can be made and the negotiation will be confirmed at the agreed rate or price.

Cash, Forwards, Futures and Options

In a free market, prices change as a response to changes in the conditions of demand and supply. These fluctuations are signals for investors about the risk of buying or selling a commodity. Except for speculators, investors normally try to manage their investment portfolios in order to minimize risk, even if they have different levels of risk aversion. In order to neutralize the impact of price fluctuations, investors can adopt different strategies, all based on risk management. Indeed, investors can use tools such as forwards, futures or options.

The Bolivian law currently considers that all transactions will be made in cash, but it is also open to the possibility of creating specific regulations for Futures and Options.¹⁵³

¹⁵² The cash commodity underlying a futures contract. Also, the commodity or futures contract on which a commodity option is based, and which must be accepted or delivered if the option is exercised. See Commodities Futures Trading Commission. Glossary. http://www.cftc.gov/opa/glossary/opaglossary_u.htm

¹⁵³ See Supreme Act No 26325 Art. 100.

Spot

Spot means the immediate delivery of and payment for products.¹⁵⁴ This means that spot contracts are a buy–sale transaction which should be payed and delivered on the same day of transaction.

Normally, in international markets, this liquidation can be made within 2 days of the trade. This operation encourages the use of a price-setting system and clear negotiations between sellers and buyers.

Spot operations in Bolivia are those made at t+1. This means that buyers have one day after the operation to pay the agreed amount and sellers have one day in order to deliver the commodity as established in the contract.

Trade operations are rarely made using spot contracts; most of the operations are made using Futures, Options or hybrids (a mix of these two instruments).

Forwards and Futures

Forward contracts are commitments to buy and sell a specific amount of money for a particular good or service at a specified time in the future.

A *Future* is a term used to designate all contracts covering the purchase and sale of financial instruments or physical commodities for future delivery on a commodity futures exchange.¹⁵⁵

A futures contract is a legally binding agreement to buy or sell a commodity at a specified price at a predetermined future time. Each futures contract is standardized and specifies commodity, quality, quantity, delivery date and settlement.

As we can see, the difference between forwards and futures is that futures are made only with financial instruments. The word future as opposed to forward reflects the fact that on this contracts, profits and losses are computed and settled day by day, this is called “marking to

¹⁵⁴ See Commodities Futures Trading Commission. Glossary:

http://www.cftc.gov/opa/glossary/opaglossary_s.htm

¹⁵⁵ See Chicago Mercantile Exchange. Glossary:

<http://www.cme.com/edu/course/resources/glossary.html?letter=F>

the market”¹⁵⁶ and requires that each part deposit some funds in order to guarantee fulfilment of the contract¹⁵⁷. In the case of forwards contracts, gains and losses are settled at the maturity date.

Financial futures usually have standard contracts but the exact terms vary between financial futures, the general term establishes the amount and type of asset to be delivered, the delivery date and the place of delivery.

Bolivian laws allow the exchange to establish certain restrictions on trading in order to ensure an orderly transaction.¹⁵⁸ In this case three aspects can impact the performance of a future contract:

Margin: In order to ensure the fulfilment of the obligation, both parts need to make a guarantee deposit with the broker. With the marking to the market this margin will be adjusted for profits or losses. Every commodities market has an established margin level, if the margin flows under this margin (because of the marking to the market valuation) the investor needs to deposit additional funds to bring it back to the original level.

Limits: Are a contract's maximum price advance or decline from the previous day's settlement price permitted in one trading session, as determined by the exchange.

Delivery: Not all financial futures are settled by delivery of an asset, some are always settled in cash. In this case, the final settlement price of the futures contract is equal to the market price of the underlying assets on the last trading day of the contract.

Normally it is said that forwards and futures are a zero sum game, which means that the profit of a part (buyer or seller) is equal to the loss of the other part.

¹⁵⁶ See Chicago Mercantile Exchange. Glossary:
<http://www.cme.com/edu/course/resources/glossary.html?letter=F>

¹⁵⁷ In marking to the market operations, at the close of each trading day the profit or loss from the price change occurred over that day is immediately credited or debited to the accounts of the sellers or buyers.

¹⁵⁸ See Supreme Act N° 26325.

The uses of financial futures are diverse. In general, markets are liquid and involve low transaction costs and their principal uses are:

- The buying and selling of futures as a risk management tool, called hedging¹⁵⁹.
- Changing the market exposure of a stock portfolio.
- Changing the interest rate exposure on bonds.
- Creating new products.

Options

The market for options is one of the fastest growing markets for financial assets in the United States.¹⁶⁰

Options are assets which give the right, but not the obligation, to sell or buy the underlying (in this case, a futures contract) at a specified price within a specified time.¹⁶¹ There are a large number of types of options contracts, but they all have something in common: the value of the option depends on the value of the underlying security. Options are a claim against the underlying security and thus are called contingent claims contracts.¹⁶²

There are two types of options: Call and Put options.

A *Call option* gives the buyer the right to buy the underlying asset (commodity, security or futures contract) at a fixed price¹⁶³ any time between now and the expiration date of the option contract.

A Call option contract gives the buyer the right, but not the obligation, to buy a specific futures contract at a fixed price (strike price) within a specified period of time as designated by the exchange in its contract specifications. The buyer has the right to buy the commodity

¹⁵⁹ Taking a position in a futures market opposite to a position held in the cash market to minimize the risk of financial loss from an adverse price change; or a purchase or sale of futures as a temporary substitute for a cash transaction that will occur later. One can hedge either a long cash market position (e.g., one owns the cash commodity) or a short cash market position (e.g., one plans on buying the cash commodity in the future). See CFTC Glossary: http://www.cftc.gov/educationcenter/glossary/glossary_h.html

¹⁶⁰ See Elton Edwin J. and Gruber, Martin J. (1991) p.575.

¹⁶¹ See Chicago Mercantile Exchange. Glossary.

¹⁶² See Elton Edwin J. and Gruber, Martin J. (1991) p.575.

¹⁶³ See Damodaran, Aswath (2001) p.135.

(underlying futures contract) or enter a long position. A call writer (seller) has the obligation to sell the commodity (or enter a short position) at a fixed price (strike price) during a certain fixed time when assigned to do so by the clearing house.¹⁶⁴

While buying the right to sell an asset at a fixed price, the expectations are that the price will increase above that fixed price. If it does the operation results in a profit, but if the price of the asset decreases below the exercise price¹⁶⁵ it does not make sense to exercise the right to buy the asset at a higher price, so it results in the loss of what originally was paid for the option. This operation is reflected in Figure 11.

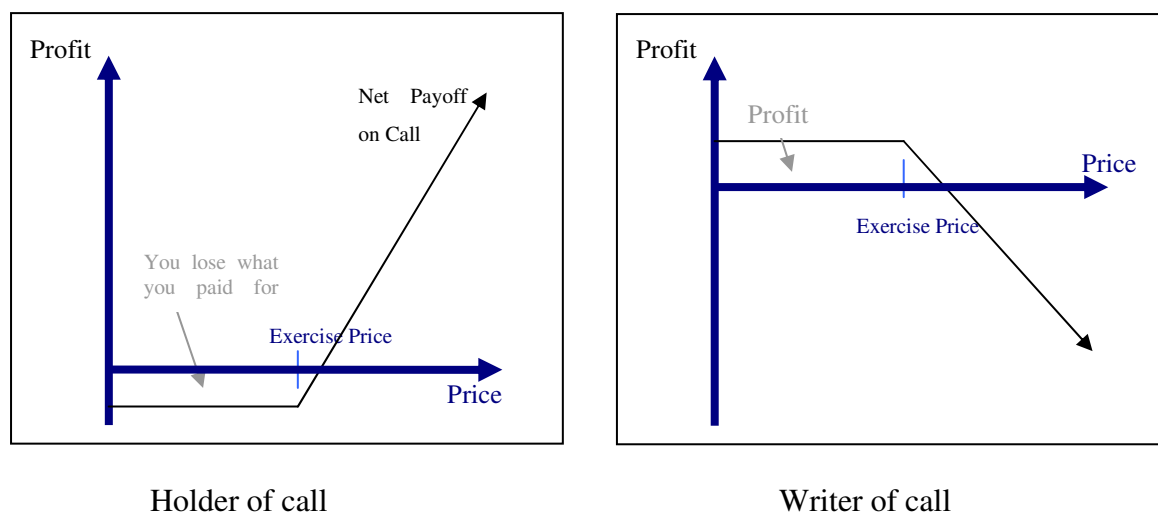


Figure 11: Profit from Call

Source: Elton Edwin J. and Gruber, Martin J. (1991) p.576

A *Put Option* gives the buyer the right (but not the obligation) to sell a futures contract at the stated price prior to the expiration date. In this case the expectation is that the price of the asset will decrease below the exercise price. If it does, buying the asset at the exercise price and selling it at the current price can result in a big profit. If the value of the asset rises above the exercise price, the right to sell at a lower price will not be exercised, resulting in a loss of the price paid for the put option. (Figure 12)

¹⁶⁴ See Chicago Mercantile Exchange. Glossary.

¹⁶⁵ "Exercise Price is the price at which the buyer of a call can purchase the commodity during the life of the option, and the price at which the buyer of a put can sell the commodity during the life of the option". See Chicago Mercantile Exchange. Glossary.

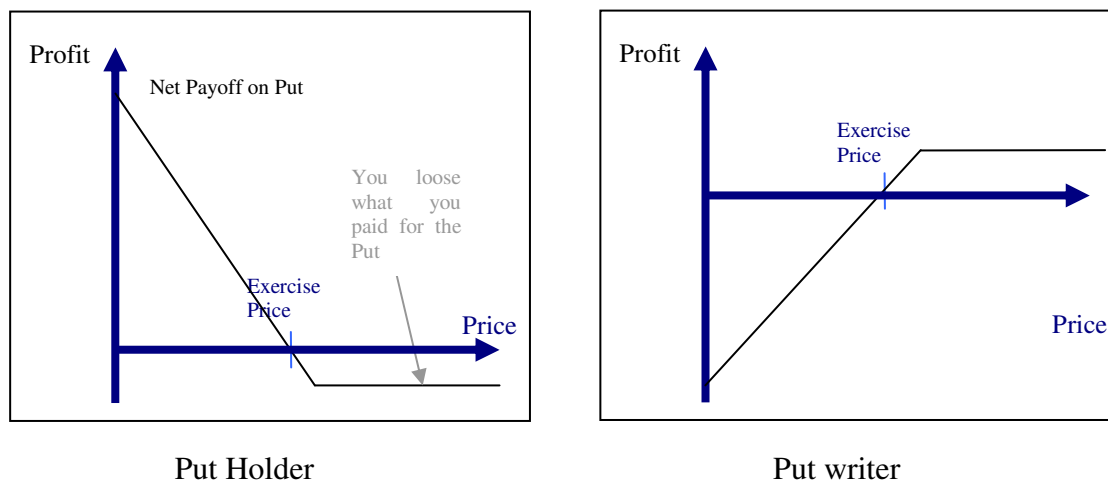


Figure 12: Profit from put

Source: Elton Edwin J. and Gruber, Martin J. (1991) p.578

Other instruments can be created based on options and futures characteristics. For example, a warrant is very similar to a call: it involves the right to buy a stock at an exercise price at or before an expiration date, the only difference is that a warrant is issued by a corporation rather than another investor. A diverse combination of puts and calls can be made. A combination of a put and a call with the same exercise price and expiration date is called a straddle, a combination of two puts and a call is called a strip, and a combination of two calls and one put is a strap.

The way investors can use options can be very different, but the major uses are:

- To decrease the risk of a portfolio.
- To protect their investments from information impact on the underlying asset.
- By combining options a better portfolio can be created with the same risk.
- To create a security.

Repo and Contracts upon Maturity

Repo or repurchasing agreements are transactions in which one party sells a security to another party while agreeing to repurchase it from the counterparty at some date in the future, at an agreed price. Repos allow traders to short-sell securities and allow the owners of securities to earn added income by lending the securities they own. Through this operation the counterparty is effectively a borrower of funds to finance further transactions. The rate of

interest used is known as the repo rate.¹⁶⁶ As repos are usually low-risk investments they have low interest rates.¹⁶⁷ Repos can be made on certificates of deposit of merchandise (CDM) or on Transactions Bills of Exchange (TBE).

This mechanism allows investors (not necessarily involved in agrarian activities) to participate in the market. Producers will obtain working capital at reasonable rates and they can also use repos in order to reduce the uncertainty that they face during the harvest.

Contracts upon Maturity

Contracts upon maturity are legal transactions where an initial selling broker agency repurchases or rescues a product whose sale was made by the initial buying broker agency.

3.4.2.1 *The Pricing Process*

At the present time, Bolivia does not count on information systems of prices and markets, and producers make decisions about what to produce and how much to produce based on information that is neither optimal nor precise. Nevertheless, it is important to remember that all participants will not agree to encourage price transparency because of competition reasons or because they have an oligopoly situation of privilege.¹⁶⁸

Market prices are set by supply and demand. In theory markets can be continuous or auction markets. In a continuous market, the price is determined on the trading day in the mercantile exchange floor. The flow of orders determines the price, if purchasing orders exceed sale orders, the price will rise; but if sale orders exceed the purchase orders, the price will fall. In an auction market, the auctioneer (or market maker) holds an auction at certain times in the trading day and sets a market clearing price, based on orders made at the time.¹⁶⁹

Some markets use both mechanisms, for example the New York Stock Exchange opens

¹⁶⁶ See Commodities Futures Trading Commission. Glossary.
http://www.cftc.gov/opa/glossary/opaglossary_qr.htm

¹⁶⁷ See Mishkin, Frederic; and Eakins, Stanley (2000) Pp.263-264.

¹⁶⁸ See Bolivian Mercantile Exchange Business Plan p.16.

¹⁶⁹ See Damodaran, Aswath (2001) p. 142.

trading with an auction market and then becomes a continuous market for the rest of the day¹⁷⁰. Bolivian law is flexible in that sense, but the procedure needs to be defined in detail in a manual.

Even when the information is open to everyone, it is often used in different ways. Investors base their expectations on the same information but using different models and comparisons and they will value these assets in different ways. Those who think that an asset is worth more will buy it, those who think that the asset is worth less will sell it. The market price is the price at which the market clears, that is when supply equals demand.

3.4.2.2 Market Efficiency

Market efficiency is reflected in three different ways. Investors can track the gap between market price and the true value, and for how long this gap exists. Another possibility is to measure how prices react under specific situations and how the information affects price. An efficient market is reflected in how fast the information is. Market efficiency can also be determined by measuring whether some investors in the market consistently earn higher returns than others who are exposed to the same risk.

The Bolivian Stock Exchange market rarely trades stocks, as was established at the beginning of Part I. The main instruments traded are bonds and bank Negotiable Certificates of Deposits on fix term, so it is complex to determine market efficiency.

3.5 SWOT ANALYSIS

The SWOT Analysis (Strengths, Weaknesses, Opportunities and Threats) is a useful tool to analyze the intangible forces which can affect financial services. With this simple method, organizations can take advantage of the opportunities presented in the market and be alert to the risks, while knowing their own strengths and weaknesses can impact their services.¹⁷¹

¹⁷⁰ See New York Stock Exchange <http://www.nyse.com/>

¹⁷¹ See Bruhn Manfred and Meffert Heribert (2003) Pp.182-183.

While the Opportunities and Threats analysis makes adjustments for the environment the company operates in, the analysis of Strengths and Weaknesses will result in specific activities according to the company's resources.¹⁷²

3.5.1 Strengths

- There are no entry barriers to the market

In order to achieve a competitive market, the capital market in Bolivia do not present barriers for new services or products. One of the main objectives of the commodities market is to provide an egalitarian market for both investors and producers and to provide transparency. Therefore, any natural or juridical person who has an interest in commodities trading and is prepared to follow and respect the conditions of operation is allowed to make the desired transactions.

- Low costs of transactions

The mercantile exchange provides a physical structure for investors and producers that facilitate transactions. Even when transactions are made through a broker and the fees paid are determined as a percentage of the transaction value, the competition between brokers ensures a reasonable and attractive price for the participants in the market.

- The law is specific but flexible

The Bolivian law determines the general structure of the market and aims to obtain a transparent, safe and reliable market. In this sense, it provides to the SPVS with the necessary tools so that, in accordance with the general structure of the market, it can establish the processes, sanctions and required additional norms for the sound operation of the market.

¹⁷² See Kasper, Hans, van Helsdingen, Piet and de Vries jr., Wouter. (1999) p. 309.

- Promotes equality between buyers and sellers, producers and investors

The development of the commodities market requires the participation of investors and suppliers of commodities and encourages an equitable treatment of both parties in order to support the market's operation. According to the existing norm, the conditions for the participants are independent on the company's size and on the amount of each transaction. This ensures that small companies as well as large companies can make transactions at the agreed price according to the market's supply and demand.

- The regulator has experience of developing a market, as this institution has been working on the development of the securities market

The image and experience of the securities market can be a benchmark in order to promote the efficiency of the commodities market. The creation of the securities market has been a long process, as it required external aid at international level to finance activities like the education of the market and project implementation. All the acquired experiences and contacts that allowed the development of the securities market can be used and adapted to the commodities market.

- Provides producers with an alternative source of financing for their operations

The commodities market provides one more alternative to finance the operations of the farming sector, as it provides that segment of farming producers (who at present cannot finance their operations through the traditional financial system since they lack guarantees) with additional sources of finance. This is a tool that will encourage production in the farming sector in Bolivia

- Provides a price settling system according to the market (through demand and supply)

At present, the price of many commodities is determined randomly or according to personal negotiations, where the larger companies establish the conditions. This system of price fixation has led to the stagnation of some productive sectors and the faster development of those companies with access to financing. The establishment of a market that encourages the encounter of suppliers and plaintiffs of commodities without a minimum amount will ensure

that a fair market price will be reached. This in turn will be translated into greater efficiency in the market.

- Provides investors and producers with alternatives for risk optimization through diverse transactions and the use of futures, forwards and options

The possibility of building commodities investment portfolios and the use of different financial tools like futures, forwards and options provide investors and suppliers with opportunities to cover their operating risks and, hence to ensure a minimum profit level.

- Establish quality parameters, so that everybody knows the commodity's specifications

One of the main problems in the industry is that Bolivian producers are not concerned about product quality, as they tend to produce what the earth allows. However in order to make efficient and profitable transactions, they will need to standardize the production process according to the market's requirements. This specification will drive producers to supply better quality products in order to get higher prices.

- Promotes the opportune and clear diffusion of information

Information plays an important role when making investments or speculating in the market. As the information spreads, participants make decisions about purchase or sale of certain commodities. These transactions involve money which is why transparent and opportune information is required.

- The law involves intermediaries and regulators when educating the market and diffusing information

Education and information diffusion is the task of every intermediary in the market. The SPVS, as the regulator, has the task of promoting transparency in the market. The exchange should promote clarity, as brokers require information to advise their customers. Moreover, having educated people in the market will facilitate the implementation and development of a trading system.

- A good relation with international organizations such as the IDB and the Andean Foment Corporation (CAF). These organizations can provide financial help for the development of this market

The good relationship developed by the SPVS with international organizations like the IDB and CAF has led to permanent economic support of these organizations. At present, they support all justifiable qualification and educational projects of SPVS employees. These good relations are important in order to achieve economic support for the development of the commodities market.¹⁷³

3.5.2 Weaknesses

- Producers need to be informed and educated about how to participate in this market, what advantages they will benefit from and what responsibilities they need to assume

Market growth depends, among other factors, on information transparency. This transparency can be obtained if all the market's participants are conscious of the significance of their actions and are prepared to full disclosure of "relevant facts" affecting the transaction conditions (price or rate). Possible conflicts of interests can impede proper information dissemination. Therefore, the role of the SPVS is not only to control the functioning of the market but also to spread information. To achieve a market where participants are aware of the information's importance requires permanent education.

- Producers do not yet see this market as an alternative to finance their operations

The lack of knowledge about the existence of the commodities market, and its operations, is among others, the main reason why producers and investors exclude this alternative as a source of financing or an investment alternative. Ample diffusion about the existence of the market and its importance are required in order to stimulate producers into offering their products and financing their operations through this market.

¹⁷³ Source: Ana Maria Pacheco (Financial Analyst Responsible of the Public Register- SPVS). October, 2004.

- Efficient diffusion of the market's existence is required in order to attract investors

Once producers have found sufficient incentives to offer their products on this market, ample diffusion is required in order to attract investors. Although interest rates may act as the greatest incentives, conditions of security, reliability and information transparency will be necessary in order to generate confidence for the investor.

- Government deficits affect all public institutions, so the SPVS lacks the resources to finance a marketing campaign independently

Resources are limited so other financial sources need to be found.

3.5.3 Opportunities

- Possibility of having greater numbers of domestic institutional investors (insurance companies and pension fund administrators)

The lack of barriers or restrictions of foreign investment in this market can be considered a viable investment opportunity for foreign companies because they can participate in the market under the same conditions as domestic investors. Moreover, tax exceptions are no different for foreigners.

- The law establishes incentives in order to attract investments (tax free operations)

Because of tax free allowances for transactions, the market can operate with lower costs, which encourages both producers and investors.

- Producers cannot access the traditional financial system because they cannot provide credit guarantees

The traditional financial system in Bolivia requires the presentation of guarantees in order to obtain financing, which not only restricts the access to financing but also the credit amount. In the commodities market, the credit amount is limited not by the assets that the producer

currently possesses, but by the assets that will be obtained thanks to this financing. This leads to an important source of financing for new projects, as well as the extension of national productive capacity.

- The intention of the government of promoting this market as a part of the Economic Reactivation Plan

Governmental support for this market can lead to greater ease in emitting laws, norms and regulations that support the market's development within the frameworks of security, confidence and transparency. Moreover, incentives such as tax exceptions could to be maintained and possibly extended.

- Bolivia has large extensions of land, but production is poor because producers do not have the resources to raise productivity levels

At present, most producers lack specialized machinery that allows them to increase the volume of operations. The generation of work resources is quite slow considering that they must first sell what they have produced in order to reinitiate the production cycle. Products are sometimes priced down in order to minimize losses, especially when trade is in perishable goods. A greater volume of production could hence be achieved through the financing of raw materials according to market prices, or through the sale of futures that result in extensions of productive capacity or the acquisition of machinery.

- The intention of intermediaries in establishing the mercantile exchange and the brokerage houses

The operation of this market requires the existence of all intermediaries. The first step is to establish the market by encouraging the interest of independent companies and investments groups. The establishment of brokerage houses are an important step towards the consolidation of this market.

- Confidence in the financial sector

Investors need confidence in order to invest their money. Once the financial market is stable,

the effort required of the participants in the commodities market to attract investors will gradually fall.

- No barriers for international investment

Foreign companies and people can be attracted to the Bolivian commodities market because of its characteristics.

- Currency flexibility

Transactions can be made in US dollars or Bolivianos, the national currency. There are no legal restrictions or limitations to foreign currency transactions. They can be made in any currency, depending on what the market requires.

3.5.4 Threats

- Socio-political instability

The current government of Evo Morales has a leftist tendency and many investors believe that investments are not secure at present. The permanent socio-political problems, exemplified by demonstrations and blockades, not only generate insecurity, but also affect the ability of producers to transport their products to the main sale markets.

- Governmental nationalistic policies which discourage investment

The government of Morales has published billboards and made public the intention of “nationalizing” some sectors. The hydrocarbon nationalizations significantly affected important foreign partnerships, generating large scale economic losses that deeply affected confidence in the market. At present, there exists great uncertainty about possible new laws and government bills caused by the influence of the Cuban and Venezuelan governments on the current President. This has led to intense and often negative market speculation.

- Unfavourable behaviour of prices of agrarian products showed a weakening of international markets
- Possible confrontation with the USA (one of the main financial sources).

The President has made negative public declarations with relation to Bolivia's relationship with the US, which has greatly affected diplomatic and trade relations.

- The economy is dependent on foreign aid from multilateral lenders and foreign governments.
- Low country risk qualification

The current political situation has led to Bolivia receiving a low investment grade. A better grade is required in order to make this market attractive.

To clarify this situation, the SWOT analysis has been summarized in table 10.

Table 10: Commodities Market Strengths, Weaknesses, Opportunities and Threats

Strengths	Weaknesses
<p>No admission barriers.</p> <p>Low cost of transactions.</p> <p>Flexible law.</p> <p>Promotes equality in the market.</p> <p>Provides alternative source of financing.</p> <p>SPVS experience.</p> <p>Prices are set by the market.</p> <p>Possibility of risk management.</p> <p>Quality parameters.</p> <p>Promotes information diffusion.</p> <p>Intermediaries and regulator involved in educating the market.</p> <p>Active participation of international organizations.</p>	<p>Information and education need.</p> <p>Market unknown to participants.</p> <p>SPVS has low financial resources for marketing.</p>
Opportunities	Threats
<p>Greater potential domestic institutional investors.</p> <p>New legal incentives for investment</p> <p>Low access to traditional financial system.</p> <p>Market promotion through the Reactivation law.</p> <p>Physical possibilities of improving production.</p> <p>Private investment for the CM participants</p> <p>Greater confidence in the financial sector</p> <p>No barriers for investment</p> <p>Currency flexibility</p>	<p>Socio-political instability</p> <p>Governmental nationalistic policies discourage investment.</p> <p>Weakening of the international agrarian markets.</p> <p>Economy dependent on foreign aid.</p> <p>Low country investment grade.</p>

3.6 SUMMARY

In spite of conflicting political and social surroundings, the economy shows a positive performance, although it is highly dependant on external conditions. The relatively high growth of GNP (by Bolivian standards) is sustained by high prices of metals and hydrocarbons due to growing international demand. Moreover, this growth has occurred in the context of low inflation and current surplus. The real growth of the economy will lead to three consecutive years of growth. In addition, the financial sector reflects stability in spite of the low investment grade attributed to Bolivia. But because of the nationalistic policies of the government, international investors remain cautious in order to further analyze the President's behavior and policies.

Although the government has dedicated its agenda to containing social and political displeasure, the private sector has been able to develop the creation of the mercantile exchange that, at present, still counts on great support from different institutions: the participation of the Bolivian Stock Exchange S.A. and the Agrarian National Exchange S.A. as shareholders will be an important contribution to this project. The World Bank sponsored the realization of consulting studies in order to promote the organization and qualification of the mercantile exchange. The Mercantile Exchange of Venezuela also donated the operative software. As a result of market studies, the BBP determined to start operations exclusively in the agrarian sector.

The SPVS published specific norms that not only define the obligations and limitations of the participants, but also the operational system, the public auction system (Open Outcry), the tools to be applied in the commodities market (cash, forwards, futures and options, repo and contracts upon maturity) and the pricing process.

In this sense and according to the reviewed theory of financial marketing, this study proposes to work on four aspects considered to be pillars for the development of the market:

- SPVS image and reputation, required in order to promote confidence in the market.
- Education about the commodities market and its implications.
- Information about the market, products, operations and laws.
- Changes in the organizational structure to provide a suitable structure and qualified employees.

4. STRATEGIC PLAN

Once the Bolivian environment was analyzed, it was then possible to define the macro environment, the industry and the competitive environment. It is now important to go into the planning phase of this study because “planning and plans are useful tools to make choices and anticipate future developments.”¹⁷⁴

The strategic plan will help the SPVS to set the business direction and create a structure, so that the market’s services meet the business objectives. Creating and communicating the value of the commodities market requires various marketing activities. Through strategic planning, the SPVS can concentrate its efforts on achieving the market’s introduction, growth and positioning in the Bolivian financial market.

As seen in the previous chapter, three levels of planning will be determined.¹⁷⁵ Strategic planning aims to identify the general level of a plan and determines the general framework; it defines the main path towards growth. At a second level the strategic marketing plan defines the marketing tasks and objectives to be followed. And finally, each activity will be defined and developed in detail, including the resources required in the operative marketing plan.

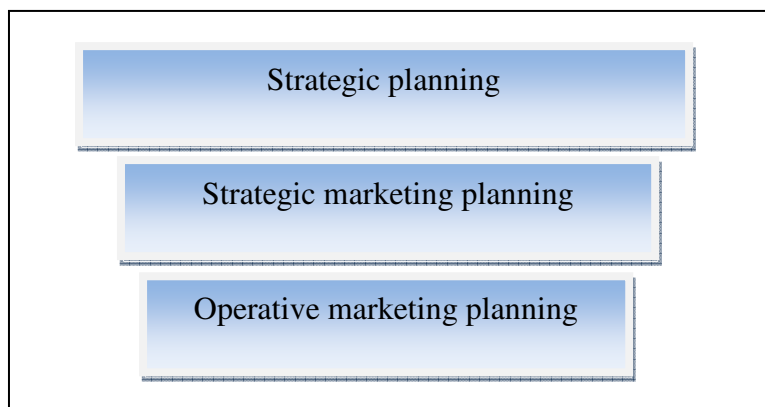


Figure 13: The planning levels

¹⁷⁴ Kasper, Hans, van Helsdingen, Piet and De Vries Jr., Wouter (1999) p. 304.

¹⁷⁵ See Bruhn, Manfred and Meffert, Heribert (2009) Pp. 157-159.

4.1 STRATEGIC PLANNING

Strategic planning is the company's task of selecting the strategy for long run survival and growth, according to its goals, opportunities and capabilities. It involves adapting the firm to take advantage of opportunities in its environment.¹⁷⁶

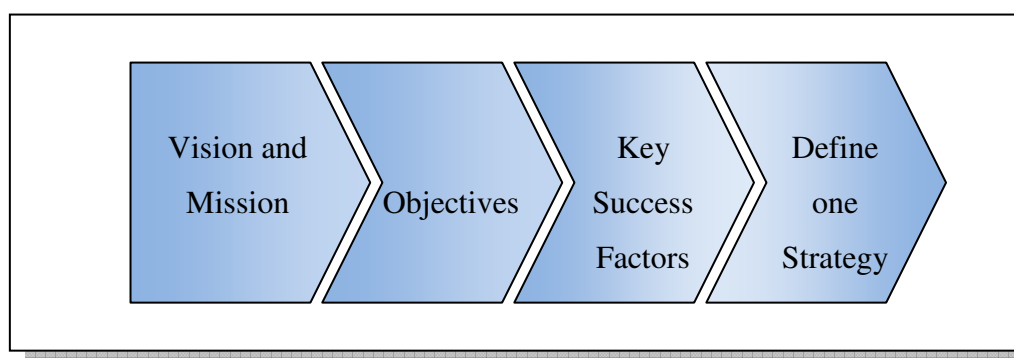


Figure 14: Strategic Planning

According to the hierarchy of the SPVS, the institutional strategic planning includes a general definition which involves the three areas supervised: pension fund administrators, insurance companies and the stock exchange. These strategies were developed in the year 2000, and as they are considered to be “long term strategies”, they have not changed since.

According to the law, the SPVS as a governmental institution needs to develop its OAP (Operative Annual Plan)¹⁷⁷ every year and present it to the Treasury. In order to satisfy this legal requirement, each unit (Department) develops its own purpose and goals for the next business year based on a guide and general objectives determined by the Superintendent, Intendant and Administrative Director. Even when the process was created in order to involve all the employees, only some analysts are in charge of fulfilling this requirement in coordination with the Area Director. Then it is presented to the Intendant who discusses it with the Administrative Department.

As a result of this, not all employees are aware of the contents of the OAP. Therefore,

¹⁷⁶ See Kotler, Philip; and Armstrong Gary: Principles of Marketing (2006) p.37.

¹⁷⁷ See Treasury Department Supreme Resolution No 225557 (2005).

significant teamwork is required and the diffusion of information between analysts is essential. The goals are clearly and logically established, and, although not a legal requirement, they are necessary in order to create greater awareness at all hierarchical levels.

4.1.1 Vision and Mission

The first step in strategic planning is to define the company's *Vision and Mission* statements; the vision will determine the company's direction in the long term.

The SPVS's *vision* aims for "*the three markets (Pensions, Insurance and Stock Exchange) to be totally consolidated with well developed, secure, strong, and trustworthy organizations*"¹⁷⁸ They envision the market's operation to be "*totally transparent and efficient with a growing group of users who have free access to information and knowledge about the stock exchange, pension funds and insurance*".

The vision statement should introduce the commodities market as one of the markets under its regulation. The same characteristics and direction given to the other markets need to be applied to the commodities market, but the declaration of this market should demonstrate that the SPVS is genuinely concerned about its development.

The vision statement also outlines the main activities for the SPVS as the market regulator, in which looking for a "well developed, secure, strong, and trustworthy" market reflects the need for credibility, confidence and equality regarding operations. The transparency concept is related to the SPVS's responsibility of providing information and knowledge about the markets to the users and other interested people.

In the exchange, the aim of "looking for a secure, transparent and efficient market" should be a deeply rooted concept as it is reflected not only in the projects undertaken, but also in most of the norms of the stock exchange and commodities market.

The mission should be established in order to give a purpose, a direction; it should explain the

¹⁷⁸ See SPVS Annual Report 2004 p.2.

future business activities of the organization and its relationship with society.

“The description of the mission should make the service visible and should motivate the people working in the organization”¹⁷⁹. This statement shows the company’s concern for its economic objectives, human resources activities and interactions with society.

The current *mission* of the SPVS is to “*promote the controlled development of the markets under its regulation (pension fund administrators, insurance companies, and stock exchange) with transparency, organization, and prudence, avoiding unnecessary risks to the markets.*”¹⁸⁰

According to the above definition, the mission statement outlines the main requirements needed to provide a general direction to the SPVS, but again the commodities market is not included. Because of the characteristics of the commodities market and the role of the SPVS, it can be considered as one of the markets under its regulation.

The mission statement was proposed in 2000, but since then it has lost the importance and credibility it used to have, mainly because of the continuous changes in the SPVS’s direction (five superintendents have assumed the direction of the SPVS in the last 5 years¹⁸¹). Most new employees are not aware of the mission statement even when it appears in the web site.

The mission statement should be shared with employees and customers in order to provide a sense of direction. Moreover the communication process should be continuous, so that the statement does not lose its significance.

4.1.2 Objectives

The formulation of the objectives should be measurable, reasonable, for a determined period of time and based on a consensus. Once the organization has established its goals, the various units or departments can define their goals too. Of course these unit objectives need to follow

¹⁷⁹ See Kasper, Hans, van Helsdingen, Piet and de Vries jr., Wouter (1999) p. 309.

¹⁸⁰ See SPVS Annual Report 2004 p. 4.

¹⁸¹ See SPVS Annual reports 2000, 2001, 2002, 2003, and 2004.

the organization's objectives.¹⁸²

Objectives for services companies can be classified into two different basic categories¹⁸³:

- Organizations oriented to profit: these companies usually have an economic goal, they look for a profit ratio or a market participation ratio, and they also have financial objectives.
- Non Profit organizations: these companies can have different goals such as image goals or psychology-related goals. They can have social goals (related to people or target groups), and they can also have ecological goals.

As a governmental institution, the SPVS is a non profit organization. Its *goals* defined on the OAP¹⁸⁴ for the stock exchange division are:

- To regulate, control and supervise the stock exchange market.
- To design and implement communication and education campaigns.
- To design and develop function and process manuals in order to generate statistical information.
- To provide its employees with qualifications

At a second level the objectives are more specific. From the first goal, nine secondary targets are derived:

- To elaborate regulation projects, manuals, letters and others, as well as modifications to the present norm, related to the intermediaries of the stock market.
- To carry out specialized and programmed inspections of the intermediaries of the stock market.
- To supervise and monitor the operations made by the intermediaries of the stock market.
- To attend to requests of information, consultations, denunciations, urgent market situations, development projects, as well as proceedings required by the

¹⁸² See Kasper, Hans, van Helsdingen, Piet and de Vries jr., Wouter (1999) p 309.

¹⁸³ See Bruhn Manfred and Meffert Heribert (2009) Pp. 186.

¹⁸⁴See SPVS (2007): POA 2007

intermediaries, participants in the stock market and the public in general.

- To analyze the documentation presented/displayed by the intermediaries for authorization and inscription in the RMV, as well as authorization or modification of internal norms.
- To evaluate the achievement of the IOSCO principles related to the intermediaries.
- To update and improve the mechanisms, procedures and systems of supervision of the intermediaries
- To participate in projects which promote the commodities market
- To elaborate statistical, operative and financial information related to the intermediaries

Some questions arise from the analysis of the primary goals:

- Is the design and implementation of educational campaigns a primary target or rather a tool to spread or introduce the market and its characteristics?
- Is the development of information a primary target or is it a tool that will allow the SPVS to achieve a safe and transparent market environment as affirmed by their mission statement?
- Is the employees' qualification a main goal or is it a requirement in order to supervise the market?
- Is the development of the commodities market a secondary goal or is it a primary goal as defined by the law?
- How can the participation in projects which promote the commodities market contribute towards regulating, controlling and supervising the stock exchange?

This list of questions could be longer, but the scope of this study is not to define the strategies for the SPVS in all its areas. This study is focused on the development of the commodities market. Modifying the objectives established in the POA related to the commodities market is suggested.

As defined by Bolivian law, the development of the commodities market has a primary significance for the financial market and is an important tool to channel investment in productive resources. As such, it should be considered as a main objective. Marketing activities such as communication and educational campaigns are tools that will be developed further in order to achieve this goal.

Main Goal Proposal:

- *To create the commodities market in Bolivia before the end of 2010.*

Secondary goals Proposal:

- *To register at least one mercantile exchange, one clearing house, two brokerage houses (intermediaries of the commodities market) by the end of June 2009 in order to start operations in the market.*

With this basic structure, the market can start operations. As described in section 3.3 (Market Analysis: The commodities market environment, institutions and hierarchy), if one of these institutions is missing the process cannot be concluded and the market cannot operate in a transparent and efficient way. Therefore, the first step is to support the creation of the intermediaries and to organize the market.

If the structure is created, the start of operations will take place automatically because the intermediaries of the market will be willing and eager to make their business and investments profitable. A second objective can reflect this need:

- *To start operations in the mercantile exchange before the end of 2010.*

This will be the result of the entire educational and marketing plan, and with to these results, the marketing activities will be measured.

4.1.3 Key success factors

Key success factors are factors that need to be determined in order to evaluate performance. These factors give the customer an indication of company value and orientation. They can be used not only to evaluate performance but also to compare an organization with its competitors.¹⁸⁵

¹⁸⁵ See Kasper, Hans, van Helsdingen, Piet and de Vries jr., Wouter (1999) Pp. 27-28.

In order to measure performance results in relation to proposed objectives, the following indicators should be considered:

- Number of *companies registered* in the commodities market register (RMP)

The number of companies registered is important to achieve market transparency. Competition between intermediaries will drive the market to search for more users, undertake more transactions and achieve a better price setting mechanism (competitive price).

- Number of *applications* to the RMP by type of company

The application numbers show the interest of participants in the market. These companies will be introducing themselves in a new market and may need special technical support in order to achieve the requirements to operate in the market. The SPVS should be prepared to assist these companies with the knowledge required to fulfil their obligations within the market.

- Number of *transactions* made in the market

The number of transactions reflects not only market growth, but also the dynamism and liquidity in the market. It is important to note that a greater amount of transactions will generate greater market liquidity and greater investor interest in participating in it.

- Volume of Transactions made in the market

The transactions volume is an indicator of how many operations are financed through this market. It can be a good pointer of producers' response.

- Investors in the market by type of company

In Bolivia, as defined by law, the pensions Fund administrators (AFP's) have some investment restrictions. Because of these restrictions they are the main institutional investors in the stock exchange, so it is expected that they will also be an important investor in the commodities market. Differentiating investments by type of investor will help to get a clear

idea of the results achieved in the market without the effect of the AFP's operations.

4.1.4 Defining a strategy

Every company must design its own strategy. In theory, a few basic strategies have been outlined, but a mix of them needs to be established in order to achieve the organizational objectives. Each strategy has its advantages and disadvantages, but the decision should be made based in the mission, goals, objectives and key factors defined by the organization.¹⁸⁶

The most common tool used in order to define the strategy the firm will follow is the product/market expansion grid.¹⁸⁷ (Figure 15) Four main strategies are proposed:

- Market penetration is related to achieving more sales to current customers in the same market.
- Market development entails identifying and developing new markets for the current products.
- Product development is to offer new products in the current market.
- Diversification strategy introduces new products into new markets

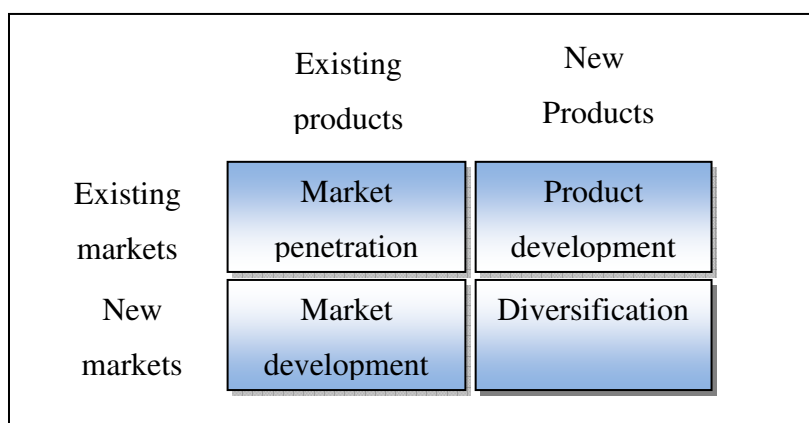


Figure 15: The Product/market expansion Grid

Source: Loudon (2005)

¹⁸⁶ See Kotler, Philip; and Armstrong Gary (2006) p. 41.

¹⁸⁷ See Kotler, Philip; and Armstrong Gary (2006) p 41; and Loudon, David; Stevens, Robert; and Wrenn Bruce (2005) Pp. 132-137.

The Economic Reactivation Law issued on 3rd April 2000 defines *the country's main strategy* as “*to mobilize the productive sector of the country, achieving its reactivation in order to increase national savings, ensure sources of jobs, increase production in all sectors, look for higher levels of social and economic development and deal with external factors such as the global economic crisis and adverse natural phenomena by seeking the best possible conditions. .*”¹⁸⁸ In this program, the development of the commodities market is defined as strategic for the financial sector and for the productive sector.¹⁸⁹

The commodities market is included within the strategic tools for the development of the national financial sector. To achieve this, the government should generate incentives for the market participants and provide financial support for the development of this market.

The strategy proposed for the SPVS includes the development of the commodities market as an important tool of the development of the Intendancy of Exchange. We can define the strategy as a “Product or Service Development Strategy”, since market growth and the introduction of a new service are the main strategic objectives.¹⁹⁰ This diversification strategy includes offering different services and investment alternatives in the commodities market. Through this strategy the SPVS will be able to use market knowledge, relationships and experience in order to develop the commodities market. As a result of the previous analysis, the strategy will be based on four main points:

- SPVS image and reputation
- Education
- Information
- Suitable organizational structure and qualified employees

4.2 STRATEGIC MARKETING PLANNING

The strategic plan discussed in the preceding section will be the framework for the strategic marketing plan. A marketing plan should be designed in order to establish a more concrete marketing perspective.

¹⁸⁸ See Bolivian Law No 2064: The Economic Reactivation Law, Article 1.

¹⁸⁹ See Bolivian Law No 2064: The Economic Reactivation Law, Article 29.

¹⁹⁰ See Loudon, David; Stevens, Robert; and Wrenn Bruce (2005) Pp. 132-137.

The strategic marketing plan lays out the target markets and the value proposition that will be offered, based on an analysis of the best market opportunities.¹⁹¹ Since the marketing process is based on the company strategic plan, it is very important for it to be consistent with the other departments. The marketing strategy includes not only external marketing (related to users) but also internal marketing (related to employees involved in the whole process). The planning process used for the SPVS in relation to the Bolivian commodities market is shown in Figure 16.

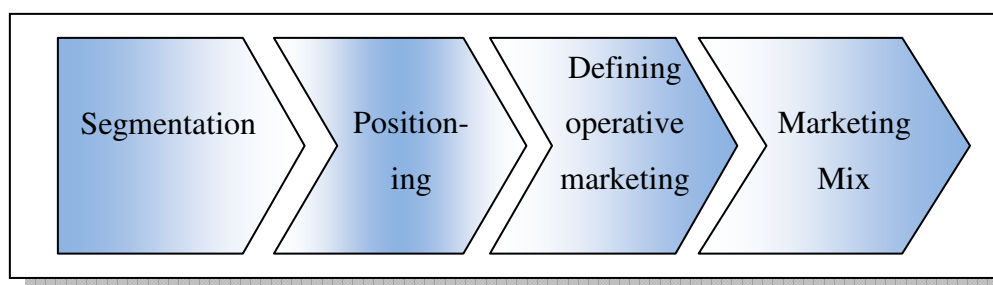


Figure 16: Strategic Marketing Planning

Source: Kotler, Phillip, and Keller, Kevin Lane Pp.100-101 (own elaboration)

The strategic marketing plan will be developed based on the premise of achieving an “organized development” of the commodities market; the purpose of this study is to find out the best way to achieve this goal. The commodities market structure is complex and requires the organization of many intermediaries in order to provide a service to both borrowers and lenders. This emphasizes the particular importance of market segmentation.

4.2.1 Market Segmentation

“Market segmentation is the process of splitting customers, or potential customers, in a market into different groups or segments.”¹⁹² Each group or segment has different needs, characteristics or behaviour and might require different marketing activities.¹⁹³

Customers of services can differ from each other in many ways and, at specific moments, customers can have different perceptions, attitudes or expectations, in the different stages of

¹⁹¹ See Kotler, Phillip, and Keller, Kevin Lane (2006) p.43.

¹⁹² See McDonald, Malcom and Dunbar, Ian (2004) p. 34.

¹⁹³ See Kotler, Philip; and Armstrong Gary (2006) p.47.

the buying process. Therefore, many different market segments can be found.¹⁹⁴ Because the segmentation is a strategic decision, it should consider the way the service is provided and the company's expectations.

Many variables need to be considered when segmenting a market. Customers can be classified by geographic, demographic, psychographic, behavioural characteristics or a mix of them.¹⁹⁵ In financial services they can also be classified by risk perception, investment customers (institutional or personal), services required or any variable related with a specific behaviour.

According to the market, and as seen in section 3.3.3 the commodities market essentially has two kinds of customers: *Borrowers and lenders (Investors and Producers)*. This will be our first consideration in order to define our market segmentation because the service, expectations, and reaction of these two groups are different.

Although many of the money *lenders* can be speculators, the majority are *producers*. Therefore, they can be defined as all the natural or legal people who, through brokers, will supply one or more commodities in the market. Then, on a second level of segmentation, market lenders can also be divided according to product: i) Agrarian: sunflower, soya, sugar cane, sorghum, rice, cotton, corn, wheat, sesame and quinoa; ii) Livestock products: bovine, pig, and poultry. This market segmentation can be useful for the future, but for the introduction of the commodities market, general knowledge and information should be transmitted to producers without differentiating between them through the commodities they offer. Market operations, price mechanisms, participants' obligations, risks and advantages involved in the commodities market do not depend on the commodity they will trade and should be known by all participants and intermediaries. Therefore lenders will be considered as the first segment.

Speculation can also be made by *borrowers*, but in general they are *investors* and can be defined as any person or organization interested in buying a commodity. The various natures of their business drive borrowers to different interests in the market. Even when education and knowledge are also required, the expectations about market operations are different and their decision-making process will be defined by different variables. As such, borrowers will be the

¹⁹⁴ See Kasper, Hans, van Helsdingen, Piet and de Vries jr., Wouter (1999) Pp.160-163.

¹⁹⁵ See Kotler, Philip; and Armstrong Gary: Principles of Marketing (2006) Pp.194-205.

second segment under consideration.

Intermediaries should be seen as partners in this process. Even when a special qualification is required, this should be the responsibility of the company who is willing to participate in the commodities market. Although intermediaries can be invited to participate in the training programs offered to lenders and borrowers, before being admitted in the commodities market they will have to demonstrate to the RMP that they have the knowledge required in order to operate and advise clients. So a deep level of technical knowledge is required by the intermediaries in order to ensure transparency in the market for all participants.

Additional activities supported by the mercantile exchange or the brokerage houses will complement the education, qualification and market introduction process. Nevertheless as the SPVS has no authority or control over these marketing activities, it is recommendable that the SPVS develops its own marketing program.

4.2.1.1 Borrowers

A distinction between borrowers according to *geographic* criteria can help to divide them in *domestic investors* and *international investors*. Domestic investors will be defined as all those investors who are established as natural or juridical persons in Bolivia; otherwise, they will be considered as international investors. This segmentation is required mainly because the communication channels should be different and because the education level and knowledge about the commodities market could also be different. Most of the domestic investors have no experience of trading on a commodities market, while most international investors do. Even when market knowledge is the same; international investors are more aware of the various financial tools that can be used in the market.

Following the pattern of demographic segmentation (industry, company size, etc.) the criteria of *type of business* classifies borrowers into three categories:

- *Institutional investors* are all the companies which make business investments because of their line of activity: primarily, pension fund administrators.
- *Corporate investors* are companies which invest their capital in order to maximize their returns on investment (ROI).
- *Personal investors* are all those individuals who invest their savings in the

commodities market transactions.

This segmentation is required in order to differentiate between the expectations about the market. Institutional investors, mainly pension fund administrators, have many investment restrictions imposed on them by law. This leads to different investment requirements, so institutional investors tend to invest in long term, low risk transactions. Corporate investors, primary insurance companies, are mainly interested in higher returns but they also need to have liquidity in order to continue their business operations. Finally, personal investors differ from the others because they have smaller investment volumes, lower operations frequency and different needs.

The experience in the stock exchange market reveals that the main investment volume is generated by institutional and corporate investors. Even if there is little or no formal statistical information about this, the investors in Initial Public Offerings (IPO) consist of a majority of institutional and corporate investors. Due to the volume of operations needed to achieve a viable commodities market, the first stage – i.e. the market introduction – should be focused on both institutional and corporate segments. Only then will the operations volume be able to reach the efficiency and liquidity needed to attract new investors.

The market grid for investors is shown in Table 11.

Table 11: Market Grid for borrowers

	Institutional	Corporate	Personal
Domestic			
International			

4.2.1.2 Lenders

As any agrarian product can participate in the market, it is important to initially consider the *size of the company* based on income tax in order to segment the lenders' market,¹⁹⁶ i.e. *large taxpayers* and *small taxpayers*. Even though the tax system in Bolivia is not free of corruption and knowing that most companies tend to manipulate their financial statements and accounts

¹⁹⁶ This classification is made by the national department of tax payment (Servicio de Impuestos Nacionales). See <http://www.impuestos.gov.bo/base>

in order to pay fewer taxes, income tax can be a point of reference of the size of the company. Companies wishing to negotiate their products on the commodities market will have to present - to the SPVS and (through the RMP) to the market participants - audited financial information on the state of their business.

This differentiation is required because of the volumes of operation in question. Indeed, large taxpayers run large scale operations and tend to have better organizational structures in place, as well as higher employee education levels. This facilitates the understanding of the market.

For smaller taxpayers, it is important to consider the education level. Indeed, a proportion of farmers may not be able to read or write. Moreover, it is likely that farmers take part in collective or productive associations in their region, as occurs in the eastern province of Santa Cruz in particular. In this instance, it is crucial to establish a second segmentation criterion and differentiate between organized and non-organized small taxpayers.

Poor education levels can present difficulties when elaborating a marketing strategy, due to the difficulty that educating illiterate people in financial subjects represents. The current government has started an education program, which aims to achieve 100% literacy rates within the next 30 months.¹⁹⁷

Therefore, the marketing strategy will focus initially on the first group of larger taxpayers and small organized taxpayers. It will then be expanded to include smaller non-organized taxpayers once the results of the government's education plan have been analyzed.

As a result, the market grid¹⁹⁸ for lenders is shown in Table 12.

Table 12: Market Grid for lenders

	Agrarian	Livestock
<i>Larger taxpayers</i>		
<i>Small organized taxpayers</i>		
<i>Small non-organized taxpayers</i>		

¹⁹⁷ See Evo Morales speech on January 22nd, 2006.

¹⁹⁸ See Loudon, David; Stevens, Robert; and Wrenn, Bruce (2005) Pp 29-54.

Focusing on these groups for the first stage of the commodities market's implementation will not only facilitate the execution of educational programs, but will also concentrate activities on the more profitable sectors of the agrarian industry. Now that both groups, borrowers and lenders, have been identified, a marketing strategy can be designed involving these target groups.

4.2.2 Positioning Analysis

“All marketing strategy is built on STP - Segmentation, Targeting and Positioning.”¹⁹⁹ Positioning is defined as the act of designing the offering and image in order to occupy a distinctive place in the mind of the customers.²⁰⁰ The Positioning Analysis is also a very helpful method used to define the company services situation. The main goal of this analysis is to determine the real service, and the ideal service, in order to find the gap and reduce it.

With this analysis the link between market analysis and competitive analysis to internal corporate analysis will be achieved²⁰¹. First, the consumers' buying criteria should be defined, in order to then collect information about the company's position and the position of the main competitors. This will be the *real* positioning. Then clients can be interrogated to determine the *ideal* positioning. The comparison will lead to a greater understanding of the gap that needs to be closed.

The concept of positioning involves establishing a distinctive place in the minds of customers relative to competing products or services.²⁰² *Perceptual Maps* or *Positioning Maps*²⁰³ can also be used in order to identify the most critical attributes of competing services from the customer's perspective.

In order to define the gap existing between the future users of the commodities market in Bolivia and the SPVS strategy, in December 2005 and January 2006, 16 surveys and interviews (Appendix 3: Survey Results) were conducted. The results show that 75% of the

¹⁹⁹ Kotler, Phillip, and Keller, Kevin Lane (2006) p.310.

²⁰⁰ See Kotler, Phillip, and Keller, Kevin Lane (2006) Pp.310-315.

²⁰¹ See Lovelock, Christopher (2004) p. 202.

²⁰² See Lovelock, Christopher and Wright, Lauren (2002) Pp. 158-159.

²⁰³ See Lovelock, Christopher (2004) Pp. 206-211.

people who participated in the survey understand the role of the SPVS in the financial market; all of them (100%) think that the presence of the SPVS encourages equality in the market. This reveals that the SPVS’s regulatory and control activities are applied to all participants, which in turns helps to promote reliable market conditions.

On a scale of 1 to 7, where 1 is the worst situation and 7 the best, the survey participants declared that the SPVS is a well-known organization, trustworthy and competent enough to participate in the market (Figure 17). The results reveal that the SPVS has a good reputation in the financial market, characterized by the qualification of their employees and a professional behaviour, which led to good organization and fairness in the market.

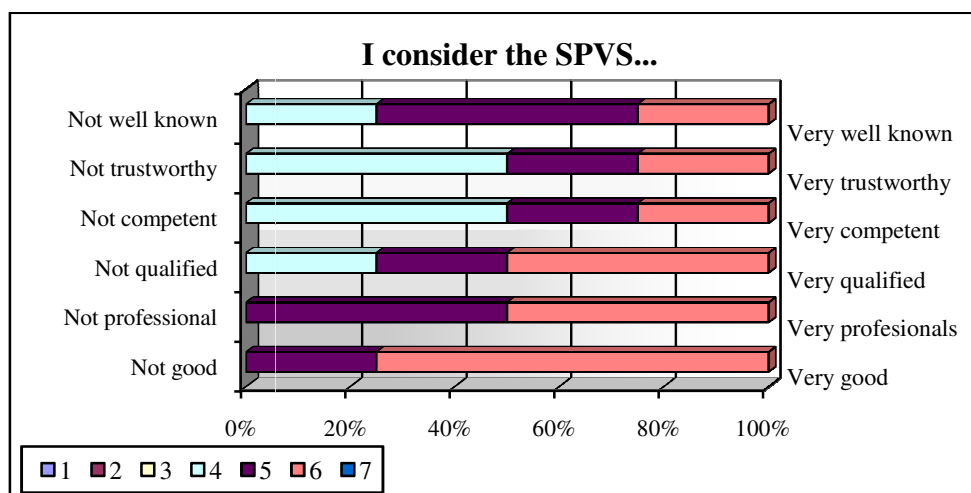


Figure 17: Survey results about the SPVS image

In order to conduct a detailed analysis of the results, the surveys were targeted at both groups: borrowers and lenders. The results show different positions, expectations and consumer desirability towards the commodities market. In order to present these results in a compressed way, the positioning maps were divided into two groups: again, borrowers and lenders. Finally, a comparison is presented between the survey’s results on the one hand and the group of positioning maps developed through the interviews of SPVS executives.

4.2.2.1 Lenders' Positioning Maps

The alternative *investments possibilities* were considered as competitors in the mapping process. In the Lenders group, Figure 18 supports the financial idea that investors with greater income demonstrate a greater predisposition towards taking financial risks. The graph also shows that institutional investors invest in traditional banking, but with a preference for capital markets, especially the stock exchange and commodities markets (pension fund administrators face some legal restrictions on their investments and tend to invest in Treasury Bonds; historically they are the main investors in the stock exchange especially for bonds). These investors believe banking is more secure but less profitable. Meanwhile, the stock exchange is perceived to be less risky and highly profitable. This occurs because every investor manages his or her investment portfolios in order to reduce risk and/or increase profitability. Even though the commodities market is not operating yet, the risk perception is higher than for the stock exchange and banking, but lower than for loan and savings cooperatives. Therefore profitability is expected to be high for the commodities market.

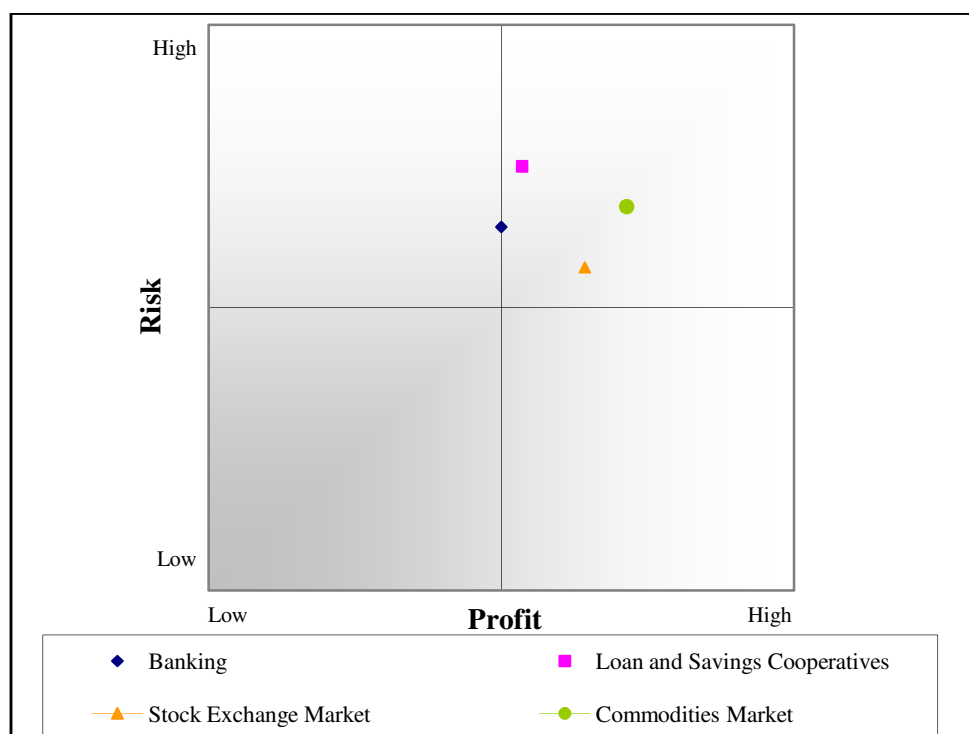


Figure 18: Positioning Map: Lenders risk-profitability perception

Source: Survey Results (own elaboration)

Figure 19 shows lenders' perception towards the liquidity of investments and the return they may get. Banking investments are considered to offer reasonable return rates and high

liquidity in the short term. This opinion demonstrates that banking in Bolivia is closely linked to savings accounts and not to other instruments such as negotiable certificates of fixed-term deposits. The stock exchange seems to be the best investment alternative with a higher rate of return and the same liquidity as banking, but this is not reflected in the sector's capture rate²⁰⁴. The expectation of the commodities market shows a higher rate of return but lower liquidity. This can be explained through the lack of knowledge among the investing public about the operative mechanism of the commodities Market and the price system. Lenders expect to get high return rates and do not have high liquidity expectations because many of them are interested in long term investments.

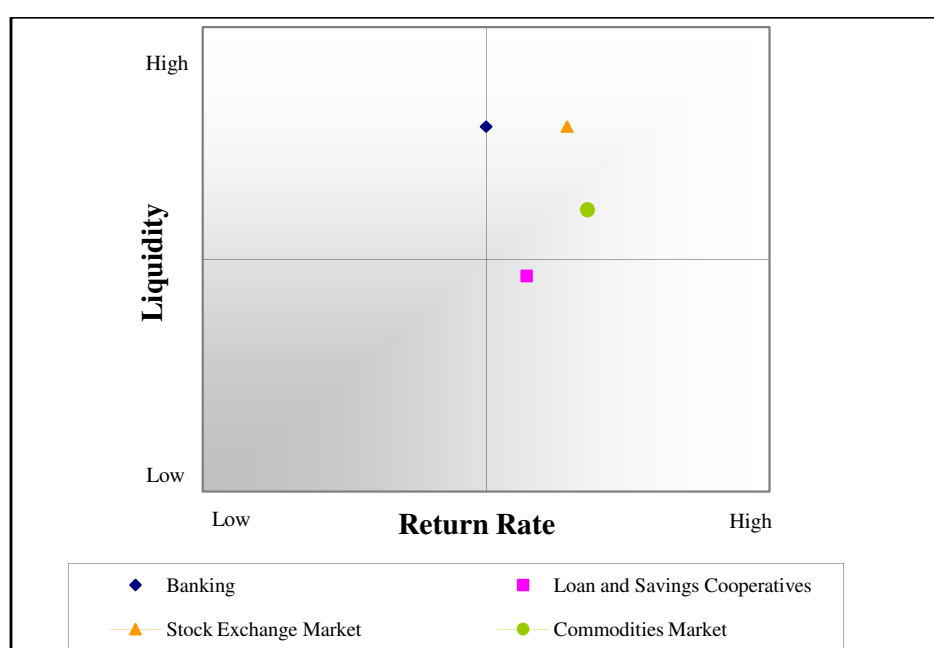


Figure 19: Positioning Map: Lenders Liquidity-Return rate perception

Source: Survey Results (own elaboration)

The *facilities* characteristics (Figure 20) are related not only to the investment requirements but also to the operation mechanisms. The banking sector enjoys the highest prestige in the capital market in Bolivia with relatively high ease to invest because lenders just need to have money in order to open a savings account. Cooperatives on the other hand have less prestige and as such less investment facilities. On the stock exchange, investments are perceived to be less complicated. Indeed the need for a broker, the minimum amount of investment required and the limited supply of commodities and stocks or bonds seem to be counterbalanced by the

²⁰⁴ See Bolivian Central Bank. <https://www.bcb.gov.bo/pdf/files/Diciembre2005/BolEst/monetario.pdf> und SPBS Bulletin <http://www.spvs.gov.bo/Estadisticas+y+Publicaciones/Estadisticas/Valores/>

role of brokers as client advisers and operations facilitators. As such, the expectation of the commodities market is positive, as it seems to enjoy a relatively good reputation with high investment facility.

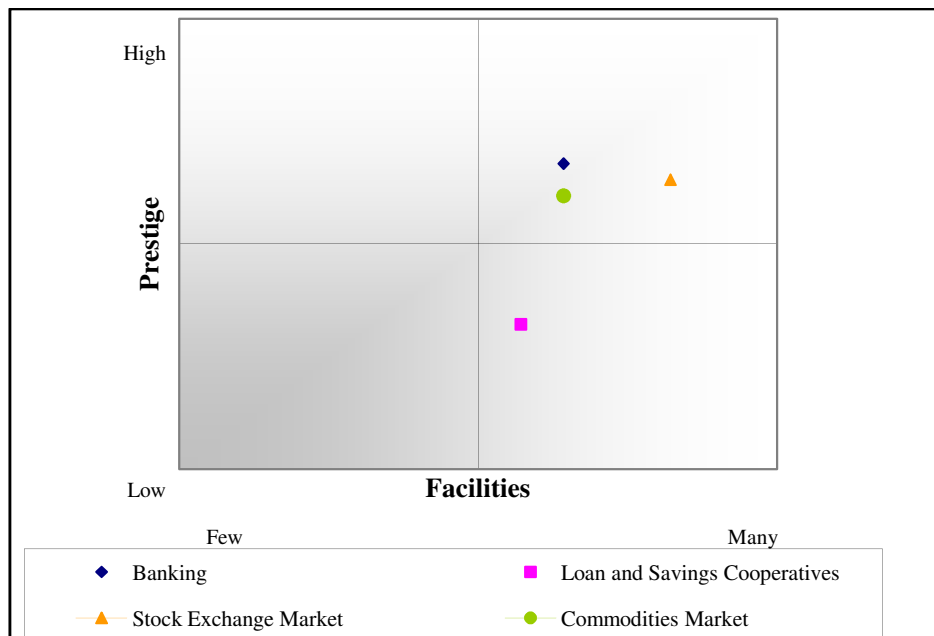


Figure 20: Positioning Map: Lenders Facilities-Prestige perception

Source: Survey Results (own elaboration)

Lenders’ expectations show a great demand for information, which is financially supported by the need to evaluate their portfolios and their buying or selling positions. Investors consider themselves to have a poor level of financial education; moreover none of them has ever operated in a commodities market. As a result, the education level shows the theoretical knowledge they may have. This theoretical knowledge must be improved in order to stimulate their participation in the commodities market. (Figure 21)

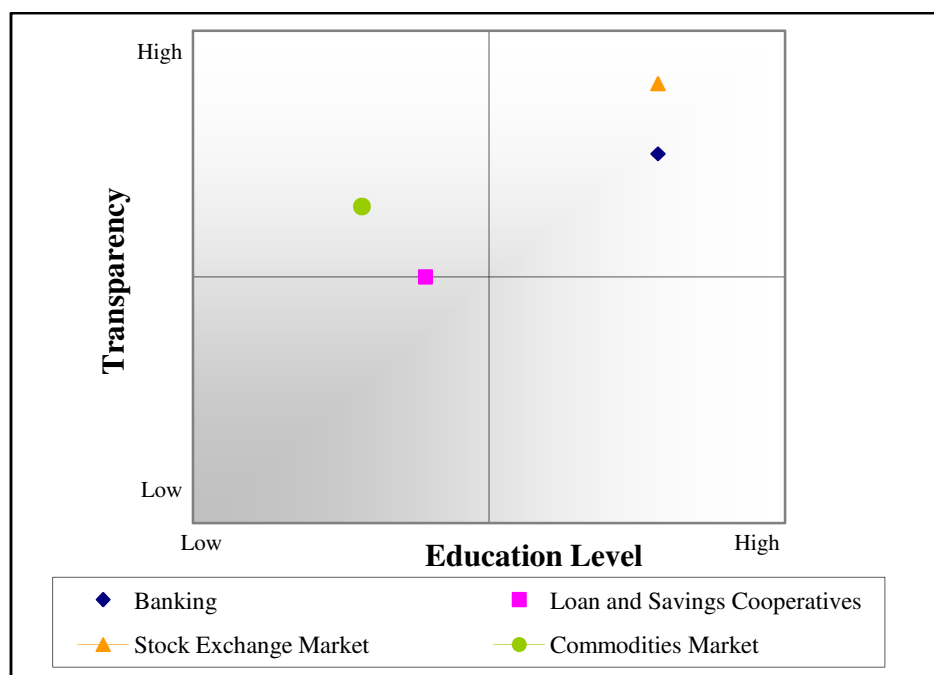


Figure 21: Positioning Map: Lenders Information Transparency-Education Level perception

Source: Survey Results (own elaboration)

The stock exchange investment costs are considered to be lower than the average for the other investment alternatives. This perception is based on the historically lower cost of investments in bonds and the high return rates received for them. Moreover, investments are easily accessible, which once again highlights the important role played by brokerage houses as facilitators in the investment process. The investment cost of the banking system is linked to administrative costs, especially of those carried with the investment on DPF's (Negotiable certificates of fixed term deposit) which have a defined rate and a determined expiration date. The expectations for the commodities market show that lenders are willing to incur higher monetary cost as banking. Nevertheless, it is important to bear in mind that access to this market could be considered more difficult since the mechanism is not in operation yet. (Figure 22)

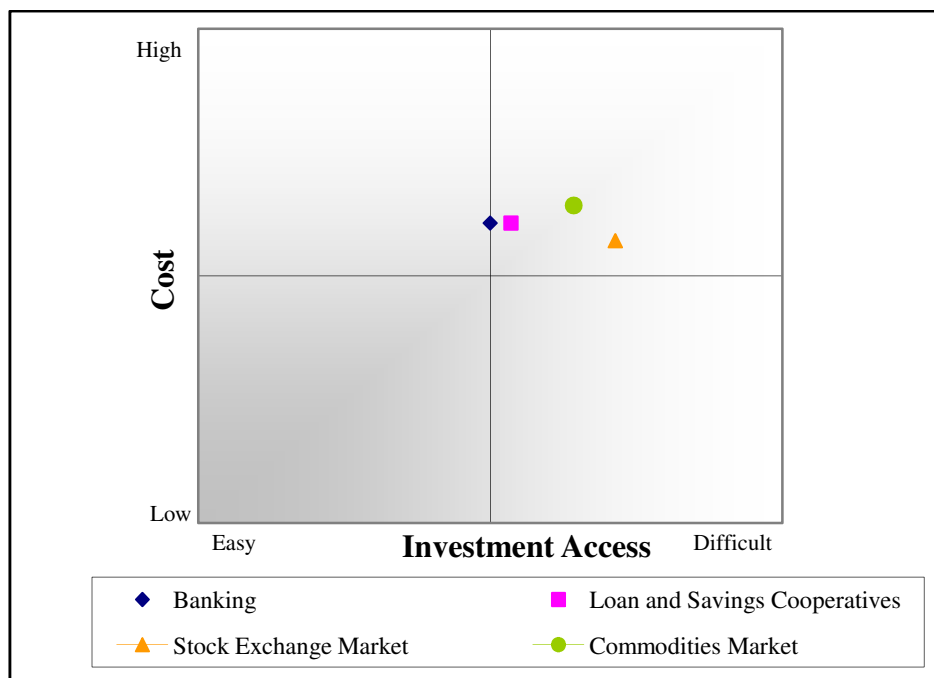


Figure 22: Positioning Map: Lenders Investment Access-Cost perception

Source: Survey Results (own elaboration)

Because of the daily information provided by the Bolivian stock exchange to the press and the market participants, it is considered to be the clearest and the most trustworthy investment alternative, even though some of the lenders do not fully understand the financial reports. The banking system is also considered to be clear and trustworthy, mainly because of the financial stability achieved by this sector in the last years. The loan and savings cooperatives seem to suffer from a negative image of few transparency and unreliability; their operations seem to be more risky, maybe as a result of past experiences. The results for the commodities market show that lenders theoretically understand the need for a clear and trustworthy market, but they have their doubts that it will indeed be so. (Figure 23)

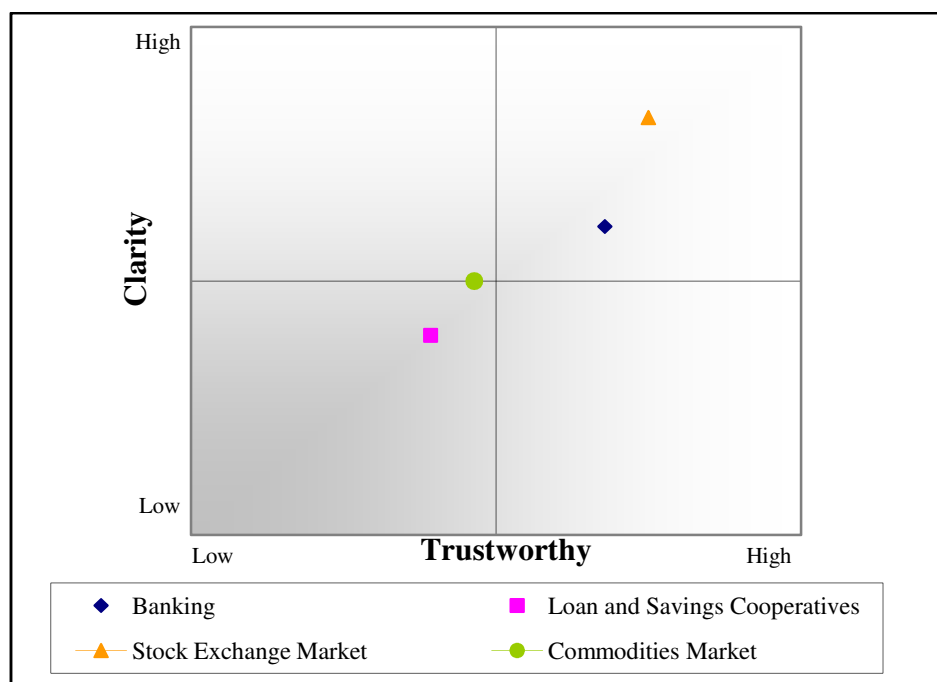


Figure 23: Positioning Map: Lenders Market Clarity-Market Trustworthy perception

Source: Survey Results (own elaboration)

4.2.2.2 Borrowers' Positioning Maps

For *borrowers* the criteria relevance is different. Producers are expecting to have easy access to credit with low rates. As shown in Figure 24, the lack of *knowledge* about the commodities market means that borrowers consider it to be difficult to access and expensive. The criteria analyzed here include the requirements to access credit and the *cost* of it. Even though the banking sector demands many guarantees, it is so far the most accessible alternative in Bolivia. The stock exchange has lower costs but is puzzlingly difficult to access for those with little financial knowledge. Indeed successful participants need technical knowledge to understand what investments in securities, stocks or bonds entail. Moreover, the commodities market appears to be difficult to access because the requirements established by the law are not yet of public knowledge. This perception could be changed by providing borrowers with more information and qualifying them with basic knowledge about the market.

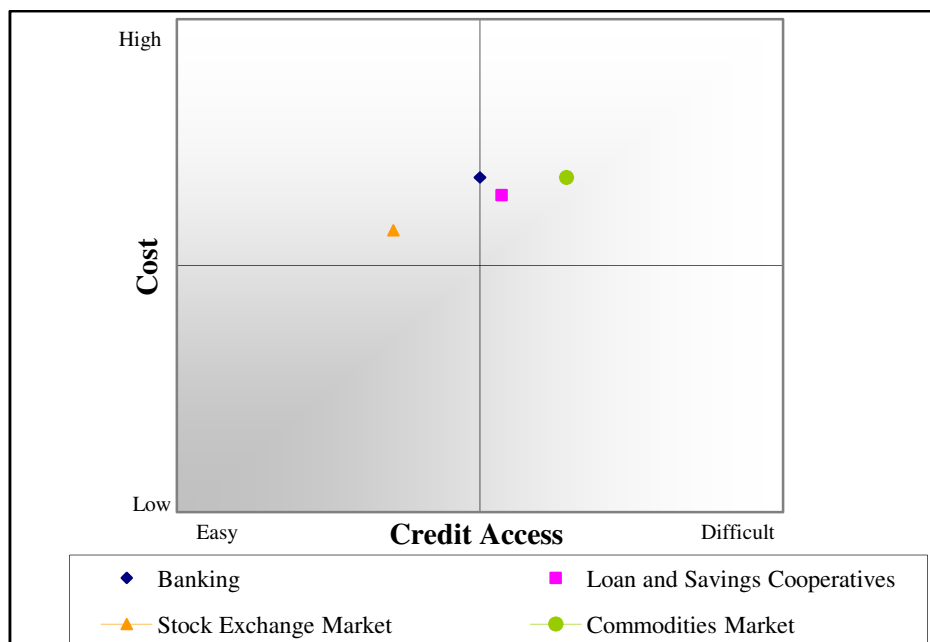


Figure 24: Positioning Map: Borrowers perception about Credit Access-Cost

Source: Survey Results (own elaboration)

Figure 25 shows the relation between the borrowers' perception of their own *education* level and the *information* provided about each market. As shown, banking services are well known so borrowers feel they are well informed, but they feel that there is not enough information about the commodities market. Indeed some of them did not know what it was about. Apparently, information about the stock exchange made by both the SPVS and the Bolivian Stock Exchange seem to have been widely received. The education level about the stock exchange is perceived to be similar to the education level about the banking sector.

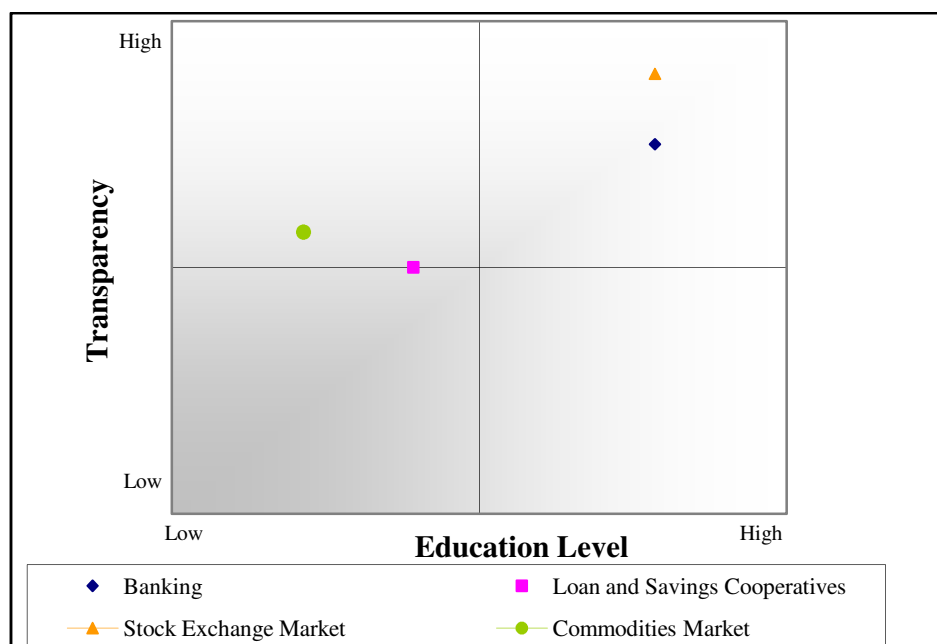


Figure 25: Positioning Map: Borrowers perception about their Education Level-Transparency

Source: Survey Results (own elaboration)

Through Figure 26 it is possible to make a comparison between borrowers' confidence in the market and the clarity perception. The stock exchange is considered to be a trustworthy and clear market. This is a result of the information transmitted about the companies and transactions; according to regulation, the information about the stock exchange and the SPVS as regulator is public information available for all those interested in it. Even though few people know the exact destination of investments or the origin of credit obtained through a bank, it is perceived to be relatively clear and trustworthy. The position of the commodities market shows that borrowers feel cautious because they are not familiar with the market's system, its operating mechanisms or even the ways financial information is spread.

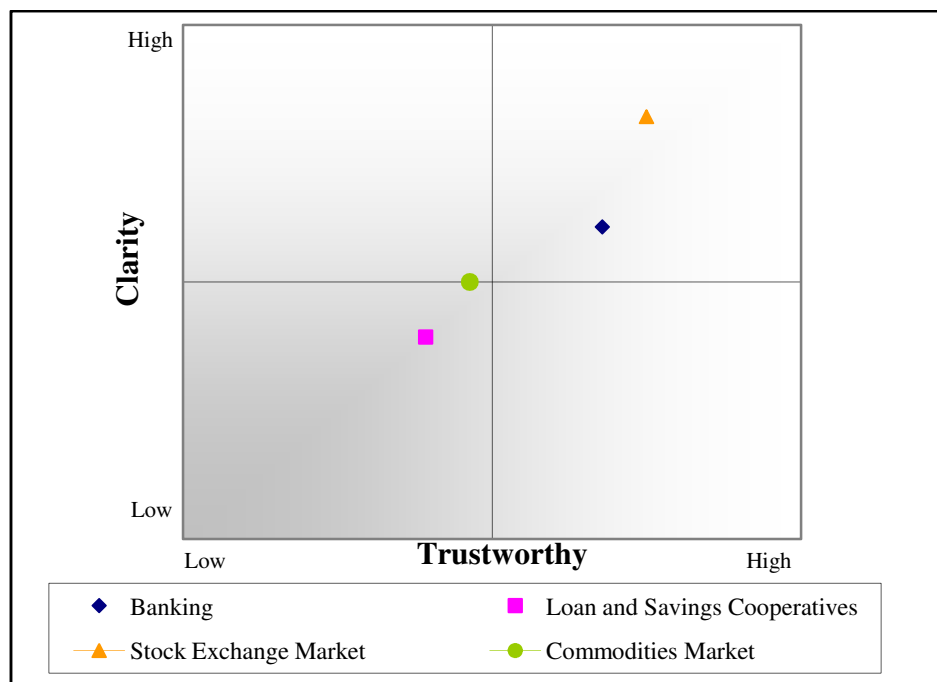


Figure 26: Positioning Map: Borrowers Perception about market Clarity and Trustworthy

Source: Survey Results (own elaboration)

Although high profit levels are expected for investments in the commodities market, compared with the systems already in place (e.g. banking and stock exchange), commodities do not appear to be an attractive alternative in their portfolios (Figure 27). This is caused by the lack of knowledge about the market, which affects the producers' perception of operational risk. The involved risk is perceived to be as high as for loan and savings cooperatives. With this positioning, operations through banks and the stock exchange appear to be rational because the same levels of profitability can be achieved with less risk.

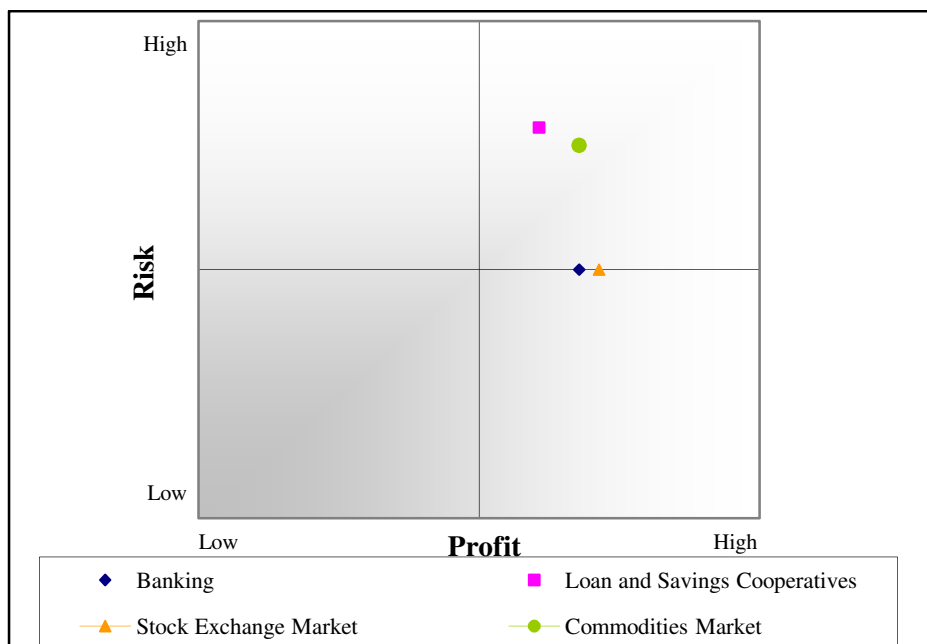


Figure 27: Positioning Map: Borrowers Risk-Profitability perception
 Source: Survey Results (own elaboration)

One of the advantages that the commodities market offers is to provide liquidity to producers' operations. However it appears that this is not what the producer perceives because the expectation of liquidity is lower than with banks and the stock exchange. An education and information strategy is required so that producers understand the fundamental objectives of this market and the ways in which they can be its main beneficiaries.

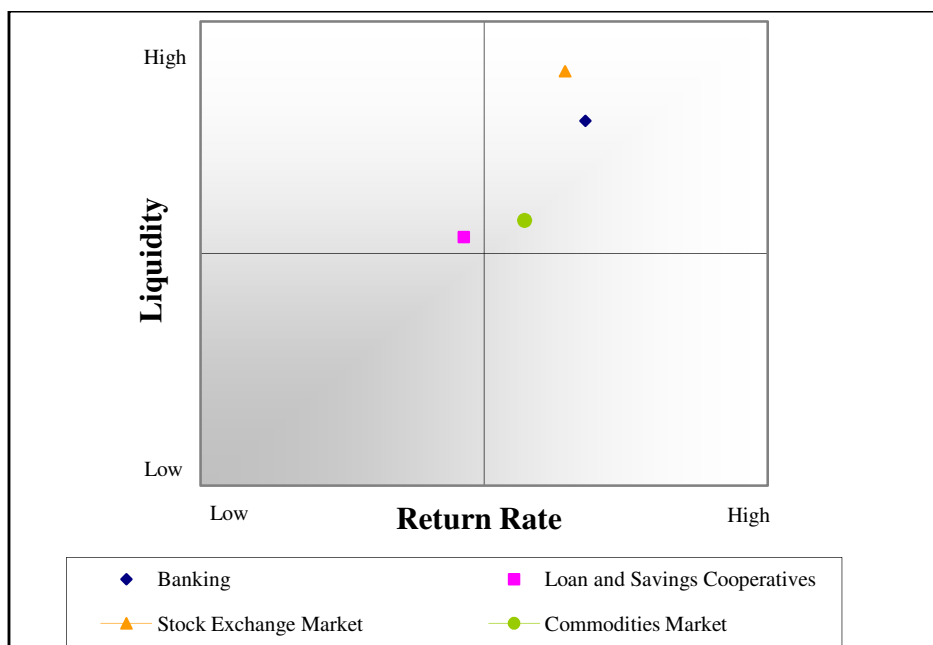


Figure 28: Positioning Map: Borrowers Liquidity-Return Rate perception
 Source: Survey Results (own elaboration)

The high prestige enjoyed by the commodities market is surprising but can be explained by the fact that borrowers perceive it to be more reputable precisely because of their lack of knowledge and understanding. Indeed, in many eyes, the complexity and novelty of the commodities market will act in its favour, as it will be perceived as something more sophisticated than the instruments already in use (banking and stock exchange). As a result of this thought-process, access to this market is perceived to be difficult, given that technical knowledge is necessary. Producers are not yet conscious of the commitments that they must abide by when operating in the market so they are concerned about the technical difficulty, which could be overcome with the aid of brokerage houses. (Figure 29)

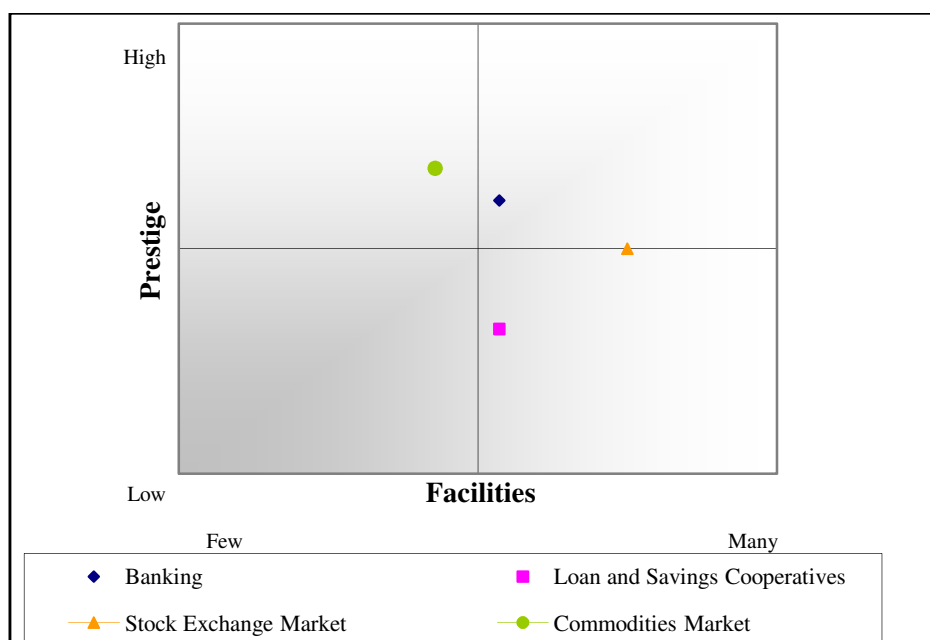


Figure 29: Positioning Map: Borrowers Facilities- Prestige perception

Source: Survey Results (own elaboration)

4.2.2.3 SPVS Desire Positioning Maps

With these results, interviews with the main executives of the SPVS were conducted in order to determine their *desire positioning* and to find the gap this study’s strategy needs to close. The interview followed the same structure used in the survey. The desire point or goal to achieve is shown in green in the following figures (Figures 30 to 41). The SPVS aims to create a market for investors that is easy to operate in and that encourages profitability. For producers, the gaps are bigger. For them, the market needs to be an easily accessible market

with low transaction costs, transparency of information, credibility, reliability and confidence. They place significant importance on the need to be financially educated.

These results will be the starting point for the formulation of the marketing plan for the commodities market and the comparison parameter in order to control and monitor the goals' achievements.

One of the advantages of the commodities market is that, through an investment portfolio, investors can manage the risk of their investments. Even though they will invest their capital in one instrument they have the chance to choose the instrument they will use. What is more, through options and futures, investors and producers can cover their positions by diminishing the risk of their investments. Therefore, the first gap to close is the one related to risk (Figure 30).

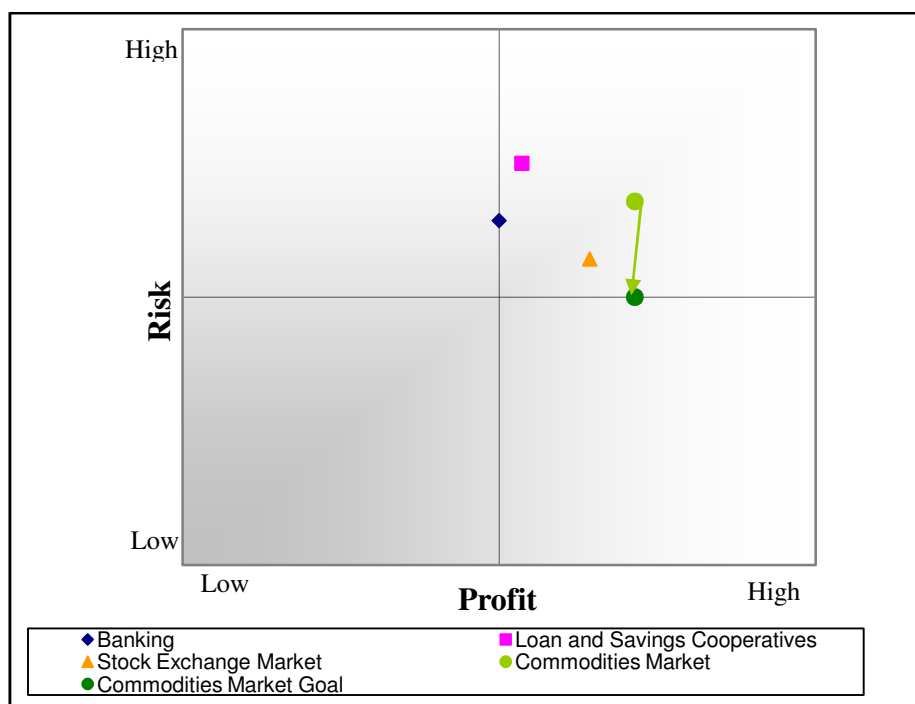


Figure 30: Positioning Map: Lenders Gap Risk-Profit

Source: Survey Results and interviews (own elaboration)

The liquidity of the market depends mainly on the transaction volume. It is important to develop a positive image of market transparency in such a way that participants trust the system and operate in it. Then, the perception of the market will automatically improve its liquidity. On the other hand, the liquidity level will depend on the financial instrument design

and on the transaction conditions, so the education of participants is required in order to clarify this concept. (Figure 31)

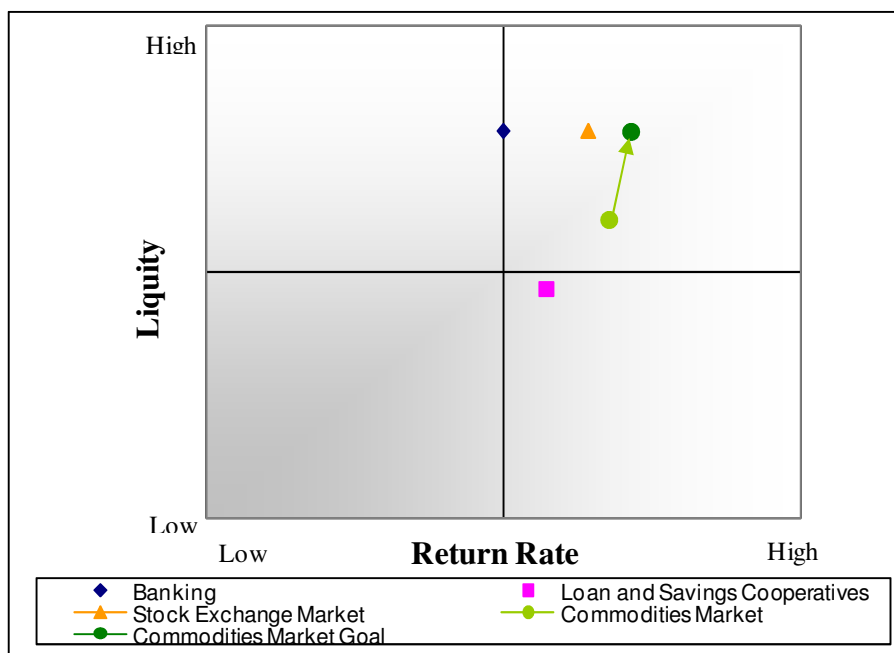


Figure 31: Positioning Map: Lenders Gap Liquidity-Return Rate

Source: Survey Results and interviews (own elaboration)

The SPVS aims to achieve the same prestige level as the main competitor, the banking sector. Therefore, the strategy should consider the SPVS’s image and reputation. The facilities that the market offers are frequently a determining factor in any investment decision. As facilities grow in quantity and quality, the incentive to operate in that market grows. This in turn has a positive effect on transaction volumes and leads to market growth. (Figure 32)

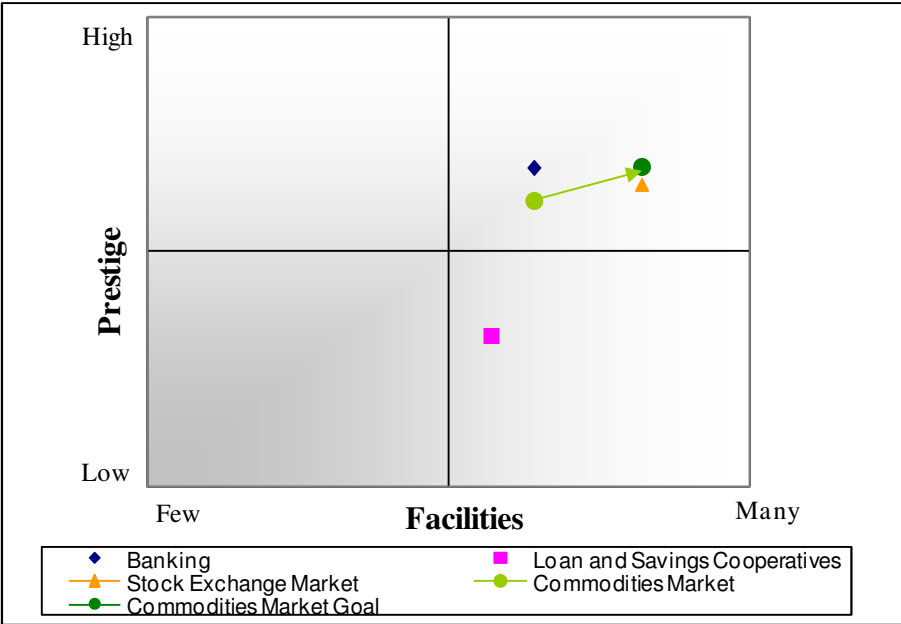


Figure 32: Positioning Map: Lenders Gap Prestige-Facilities
 Source: Survey Results and interviews (own elaboration)

These two concepts - clarity and trust - are closely bound and they depend to a great extent on the information level and its diffusion in the market (Figure 33). It is not only important that the potential participants understand the market’s statistics, data and other relevant facts, but the public also needs to have easy access to this data in order to evaluate investment options or simply to follow the tendency of the market.

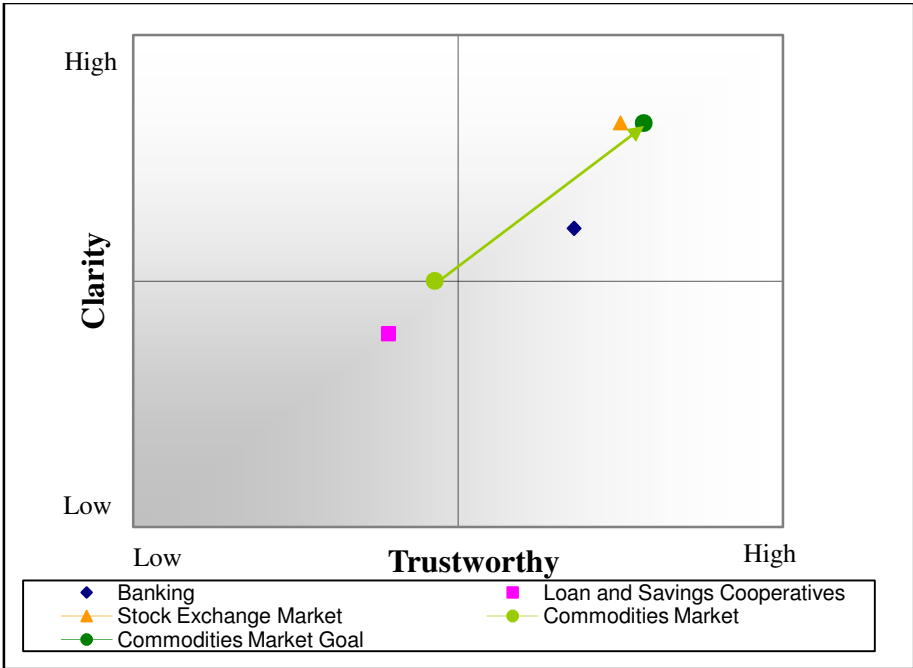


Figure 33: Positioning Map: Lenders Gap Clarity-Trustworthiness
 Source: Survey Results and interviews (own elaboration)

The SPVS aims to achieve lower transactions costs in order to stimulate market growth (Figure 34). But this fact depends on the participants. Even if the SPVS's rates are low, the transaction cost will be determined mainly by the brokerage houses' commission. According to the law they can spread the tariffs acquired by brokers, but brokerage houses are able to define them freely. It is possible that the existence of competition helps to drive down prices, but this is not something that the SPVS has an influence over

There are no operation barriers in the market, but inexperience and unawareness about its operations generate accessibility difficulties. Once again, the role of the brokerage houses as educators is crucial, as they have direct contact with the target customers and it is their duty to advise them.

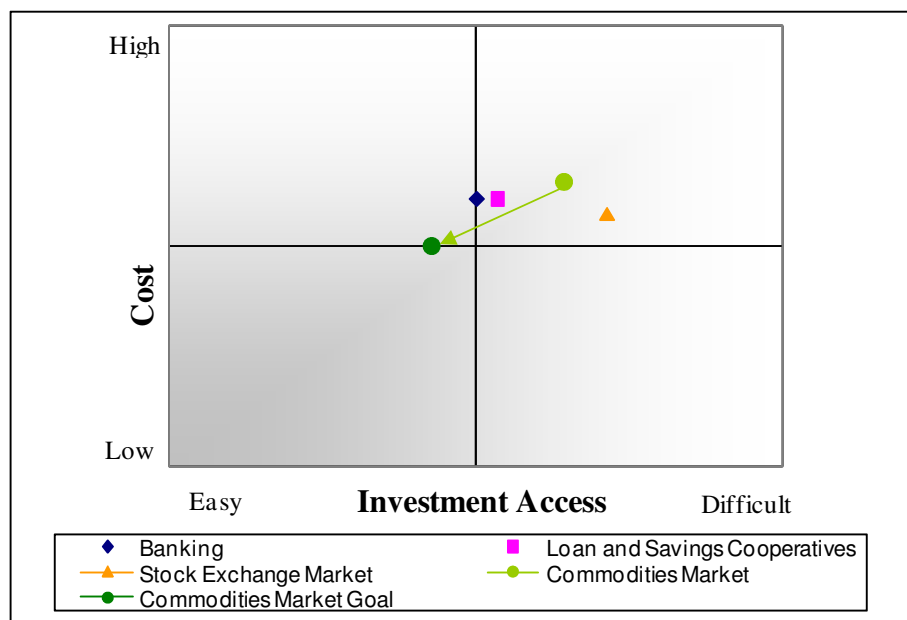


Figure 34: Positioning Map: Lenders Gap Cost-Credit Access

Source: Survey Results and interviews (own elaboration)

The transparency in the market is related to information-spread and that is mainly the SPVS's responsibility. Through the RMP and according to the law, anyone who is interested in participating in the market should have access to information (Figure 35). Therefore this should be one of the main pillars on which the marketing strategy is constructed. Education can also be considered as another fundamental pillar in the strategy. Even though the SPVS is not the only responsible body for this, quality education is necessary in order to promote the market's operation and to make it work efficiently.

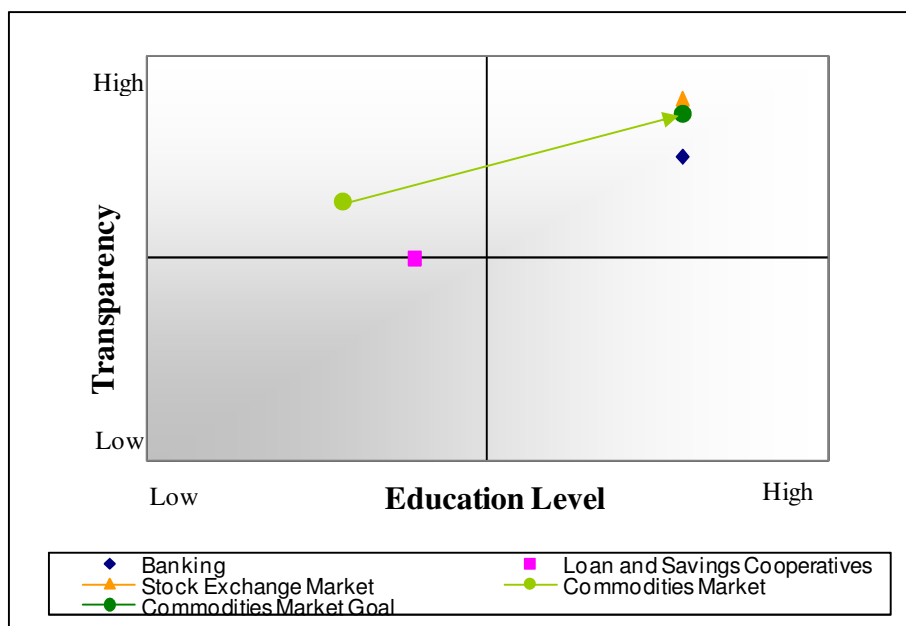


Figure 35: Positioning Map: Lenders Gap Transparency-Education Level

Source: Survey Results and interviews (own elaboration)

Even though many of the activities in the marketing plan will include borrowers and lenders together, the positioning maps will be analyzed separately in order to achieve a better understanding of the points that should be focused on and the activities that should be developed in the operative marketing strategy.

The first gap that should be closed requires a significant effort in education. Because of the lack of knowledge of borrowers about the commodities market, their risk perception is high (Figure 36). Theoretically they need to know that the market provides different financial instruments in order to cover their risk positions and to take advantage of the market's operations. This concept needs to be transmitted through education and information about the market. The profit gap is not far from the current perception and will be adjusted as soon as the market starts operating.

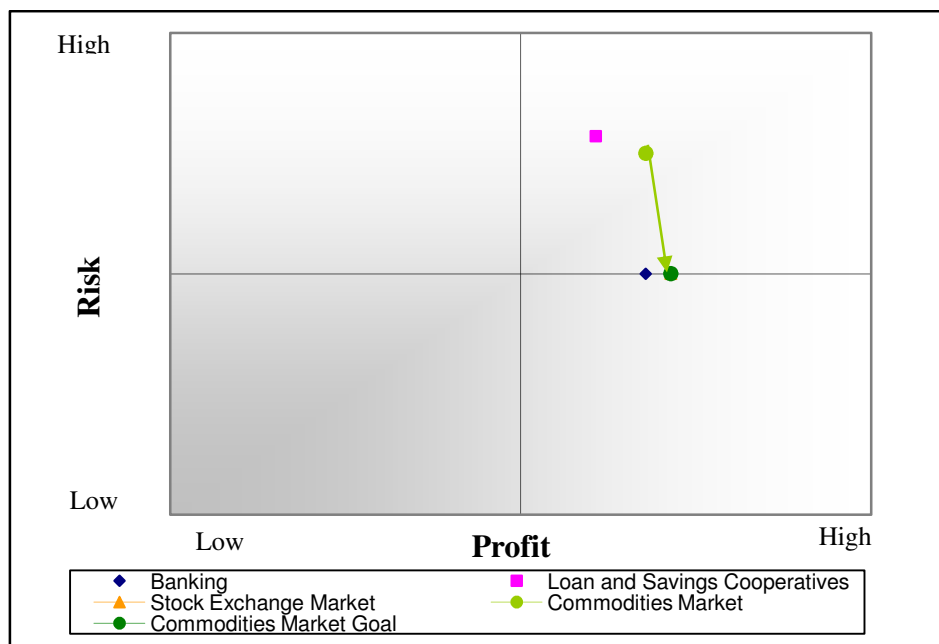


Figure 36: Positioning Map: Borrowers Gap Risk-Profit

Source: Survey Results and interviews (own elaboration)

The liquidity perception will change insofar as the market operates in a constant way; or, as happened in the stock market, the placement of the Initial Public Offering will be made immediately due to the high demand in investment instruments. Nevertheless, to achieve this change it is necessary to stimulate investments in the commodities market through education and information-spread. (Figure 37)

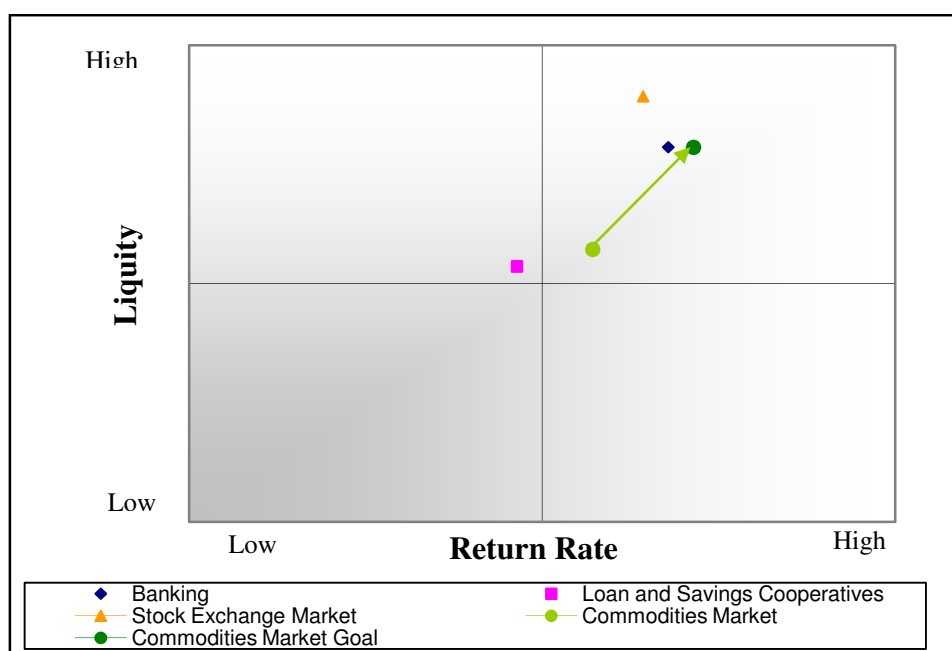


Figure 37: Positioning Map: Borrowers Gap Liquidity-Return Rate

Source: Survey Results and interviews (own elaboration)

Figure 38 reveals the need for information. Even though there is not much difference between the facilities provided by the stock exchange and the commodities market, the perception is significantly different. Information about the requirements is needed for an emission and its obligations.

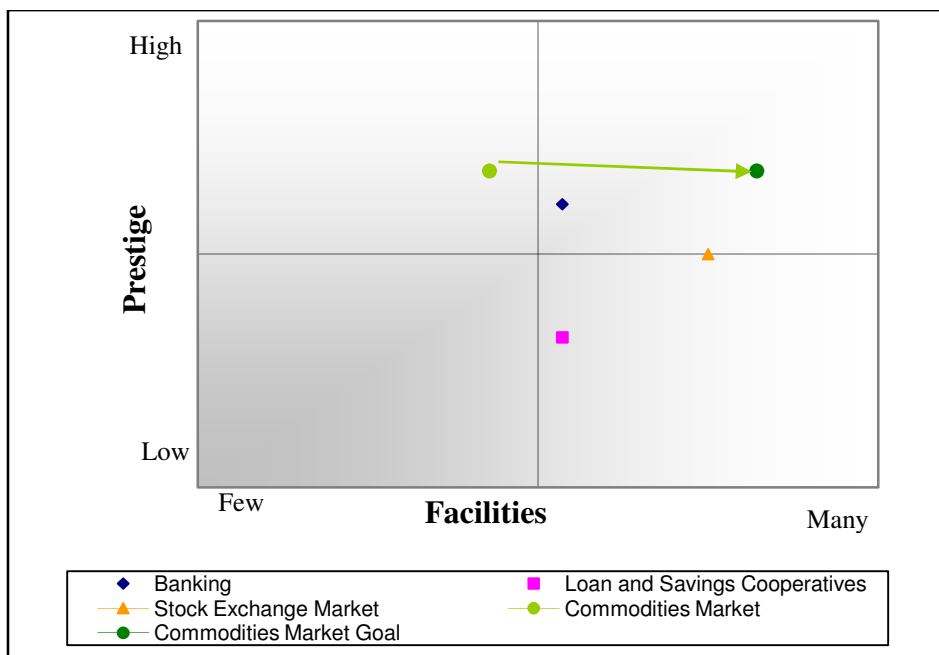


Figure 38: Positioning Map: Borrowers Gap Prestige-Facilities

Source: Survey Results and interviews (own elaboration)

It is a fact that to initiate operations in the market, it is necessary to create a positive image. Indeed, it is important that lenders as much as borrowers trust the transparency and fairness of the market. The current lack of knowledge about financial tools, the operations system and the price-setting mechanism generates significant distrust and doubts about the market’s fair operation. (Figure 39)

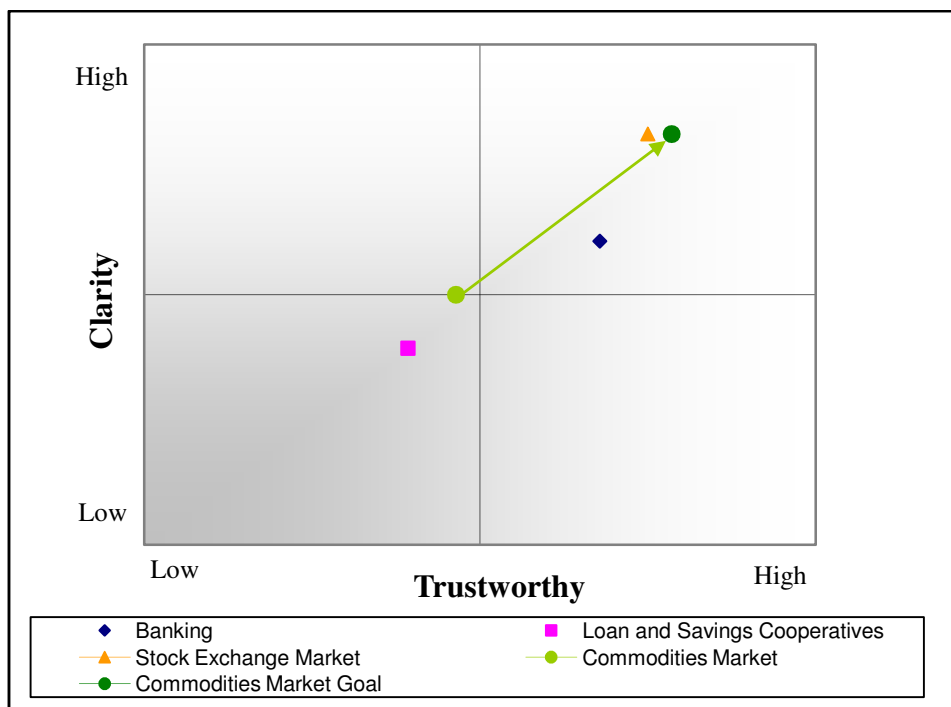


Figure 39: Positioning Map: Borrowers Gap Clarity-Trustworthiness

Source: Survey Results and interviews (own elaboration)

Again, the transaction costs depend on the intermediaries. The SPVS could provide a price list of services, but this is not likely to have an effect on the fees charged by each intermediary. Credit access is related to the facilities and requirements established for emissions, so the role of brokerage houses is important as they need to design the emission according to the characteristics and needs of their customers. As a result, a joint agreement between the SPVS as the regulator and the intermediaries is required in order to promote the market's development. (Figure 40)

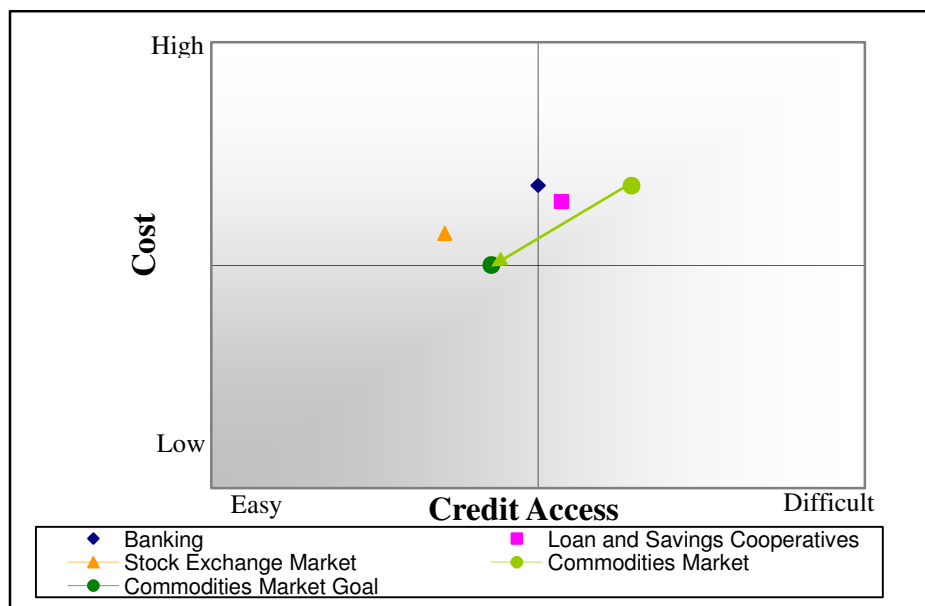


Figure 40: Positioning Map: Borrowers Gap Cost-Credit Access

Source: Survey Results and interviews (own elaboration)

Finally, to close the last gap, information-spread is again necessary. (Figure 41)

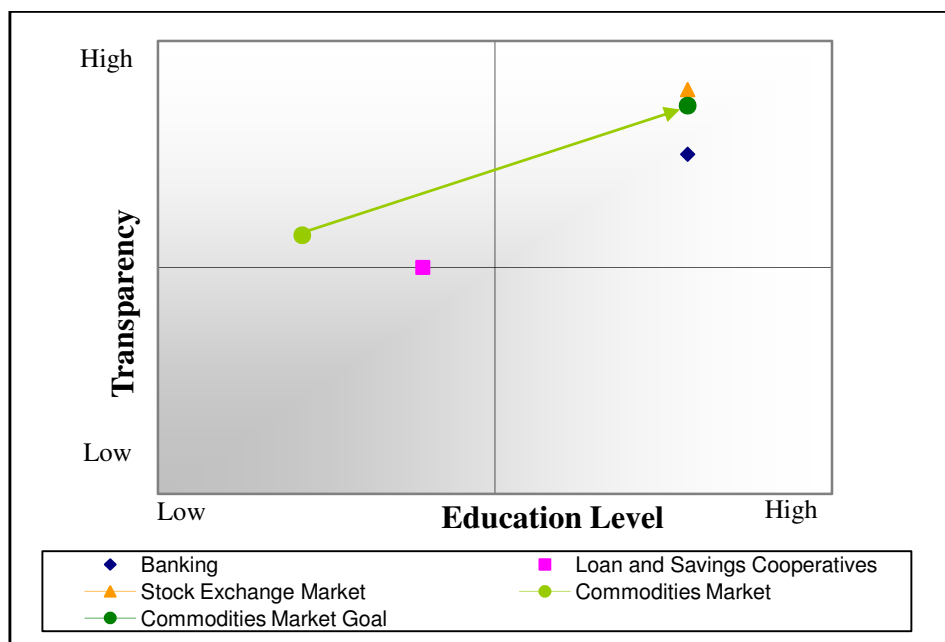


Figure 41: Positioning Map: Borrowers Gap Transparency-Education Level

Source: Survey Results and interviews (own elaboration)

As a result of the positioning analysis, two main points are important for the SPVS: the first one is to promote trust and incentives, and the second is to spread more information in order to help participants understand the commodities market.

The SPVS needs to search for a competitive advantage to differentiate its operations from those of the stock exchange and banking markets. Therefore a *fully focused strategy* is suggested, which means providing services (determined by law and the existing regulation) to the market segment defined in section 4.2.1 (Market Segmentation).²⁰⁵

4.3 OPERATIVE MARKETING PLANNING

Once the segmentation, target group selection and positioning analyses are complete, specific marketing activities can be suggested. Operative marketing plans aimed at establishing specific programs should lead to the definition of activities in order to achieve the strategic goals. These programs should consider what, where and how each activity is developed.

This planning phase should consider external and internal marketing, education, increasing motivation, training and communication in order to achieve the marketing goals.

The marketing mix is a common tool applied to this phase. The traditional 4 P's Model (Product, Price, Place and Promotion) suggested by McCarthy (1960) was directed to tangible products.²⁰⁶ Three extra P's (People, Processes and Physical evidence) are suggested by Booms and Bitner (1981) in order to expand this model for services.²⁰⁷

Participants or people: All the human actors who play a part in the service delivery and can influence the customer's perception. The interaction between customers and employees influences the customer's perception of service quality, so the recruiting, training and personnel motivation processes are important.

Process of service assembly: The procedures, mechanisms and flow of activities required to facilitate the performance or communication of the service. The design and implementation of effective processes can reduce bureaucracy, ineffectiveness and slow delivery.

²⁰⁵ See Lovelock, Christopher H. (2004) Pp. 196-197 for more information about Strategies.

²⁰⁶ See Lancaster, Geoff; Reynolds, Paul (2005) Pp. 40-41.

²⁰⁷ See Booms, Bernard; and Bitner, Mary J. (1981) Pp. 47-51. Some other Models were developed from the 7P's Model, for more information see: Lovelock, Christopher H. (2004) Pp. 15-18.

Physical evidence: The environment where the firm and the customer interact. The appearance of buildings, landscaping, interior furnishing, equipment, staff members, signs, printed material and all visual cues are considered by customers while making an image analysis of the firm. Service firms need so manage physical evidence carefully.

Considering that this model is specially adapted to services, which is the case of the regulation and supervision of the commodities market, this study will be based on the *7 P's Model excluding the Processes* (Figure 42). Even though the competences of the SPVS are defined by laws and norms established for the commodities market, the organization of processes and the controls required are evaluated, supervised and proposed by the General Controller of the Republic). Therefore, and as explained in section 1.6 Delimitation of Scope, this subject is not within the scope of the present study.²⁰⁸

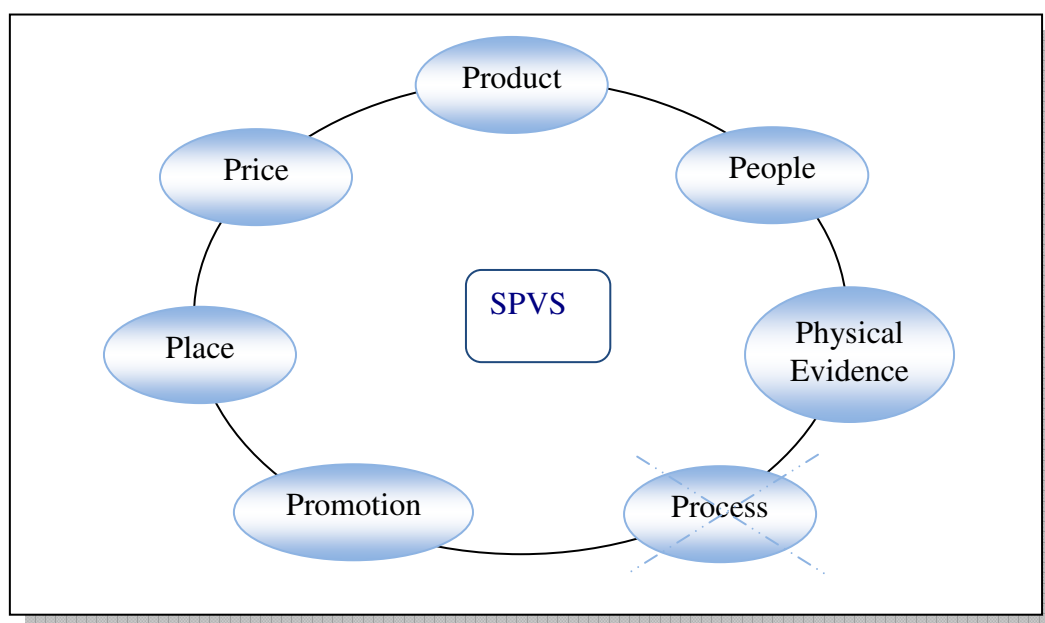


Figure 42: 7 P's Model for the SPVS

4.3.1 People

As seen in the above analysis, in order to achieve an appropriate service quality, a well structured organization is required. The SPVS will assume the challenge of developing the commodities market, but it needs to have specially trained financial analysts to support the market's development. Even though the people already working in the stock exchange possess

²⁰⁸ See Contraloría General de la República/ Bolivia: Declaration of Purpose, Authority and Responsibility of the Internal Auditing Unit <http://www.cgr.gov.bo/>

the knowledge and experience for developing the commodities market, they cannot be expected to take on more activities and responsibilities because this would reduce their efficiency in both markets and have a negative effect on the motivation of employees.

By analyzing the current structure of the SPVS (see 2.2.3.1. Organization) and the requirements for the development of the commodities market, in the first phase or introduction of the market the SPVS should hire three financial analysts: one for the intermediaries (clearing house, brokers and mercantile exchange) and another for the producers and commodities supplied in the mercantile exchange. The intermediaries analyst will be responsible for the control and supervision of the intermediaries; he or she will be in charge of supervising the application of the law in this sector. An analyst should also be considered for the issuers because of the need for the enrolment of participants and commodities. In each case a financial analyst is required to provide information and analyze the data presented by the commodities suppliers.

The public register should no longer depend on the issues direction, as the know-how of this register can be helpful in the development of the commodities market. The activities of the register are related to both intermediaries and issues directions. Therefore, coordination is required but dependency can generate biases in the analysis of information and the control of the market. This register, as an independent body, will provide the flexibility required to develop both the stock exchange and the information relating to the commodities market. It will also encourage the impartial participation of the market's members.

The organizational structure for the intendency should be as shown in figure 43. The additions proposed for the intendency of exchange and the commodities functions manual will be presented later in section 4.5.1.

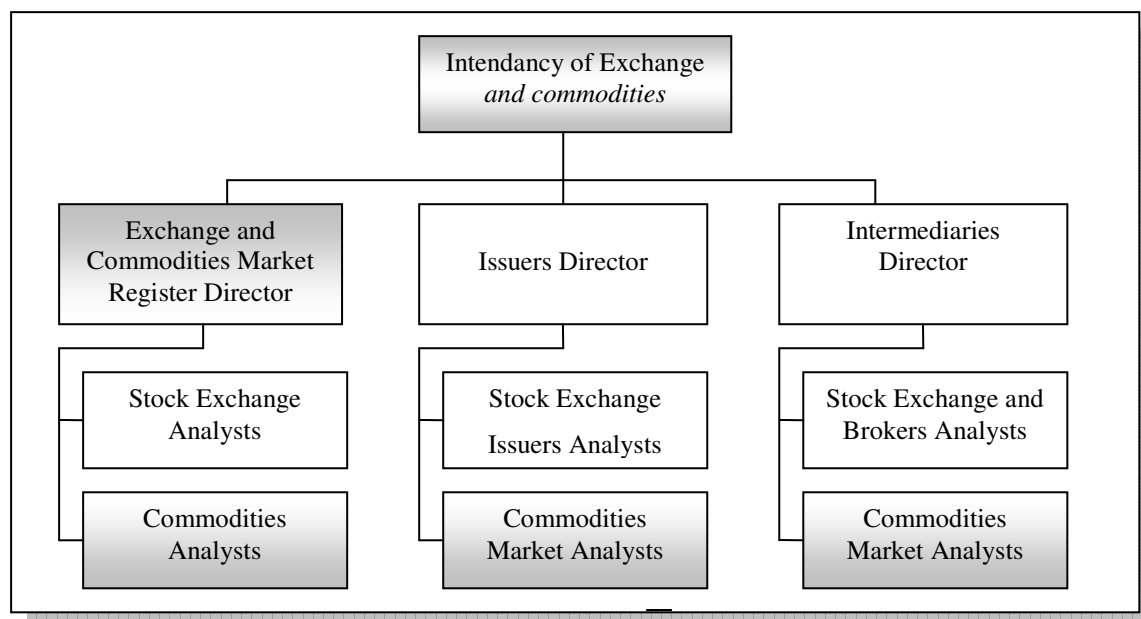


Figure 43: SPVS-Exchange and Commodities Unit Proposed Organizational Structure

The *service-profit chain* links service firm profits with employee and customer satisfaction. This chain consists of five links:

- “Internal service quality: superior employee selection and training, a quality work environment, and strong support for those dealing with customers, which results in...
- Satisfied and productive service employees: more satisfied, loyal, and hard-working employees, which results in...
- Greater service value: more effective and efficient customer value creation and service delivery, which results in...
- Satisfied and loyal customers: satisfied customers who remain loyal, repeat purchase and refer other customers, which results in...
- Healthy service profits and growth: superior service firm performance.”²⁰⁹

As defined by the SPVS²¹⁰, employee selection includes psychological tests, knowledge tests and interviews. It can be assumed that the employees will have at least some theoretical knowledge about the commodities market. A training program is then proposed by each department according to their needs. It could include courses and practical apprenticeships in similar organizations in different countries. Most of these training programs are financially

²⁰⁹ Kotler, Philip; and Armstrong, Gary (2006) Pp.260-261.

²¹⁰ See SPVS Human Resources Manual.

supported by international organizations. As the commodities market in Bolivia is not operating yet, practical experience of seeing how a real market works is required. That is why the person in charge of this project can be qualified and trained through practical work in other Latin American countries (like Mexico, Colombia or Costa Rica) where this type of market is more developed. Even though employees should at least possess theoretical knowledge, this practical experience will help them be prepared for the challenges of operating the market. The main areas of this apprenticeship are:

- Monitoring mechanisms for the participants in the market.
- Registration (enrolment and withdrawal) of commodities and participants or intermediaries.
- Operations supervision and monitoring process.
- Information Management.
- Penalty structure caused by unlawful practices.

For people not directly involved in the commodities market, seminars with theoretical knowledge should be organized, including presentations about the market's operations, requirements and SPVS objectives and responsibilities. These seminars should take place before employees start operating.

But employees are not the only people involved in this process. Intermediaries are also important because they will be in touch with customers. It is important that before the enrolment of intermediaries in the RMP, the responsible analyst verifies technical knowledge, especially in the case of brokers who are in permanent contact with customers. This will ensure that the advice they offer is trustworthy. Therefore, it is important that the RMP designs and supervises the qualification tests required by law, and/or asks for certificates of study when necessary.

4.3.2 Service Strategy

In order to design an adequate strategy, the *core competence* of the commodities market needs to be defined, which means finding out what investors and producers are really buying. The SPVS's business is defined as selling people the hope of increasing their profits.

According to the service characteristics, three main areas of service delivery should be considered: service quality, service differentiation and service productivity.²¹¹

Service quality can be measured through consumer satisfaction. Even though it is hard to define, it strongly depends on the quality of employees the customers have contact with.

Again, the activities in the market depend not only on the SPVS, but also on the intermediaries. According to the service characteristics the internal service quality can be defined as an internal goal. The qualification of intermediaries is by law a requirement in order to be registered in the market; the RMP should have the ability to measure knowledge through examinations.²¹²

The interaction between lenders and borrowers will be mainly through brokerage houses and the market's image will be the one that customers get from the entire operation system. In this sense, a well-coordinated and clear service should be provided. The SPVS can manage its own service quality by providing adequate and transparent information and by controlling the intermediaries in all the activities related to the operations they make. However it cannot be involved in the service quality of each broker agency because that will precisely be a differentiating factor between brokerage houses. It is expected that market competition will drive the brokerage houses to offer a high quality service.

Theoretically, service differentiation can take place through delivery or image. The main focus for the SPVS is to create the image of a solid, reliable and clear market which offers the chance to trade under competitive scenarios.

The current image of the SPVS can be helpful to introduce the concept. According to the survey results, more than 50% of lenders and borrowers think that the SPVS is a reliable institution and that it has competent employees who act with equality. 25% did not know about the SPVS (Appendix 1 and Appendix 2).

The strategy proposed in this study will focus on promoting trust, which means encouraging

²¹¹ See Kotler, Philip; and Armstrong, Gary (2006) p. 261.

²¹² See Administrative Resolution SPVS-IV-N° 646 Art. 52-75.

people's confidence in the market's performance. Participants and potential participants need to trust the system, know what to expect on the trading system, and have confidence that the SPVS is providing the highest level of service.²¹³ This can be achieved (among other things) by providing transparent information at the right time. The information can be divided in:

- Periodic information: daily operations data updates on the market, financial information required for transactions, financial information required from manufacturers, intermediaries' financial information.

- "Relevant facts"²¹⁴: as this information is not provided periodically, and can originate at any moment, the SPVS faces the difficulty of providing this kind of information at the right time. Currently in the stock exchange, information is hardly communicated, which can have a negative impact on performance and image, despite the creation of a penalty scheme. This responsibility should be transferred to the manufacturers; the monitoring process should not only be the responsibility of the SPVS, but also of the intermediaries. The penalty scheme should be implemented upon enrolment on the public register of the SPVS.

The use of the internet can be a useful tool in transmitting information because of its low cost; this will be considered later as a strategy for promotion.

Service productivity is related to the consistency of services provided. The main services the SPVS should provide are information and monitoring of activities in the market. As the regulator, the services should be the standard norm for all participants in the market. *Empowerment*²¹⁵ is required, so that employees will have the authority, responsibility and incentives to promote a transparent market. This process requires the employees to not only understand values and expected behaviours, but also have the technological knowledge to provide transparency for the good performance of the market.

²¹³ See Lovelock, Christopher H. (2004) p.147.

²¹⁴ "Relevant facts refer to the information which can affect in a positive or negative way the legal, economic, technological or financial situation of the manufacturer or its products in the market." See SPVS-IV-No.187-2001 Art. 81.

²¹⁵ Empowerment means to give employees discretion and freedom to take responsibility for their ideas, decisions and actions according to the company's objectives. See Bateson, John; and Hoffman Douglas (1999) Pp. 154-155.

4.3.3 Price Strategy

As defined by law²¹⁶, the SPVS is a regulatory entity with no profit motive, but as an independent institution it should finance its activities through the regulatory fees established in Supreme Act No 25420.

Attracting producers to this market depends on the *trading cost*, which means that producers will trade in the commodities market if the cost is lower or equal to other financing alternatives. The total costs of supplying their products in the market are:

- Fee paid to the SPVS
- Fee paid to brokers
- Fee paid to the mercantile exchange

These fees should be defined as a percentage of the operation, so that different quantities of commodities can be traded. According to the law, the fees defined by the SPVS should cover the operational costs and any exceeding amount will go to the Government Treasury. There is no incentive for the SPVS to generate additional income than the operation costs. The benefits of introducing this market with lower financial costs for the traders are clear. Even though the SPVS cannot influence the fees charged by the brokers and mercantile exchange, as the regulator it should look for equal treatment of all customers. With a transparent pricing system, brokerage houses will set their prices according to market competition. Brokers and mercantile exchange rates and price lists should be disclosed on a web site. The publication of the price list will not only protect small manufacturers with low negotiation power, but will also promote clear competition between them.

The modification of Supreme Act No.25420 (Regulatory Fees) issued on 11th June 1999 is obligatory in order to introduce the fees for the commodities market. According to the SPVS executives, the intention is not to rob clients from the stock exchange to the commodities market, but to extend alternative sources of investment and financing. In order to stimulate the growth of both markets and establish similar cost structures, the following fees are proposed:

²¹⁶ See Bolivian Law No. 1864 (1998), June 15th 1998: Law of Property and Popular Credit. Art. 39.

Authorization and Enrolment:

- a) Regulation Fee N° 1 for Mercantile Exchange: A fixed value equal to the one established for the stock exchange market of five thousand US dollars (US\$ 5.000.-)
- b) Regulation Fee N° 2 applied to Brokers: A fixed value equal to the one paid by stock exchange brokers (US\$ 500.-)

Maintains:

- a) Regulation Fee N° 3 for mercantile exchange: a monthly value equal to 0,08% of Net Patrimony.
- b) Regulation Fee N° 4 applied to Brokers: an annual value equal to US\$ 250.-
- c) Regulation Fee N° 5 applied to clearing houses: a monthly value equal to 0,08% of Net Patrimony.
- d) Regulation Fee N° 6 applied to the supply of commodities: the minimum value of one thousand US dollars (US\$1.000.-) or 0,5 % of the supply value.

The amounts were fixed according to the stock exchange fees. The intention is to create more alternatives without sacrificing the stock exchange. Both markets should operate simultaneously in order to fortify the Bolivia's capital markets. According to the surveys, customers consider the stock exchange as the most profitable market and as the market with lower costs; as a result, it can be assumed that the value of this service for the customer is high and that the price would not restrict operations.

The paid fees will be used to finance the SPVS's supervision and control work in the commodities market. As defined in Supreme Act No.25420²¹⁷, the fees are established in US dollars, but can be paid in Bolivian currency.

The cost of investment is paid to brokers and is defined by a fee. The only incentive the SPVS can provide is the exclusion of taxes. As mentioned in the previous analysis, Law No 2064 establishes that transactions recorded in the Public Register of the SPVS are exempt from the Transactions Tax, Added Value Tax and the payment of registration taxes.

²¹⁷ See Supreme Act No 25420 Art.9.

As the socio-political situation in Bolivia is unstable, the development of *a law* to protect *foreign investments* in the commodities market is required in order to give confidence to international investors.

4.3.4 Place (Distribution) Strategy

The SPVS offices and the stock exchange brokerage houses are currently located in La Paz with a branch in Santa Cruz de la Sierra.

Institutional investors and most of the financing companies are located in La Paz, as it is the seat of government and in Santa Cruz as a result of the socio political situation.

The main agricultural and industrial regions are located in Beni and Santa Cruz. An appropriate location for the mercantile exchange is Santa Cruz because of its proximity to producers.²¹⁸

Thus, a viable option is to locate the SPVS's commodities market analysts and RMP in Santa Cruz de la Sierra with a branch in La Paz.

4.3.5 Physical Evidence

The physical setting and offices design have an impact on personnel and intermediaries. However, there exist consumer services that involve little physical evidence, such as the back office which provides the bulk of the service.²¹⁹ This is the case of the SPVS.

The current facilities and equipment of the SPVS in La Paz are of good enough quality to provide a positive image to customers. It is kitted out with high technology and a practical, modern and comfortable design. In Santa Cruz, some changes should be made to provide to commodities analysts with a more pleasant work atmosphere, which reflects modernity and elegance.

²¹⁸ See Bolivian Mercantile Exchange: Business Plan (2005).

²¹⁹ See Bateson, John; and Hoffman Douglas (1999) Pp. 136-137.

During 2004, a consulting company analyzed and developed the corporate identity of the SPVS. As a result, a new logo was introduced and the building signs and stationary store were modified.

Even though the SPVS deals with customers in different markets, the image according to the surveys is already positive. Indeed people trust this organization as the regulator of the market, especially of the stock exchange. This image will positively affect the work of the SPVS when introducing the commodities market. Therefore, activities at a corporate image level are not required.

The image contained in printed materials, such as brochures, invitations, posters or other promotional material will be analyzed in the next point, *promotion strategy*.

4.3.6 Promotion Strategy

Entering a new market with a new product is challenging, especially if the product or service requires special knowledge. A complete marketing communication mix or promotion mix is required. Authors suggest many different classifications which mainly involve the same components. Kotler and Armstrong classify marketing communication mix as designing the advertising, personal selling, sales promotion, direct marketing, and public relations activities.²²⁰

Advertisement is any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor.

Personal selling can be defined as personal presentation by the firm's sales force for the purpose of marketing sales and building customer relationships.

Sales promotion is short term incentives to encourage the purchase or sale of a product or service.

²²⁰ See Kotler, Philip; and Armstrong, Gary (2006) Pp. 422-423.

Public relations means building good relations with the company's various publics by obtaining favourable publicity, building up a good "corporate image" and handling or heading off unfavourable rumours, stories and events.

Direct marketing involves direct communications with carefully targeted individual consumers to obtain an immediate response - the use of mail, telephone, fax, e-mail, and other non-personal tools to communicate directly with specific consumers or to solicit a direct response. Also involves instructional material such as websites, manuals, brochures and software²²¹

Lovelock (2004) defines the marketing communication mix as personal contact, advertising, sales promotion, publicity and public relations, instructional materials and corporate design. Even when both classifications seem to be different, the contents and basic elements are similar. Therefore, this study will adapt both classifications according to the needs of the case study.

Communication is the most tangible of marketing activities. Through communication the SPVS should inform prospective customers about the services provided in the commodities market, benefits, price, as well as risks and responsibilities.²²²

A central focus of the promotion activities will be the education programs. "In service marketing, much of communication is educational in nature... Companies may need to teach these customers about the benefits of the service processes."²²³ Promotional activities should inform and educate customers about the operations and mechanisms in the commodities market; it should also argue in favour of the commodities market and motivate investors and producers to operate in this market. This communication should be truthful, prudent and precise.

As a result of the discussion in section No 3.2.3. Market Segmentation, different strategies for different target groups can be defined: lenders, domestic borrowers and foreign borrowers.

²²¹ Lovelock, Christopher H. (2004) Pp.295-313.

²²² See Lovelock, Christopher H. (2004) p. 285.

²²³ See Lovelock, Christopher H. (2004) p. 17.

The communication objectives according to the 5Ws model²²⁴ are developed in Table 13.

Table 13: Communication Objectives

<i>Who is our Target Audience?</i>	Lenders	Domestic borrowers	Foreign borrowers
<i>What do we need to communicate and achieve?</i>	Information about the operations, responsibility, risks, and monitoring mechanisms, tax exemptions and regulation.	Information about the operations, price advantages of negotiating in the Commodities market, tax exemptions and regulation.	Information about the operations, risks and responsibilities. Monitoring system and confidence in the commodities market.
<i>How should we communicate this</i>	Local press, brochures (printed and in PDF format), internet, free personal lectures.	Free personal lectures, brochures, booklets (printed and in PDF format), internet, press, universities and educational institutions.	Internet, e-mailing, brochures (printed and in PDF format), lectures on the internet, press
<i>Where should we communicate this?</i>	In Bolivia, especially La Paz, Cochabamba and Santa Cruz.	In Bolivia, especially La Paz, Cochabamba and Santa Cruz.	World wide web
<i>When do the communications need to take place?</i>	Before the market starts operations and continually during operations.	Before the market starts operations and continually during operations.	Before the market starts operations and continually during operations.

Source: own elaboration

²²⁴ See Lovelock, Christopher H. (2004) p. 294.

4.3.6.1 *International Borrowers*

The desired positioning can be defined through the following affirmation: “The commodities market is a solid, reliable and transparent market, where investing money is easy. A responsible self-administration of investments can result in higher profitability”. Achieving this positioning requires the following activities:

Provide *information about the operations* in the commodities market. The specification about the responsibility and risks that each participant assumes while negotiating in the market should be clarified. Information about the monitoring mechanisms is required to generate confidence in the system.

Present *information about the price advantages* of negotiating in the commodities market, *tax exemptions* and *regulation*.

For this, the creation of a database through online registration is recommended. The use of internet for e-mailing and providing customized information about the market operations will help give transparency to the market. The SPVS can also offer the possibility of downloading lectures from the web side. These lectures should contain the information above.

Offer the possibility of using *commodities trade simulation software online*; to allow people to train themselves in the market operations. This software will show the real situation of the markets including prices and regulatory barriers or incentives.

Provide transparent *information online*. The internet is a tool which enables the communication of participants' information in real time. An adequate administration and a fast publication of information provided to the SPVS will be a key factor to achieve the image of a transparent market. Financial information and information about the “relevant facts” should be revealed on the same day that they are communicated to the SPVS. This information is an important tool of decision making for investors.

A suitable use of *public relations* is a prerequisite to achieve a large number of international investors. As a first step, *journalists* must be informed and qualified about the market operations. *Free educational seminars* are suggested with the purpose of having competent

journalists informing people about the commodities market. This activity will not only create a better relationship with journalists but will also give them the tools to adequately write and inform about the market. These seminars will also act as news reports. For domestic journalists, seminars can be offered to improve contact between them and to achieve better relationships. For foreign journalists, seminars can be published on the internet and a personal invitation to access it can be sent. As a second step, the elaboration of press information reports is important to keep the market informed. The possibility to download these reports from the SPVS website by using a press code and password should be developed.

4.3.6.2 Domestic Borrowers

Even though the *desire positioning* is the same, (i.e. “the commodities market is a solid, reliable and transparent market, where investing money is easy. A responsible self-administration of investments can result in higher profitability”), the communication methods will be different.

Information about the operations of the commodities market, the specification about the responsibility and risks that each participant assumes while negotiating in the market, and information about the monitoring mechanisms can be provided through free lectures. As the first phase will be oriented towards the main investment groups – institutional investors (Pension Fund Administrators and Insurance Companies), and corporate investors – free lectures can be given through personal invitations to business executives. Depending on the capacity of the lecture theatres, eventually individual members of the public interested in the commodities market could assist.

Information about the price advantages of negotiating in the commodities market, *tax exceptions* and *regulation* need to be presented clearly. This information can also be offered during *lectures* and the distribution of printed material should be considered.

Information about where to find information must be supplied. As explained in the environment analysis, a large part of the Bolivian financial market is not yet developed. Given that the use of the internet is not widely available, educating people about the tools provided on the web page is necessary.

The physical proximity allows for long-term thinking. Qualifying the *potential investors* can be made through *support provided to universities* and technological education institutes, providing them with information and even offering incentives to employees who are able to teach this subject.

Sound and effective *public relations* with local media should be considered for the educational seminars mentioned above.

The RMP unit is, according to the law, responsible for spreading the related information to the market. This unit should also be responsible for providing information to all people interested in it and can be a helpful tool to educate and support the companies and people interested on the market.

4.3.6.3 *Lenders*

Operations in the commodities market greatly depend on supply. Indeed the diversification possibilities of an investment portfolio are defined by the alternatives offered in the market. Thus, the promotion of the market as a good alternative production financing is vital.

The survey showed that 25% of *producers* are totally unaware of the commodities market. The challenge is to drive them toward the “buyer readiness stages” (Figure 44).²²⁵

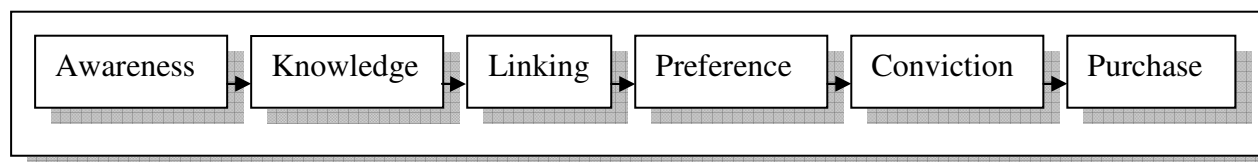


Figure 44: Buyer readiness stages

Source: Kotler, Philip; and Armstrong, Gary. Principles of Marketing

The first two phases can be achieved simultaneously, while preference, conviction and purchase require a long term approach.

²²⁵ See Kotler, Philip; and Armstrong, Gary (2006) Pp. 423-424.

The *desire positioning* for producers is “an *easy access market* where *financing opportunities* for current and future production of commodities are determined by the market supply and demand; and where *transparent behaviour* will be translated into more financing alternatives or better price”. The first phase can consider the following activities:

Information about the operations of the commodities market, the explanation about the responsibility and risks that each participant assumes while supplying the commodities in the market, and information about the monitoring mechanisms should be the main information transmitted by *free lectures*. The first phase should be oriented towards formal groups or associations like the Agronomy Chamber of the East, Businessmen Chamber of Bolivia, Poultry Keepers Association, Cotton Producers Association, Milk Producers Association, Pig Farmers Association, Wheat and Oil Producers Association, Association of Horticulture and Fruit Growers, Federation of Cane Producers of Santa Cruz, Federation of Livestock Dealers of Santa Cruz, National Federation of Rice Cooperatives, and Association of Cane producers. In a second phase these free lectures can be opened up to individuals who are interested in the commodities market.

Printed material is important to ensure deep knowledge of the market; this information can be developed as brochures or booklets and distributed by the SPVS through the web site, brokers and mercantile exchange.

Additionally, and considering the lack of education of most producers, *qualification in other fields* should be considered. Financial subjects and information management should be explained with the aim of ensuring that producers understand the basics of the market. The use of technological tools should be explained, especially the internet, and free use of the internet should be provided in the Public Register of the SPVS. Special attention to *formal associations* is recommended not only to take advantage of lower costs, but also to facilitate information diffusion and qualification.

The RMP can also be a supporting area for market participants by providing them with the information required and explaining the market's operations.

Public relations activities and a *mass communication campaign* for the diffusion of the

market's creation will develop trust in the market and will encourage producers to enquire about its operations. This campaign should start when the intermediaries are already enrolled in the SPVS public register and the market is ready to operate.

The market should be presented as the opening of a strategic market for the development of the country, and as a new, more effective way for producers to financing their operations.

4.4 DEFINING THE MARKETING COMMUNICATIONS MIX

“The firm’s promotion, or communication mix, communicates the firm’s positioning strategy to its relevant markets, including consumers, employees, stockholders, and suppliers.”²²⁶

The communication mix includes numerous forms of communication and a diversity of strategic elements such as personal contact, advertising, sales promotion, publicity and Public Relations, sales promotion, instructional materials and corporate design.²²⁷

As the commodities market is in the introduction stage (product life cycle) the SPVS should relate the communication content to information in order to introduce the service, to generate market awareness and to prepare the target group for operations. A positive attitude toward the commodities market should be created.

4.4.1 Personal Communication or Personal Contact

“Communications undertaken on a face to face basis (or ear to ear during telephone calls) embrace not only selling but also training, customer service, and word of mouth.”²²⁸

For the commodities market, *special training* is required. The complexity of the business and the need for clear understanding of the negotiation rules and procedures make training programs for borrowers and lenders one of the most strategic points of communication. The purpose is to explain the market procedures and rules and to educate them on how to take

²²⁶ See Hoffman, Douglas; and Bateson, John (2006) P.194.

²²⁷ See Lovelock, Christopher H. (2004) Pp. 296-307.

²²⁸ Lovelock, Christopher H. (2004) p. 296.

advantage of the operations, how to minimize risk and how to participate responsibly.

As we define three prospective customer segments, the approach to each of them will be defined according to their special characteristics. According to the previous analysis, in the introduction phase special emphasis is placed on conferences, lectures and seminars dictated by specialists. The main subjects for each segment are listed in Table 14.

Table 14: Proposed Lectures as a training program

Target Group:	<i>Lenders (suppliers of commodities)</i>	<i>Domestic borrowers</i>	<i>International borrowers</i>
Communication channel:	Lectures in SPVS and on the internet	Lectures in SPVS and on the internet	Internet web site
Subject:	The commodities market	The commodities market	Operations in the Bolivian commodities market
	How to access financial resources through the commodities market	The commodities market as another investment opportunity	
	The role of information	Operations in the commodities market	
	Financial tools for commodities trading	Financial tools for commodities trading	

Even though the training program will be made through the same communication channels, the information requirements are different for each market segment. In that sense the basic content for the lectures proposed in Table 14 includes the following points:

The Commodities Market: Introduction to the commodities market, participants in the commodities market, participants' responsibility and risks, operations system, monitoring mechanisms, the role of information, negotiations and regulation.

The commodities market as another investment opportunity: The commodities market, regulation and tax exemptions, where to find information, information administration, financial tools (options and futures) and speculation.

Operations in the commodities market: Introduction to the commodities market, participants in the commodities market, participants' responsibility and risks, monitoring mechanisms and information, negotiations on the commodities market, fees and tax exemptions and Bolivian regulation.

Financial Tools for the commodities trade: Spot, futures, options and speculation

How to access financial resources through the commodities market: The traditional financial system vs. commodities market, the role of the commodities market, requirements, obligations and advantages and the cost of transaction.

The role of information: Internet as a diffusion tool, clear information at the right time, information requirement, financial information, relevant facts and price systems.

Customer service also plays an important role in personal communication since the commodities market is based on trustworthy, transparent and opportune information. The public register (RMP) was created to support this activity. According to the law the RMP was created in order to organize and facilitate the supervision, control and diffusion of information.²²⁹ As a result, the RMP will be the department responsible for providing customers with information related to the market and the operations. It is also responsible for answering questions. Since this information must be spread effectively, the use of technology - mainly the internet - plays a fundamental role in order to offer a suitable service. Therefore, the structure of the information system will be considered in greater detail in the next section, which is related to instructional materials and the internet.

To support universities by giving lectures can also be very helpful for the future development of the commodities market, because the potential future customers or decision makers are concentrated in one place and are willing to receive new information. Educational programs

²²⁹ See SPVS Administrative Resolutions: SPVS-IV-No.113-2005 Art 2, and SPVS-IV-No.646-2002 Art. 3.

can be developed with public and private universities and the SPVS employees can be qualified to give these lectures.

4.4.2 Instructional Materials

Education is a primary activity in order to promote the commodities market. If people do not understand the operations, system, benefits and risks they will face, they will not know how to proceed and may fail to take interest in this service. Although lectures are planned, and the SPVS employees will play a teaching role, they are not available 24 hours a day. The traditional approach considers *printed material* as the supporting tool for this activity. The development of the internet will also be part of the strategy for both printed material and the development of an information system through the internet.

Information transparency is possible through the good management of the corporate web site as the main tool to spread news at the right moment. The main objective should be to provide detailed information about the market. The administration of information through the *internet* will give the commodities market the dynamism it requires, while printed material can be used to spread educational information. Through the internet people can interact with customers and participants in the market, so the content needs to be updated as and when it is required. This will allow producers and investors to select the information they need and the participants can then send their information without wasting time. The *web site* should include educational material (lectures, brochures and operations simulation software), press articles/cuttings and links to other information sources. Additionally, customers will need financial information in order to make decisions about their investment portfolios or their buying or selling position. In order to facilitate the use of information, the same classification as the Bolivian Laws will be used and will include the following:

Enrolment information: general information on to the enrolment requirements and continued updates.

Periodic information: information that the participants should update in the format and timing defined according to the law.

- The *mercantile exchange:* Should inform the public about daily operations, prices, monthly financial statements until the 10th of each month, yearly Board of Directors

meetings and their resolutions.

- The *clearing house*: Monthly financial statements until the 10th of each month and the yearly Board of Directors meeting and their resolutions.
- *Brokerages houses*: Monthly financial statements until the 10th of each month

Relevant Facts: “Relevant facts refer to the information which can affect on a positive or negative way the legal, economic, technological or financial situation of the manufacturers or its products in the market.”²³⁰

Statistics are also relevant information and are necessary for the participants to evaluate their investments or just to follow the market trends.

But if the promotion of the market is based on the web site information, customer should be driven to visit it.²³¹ This can be achieved not only through the promotion of the web site on printed material and in advertisements, but also through *linking* activities in the main portals and popular websites related to the commodities market. At the moment, the SPVS is well linked with international capital market organizations and is a member of different international organizations. These relationships can be used to establish a web page with related links.

Even though the internet is an indispensable communications tool and can be very efficient, in Bolivia there exists a segment of clients (mainly the producers) who are not familiarized with the use of technology. In this case, the use of *printed material* can be helpful; it can achieve great impact and help remind readers about the subjects covered in the lectures. Therefore the design of *information brochures or booklets* will be analysed.

At present, the SPVS distributes a booklet which contains basic information (Appendix 3: Information Booklet developed by the SPVS). The design is simple and the content very general. It is not detailed enough for someone who is wondering if and how to invest in the market, but it is acceptable for students or for people who need basic information as a first step. This information needs to be more detailed in following booklets; one booklet for each sector is recommended. Institutional booklets should be designed according to the corporate

²³⁰ See SPVS-IV-No.187-2001 Art. 81.

²³¹ See Bickerton, Paulina; Bickerton Matthew; and Upkar Pardesi (2000) Pp.164-165.

image of the SPVS in order to promote images of reliability, trustworthiness and security. The contents should be developed according to each target group. The content of the conferences suggested in the previous section can be developed in writing since these conferences include the main subjects that the target group is interested in. The information should be explained in detail.

The RMP plays an important role in communication. As previously analysed, this body is created in order to spread information to the market participants and people in general. This body should be in charge of taking care of the public's questions and concerns. It will mainly offer general and specific information about the market and will be responsible for information management and its diffusion on the internet. In this sense, it is important to qualify the person in charge of the RMP, not only in technical subjects but also in customer service. This unit will be the only connection between the SPVS and the customers or participants. It is not only responsible for spreading information, but also for supporting the education of participants.

4.4.3 Advertising

Even though advertisement is the most dominant communication tool, our target group is so specific that it is suggested that the SPVS not invest in paid informative advertising. According to our surveys, *printed media* (magazines and newspapers) can be a more effective alternative to the traditional broadcast (television and radio). In order to reach investors, newspapers can be targeted and especially those with a financial supplement (Bolivian Times, La Razón, El Diario). Producers can be reached through the magazines and bulletins printed by the chambers and producers associations, as most of them have a low price or are distributed for free to their members.

The message should not be a traditional advertisement. What needs to be communicated is data about the market's operations and information about where to get specific information. The design should consider that the capital market is uncertain, so efficient flows of

information are vital and, because of the investment, risk levels are likely to be high.²³²

Direct marketing can be used in order to spread information, educate customers about the features and applications, reduce risk and increase the interest in the commodities market. The RMV already has an **e-mailing** database created to spread daily information to the people interested in the stock exchange market. The structure of this information system can also be applied to the commodities market. For this, the database will need to be fed additional data and statistics.

It is important to build up the database with people interested in the information, so the SPVS should offer this service. However it should be the user who registers him or herself through the web site. Otherwise unsolicited e-mails could end up causing irritation.²³³ The service can be offered through the chambers and associations related to the market and to the people already registered in the stock exchange market database.

The information contained in these daily e-mail reports should be provided by the RMP, that is to say, content with relevant facts and periodic operations. It can also be used for the diffusion of publications and regulation related to the market. Considering the schedule of the mercantile exchange, this information can be sent daily to the customers (direct mail marketing²³⁴) to read during their commute at the end of the working day. That way the information can be used to plan the operations of the following day.

4.4.4 Public Relations

The use of public relations should stimulate a positive interest in the market by sending out media releases, holding press conferences and staging special events.²³⁵

One of the main activities of the SPVS is to prepare press releases which can be distributed through the web site. Through the use of a press code and password, the journalists can access pictures, videos and stories about the market, products and trading.

²³² See Bateson, John; and Hoffman, Douglas (1999) p.168.

²³³ See Bickerton, Paulina; Bickerton Matthew; and Upkar Pardesi (2000) Pp. 209-217.

²³⁴ See Kotler, Philip; and Armstrong Gary (2006) Pp. 510-511.

²³⁵ See Lovelock, Christopher and Wright, Lawren (2002) Pp. 254-255.

It is important to motivate specialists in the SPVS, the commodities exchange and brokers to write articles and papers, as this will not only provide valuable information to costumers, but will also show more professionalism and a better image to the market. A summary of these papers can be promoted through the press and the articles/papers can be downloaded from the web site.

Press conferences can be arranged if there is a newsworthy event or relevant information to be publicised. Good relationships with journalists are important to transmit information to the market, so a reputation of openness and transparency should be developed.

4.5 SELECTED TOPICS OF COMMUNICATION MIX

As seen in the previous part of this study, the main topics of implementation can be divided into two main areas:

- Internal, related to organizational changes in order to improve the service
- External, based on communication, where the main tool to be used is the communication on the website.

In order to facilitate the implementation of these main aspects, the Function Manual and the website functional concept are proposed.

4.5.1 Function Manual Proposed for the SPVS Commodities Market Unit

JOB POSITION	CODE
REGISTER OF COMMODITIES ANALYST	VAL EMI - 04 ²³⁶
UNIT	
Stocks Intendance – Register	
POSITION OBJECTIVES	
To analyze the enrolment applications of both natural and juridical persons, manifesting his or her opinion and recommendation about the application.	

²³⁶ This code follows the actual codification in the SPVS.

To support the promotion and development of the market and to manage the information content in the register.	
DEPENDENCY RELATIONS	
UPPER LEVEL	SUBORDINATES
Exchange and Commodities Market Register Director	None
COORDINATION RELATIONSHIP	
Internal Coordination	External Coordination
Exchange and Commodities Market Register Director Commodities Market Analyst	All the enrolled persons applying or registered in the Register People interested on the market
FUNCTION DESCRIPTION	
<p>To control the performance of the laws and norms established by the SPVS.</p> <p>To develop technical studies to support and improve the information transparency in the commodities market.</p> <p>To ensure that the presentation of the financial information, legal and relevant information is made on time.</p> <p>To custody the documentation and information of the Register.</p> <p>To support and propose the promotion activities for the development of the market.</p> <p>To promote and improve the information diffusion.</p> <p>To participate in the studies and elaboration of the regulation projects and development of the market.</p> <p>Other activities related and corresponding to the function.</p>	
PROFILE REQUIRED FOR THE POSITION	
Academic Background	Economist, Financial Auditor, Business Administrator, Business Engineer or similar professions.
Experience	Not required
Special Knowledge	About the laws, legal dispositions related to the market and the SPVS. Marketing skills. Computer knowledge and programming.

Special Skills	Initiative, creativity, innovation capability and organization. Communication abilities. Aptitude for teamwork Ethical attitude.	
JOB POSITION		CODE
COMMODITIES MARKET ANALYST I		VAL INT – 06
UNIT		
Stocks Intendance – Intermediaries		
POSITION OBJECTIVES		
<p>To analyze the technical aspects of the enrolment applications made by clearing houses, mercantile exchange, brokerage houses and brokers; manifesting his or her professional opinion and recommendation about the application.</p> <p>To control the intermediaries in the commodities market, in order to achieve a well developed market, secure, transparent and trustworthy.</p>		
DEPENDENCY RELATIONS		
UPPER LEVEL		SUBORDINATES
Intermediaries Director		None
COORDINATION RELATIONSHIP		
Internal Coordination		External Coordination
Intermediaries Director. Register of Commodities Analyst		Clearing House Brokers Brokerage Houses Mercantile Exchange
FUNCTION DESCRIPTION		
<p>To control the performance of the laws and norms established by the SPVS.</p> <p>To develop technical studies to support and improve negotiations in the commodities market.</p> <p>To ensure that the presentation of financial information, legal and relevant information is real and trustworthy.</p>		

<p>To promote and improve the information presentation.</p> <p>To inspect the intermediaries in order to control their activities.</p> <p>To ensure that the operations made in the market follow a clear, organized and fair process.</p> <p>To participate in the studies and elaboration of the regulation projects and development of the market.</p> <p>Other activities related and corresponding to the function.</p>	
PROFILE REQUIRED FOR THE POSITION	
Academic Background	Economist, Financial Auditor, Business Administrator, Business Engineer or similar professions.
Experience	Not required
Special Knowledge	About the laws, legal dispositions related to the market and the SPVS. Financial skills.
Special Skills	Analysis capability and organization. Aptitude for teamwork Ethical attitude.

JOB POSITION	CODE
COMMODITIES MARKET ANALYST II	VAL INT – 07
UNIT	
Stocks Intendance – Intermediaries	
POSITION OBJECTIVES	
<p>To analyze the technical aspects of the enrolment applications made for the commodities manifesting his or her professional opinion and recommendation about the application.</p> <p>To control the commodities trade, in order to achieve a fair market, secure, transparent and trustworthy.</p>	
DEPENDENCY RELATIONS	
UPPER LEVEL	SUBORDINATES
Intermediaries Director	None

COORDINATION RELATIONSHIP	
Internal Coordination	External Coordination
Intermediaries Director. Register of Commodities Analyst	Clearing House Brokers Brokerage Houses Mercantile Exchange
FUNCTION DESCRIPTION	
<p>To control the performance of the laws and norms established by the SPVS about commodities.</p> <p>To develop technical studies to support and improve the commodities trade.</p> <p>To ensure that the presentation of financial information, legal and relevant information about commodities is real and trustworthy.</p> <p>To control that the operations made in the market follow a clear, organized and fair process.</p> <p>To participate in the studies and elaboration of the regulation projects and development of the commodities trade.</p> <p>Other activities related and corresponding to the function.</p>	
PROFILE REQUIRED FOR THE POSITION	
Academic Background	Economist, Financial Auditor, Business Administrator, Business Engineer or similar professions.
Experience	Not required
Special Knowledge	About the laws, legal dispositions related to the market and the SPVS. Financial skills.
Special Skills	Analysis capability and organization. Aptitude for teamwork Ethical attitude.

4.5.2 Commodities Market Web site Functional Concept

Introduction

The creation of the commodities market requires the diffusion of market information with transparency and good timing. Through the use of the internet, the SPVS will not only

achieve this goal but will also incur low costs of information diffusion and generate widespread interest in the market.

The administration of information should be made by the Public Register (called by law Register of the Stocks Market RMV).

The software development can be made by the Information Systems Unit in the SPVS.

A key challenge of designing a web site is to make it attractive for the target group. Kotler suggests paying attention to the seven Cs of web site design: context, content, community, customization, communication, connection and commerce²³⁷.

Language versions

This web site is oriented to all participants of the commodities market, including international and domestic investors. Consequently, it must be developed in *Spanish* and *English*.

Functional Concept

This web site's functional concept describes the function, structure and contents of the SPVS just for the commodities market information. For a better illustration, a sketch of the screens will be made. The design should be defined according to the institutional image of the SPVS.

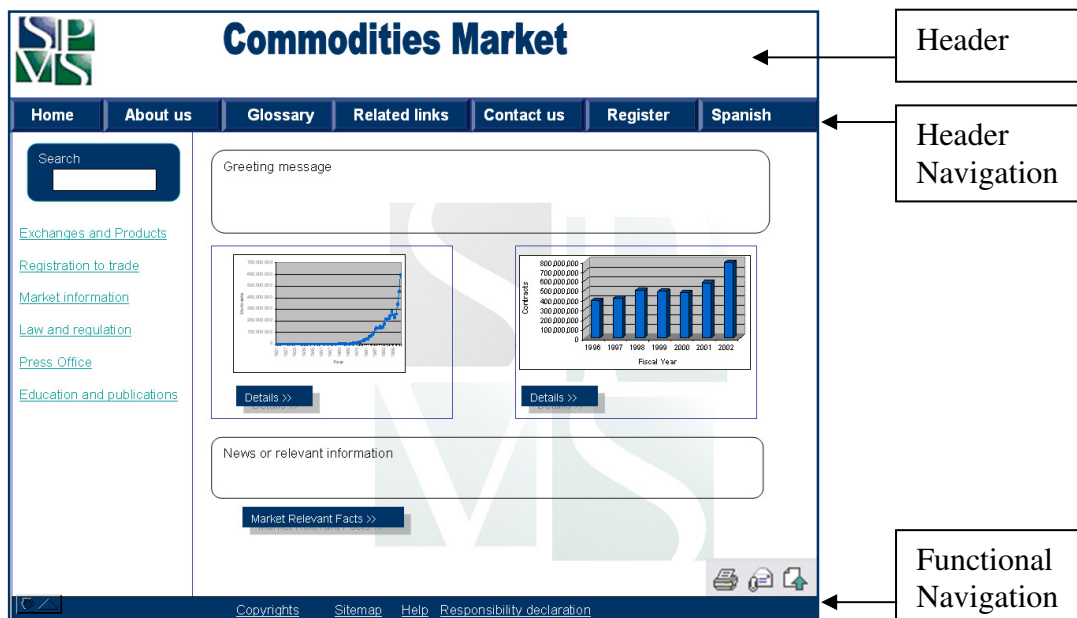
For an easier presentation the information will be divided into:

- Exchanges and Products
- Registration to trade
- Market information
- Law and regulation
- Press Office
- Education and publications

²³⁷ See Kotler, Philip; and Armstrong Gary (2006) p.565-582.

Page structure

General structure

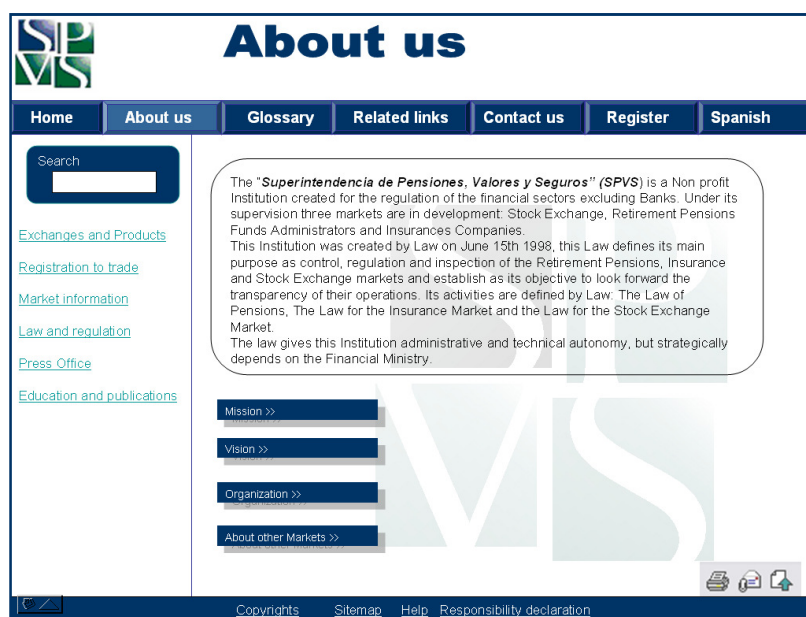


Header: with SPVS Logo and institutional colours (blue and green)

Header navigation:

Home: With this button the user can return to this page at any time.

About us: Contains information about the SPVS.



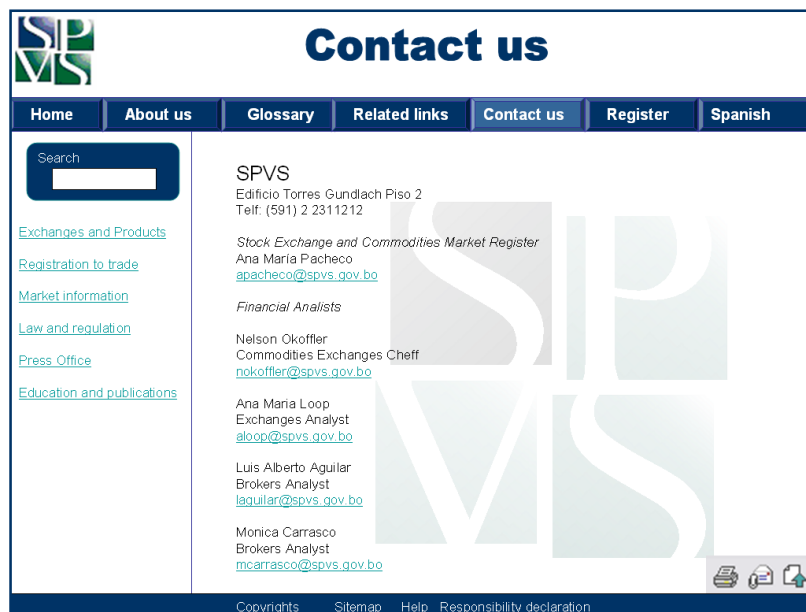
Glossary: As the information contained in this web site is specific, a glossary is required in order to facilitate the understanding of the information.



Related Links: Will show a list of links to related web sites and to web sites of the market participants.



Contact Us: This button will provide a list of SPVS employees in charge of each unit and their contact information, including telephone number, fax and e-mail



Register: Will give access to information about how to register in order to participate in the market.



Language: Will give the possibility to change from Spanish to English and vice versa.



Functional navigation at the end of the page:

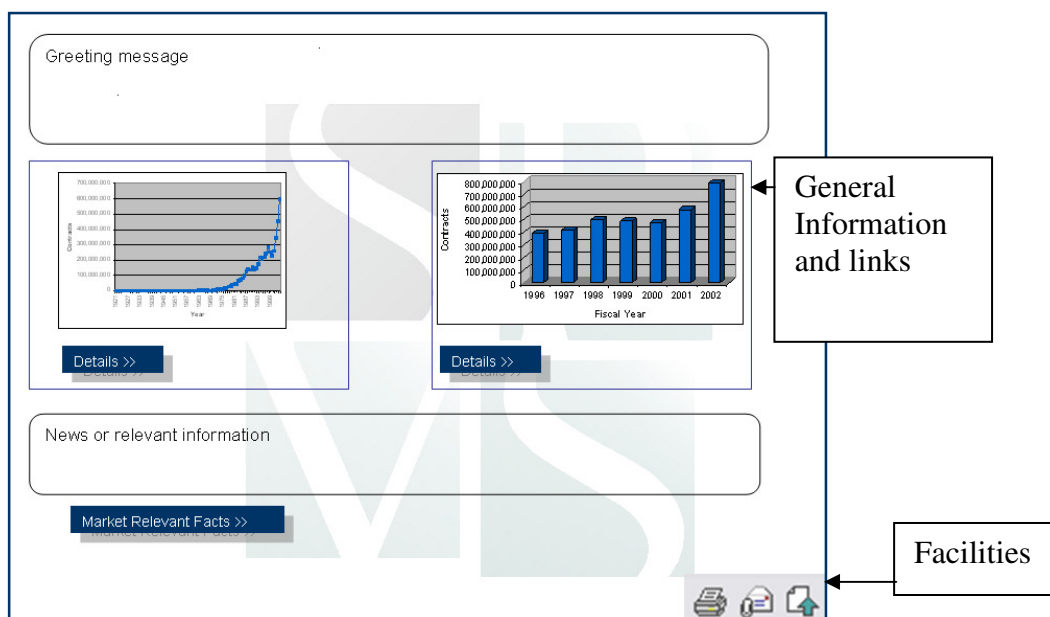
Copyrights: Specify the aim of public information

Sitemap: This button will provide the structure of the web site.

Help: About the construction of the web site

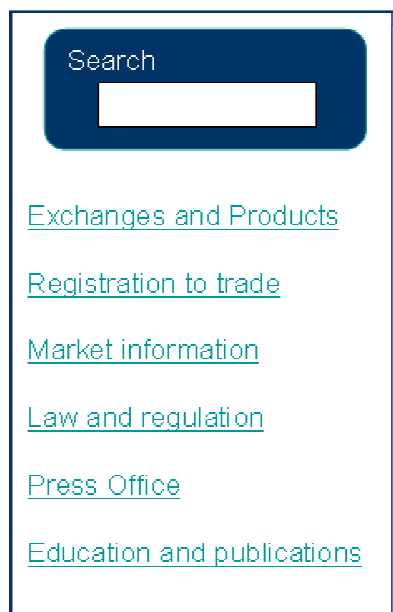
Responsibility declaration: According to the Law, the responsibility of the information provided to the SPVS falls on the provider (in this case the intermediaries of the commodities market)

Contents



Information Navigation

Access to market information can be through search tool, menu and information index



Search tool: Operated by key words will search in the whole web site.

Information Index: containing the categories listed below and also the following sub-categories:

Exchange and Products: Information about the exchanges registered and their publications. Information about the products authorized for trading, procedures for listing products, the rules and norms applying to product listings, and contacts for additional information (exchanges, clearing organizations, product listings).

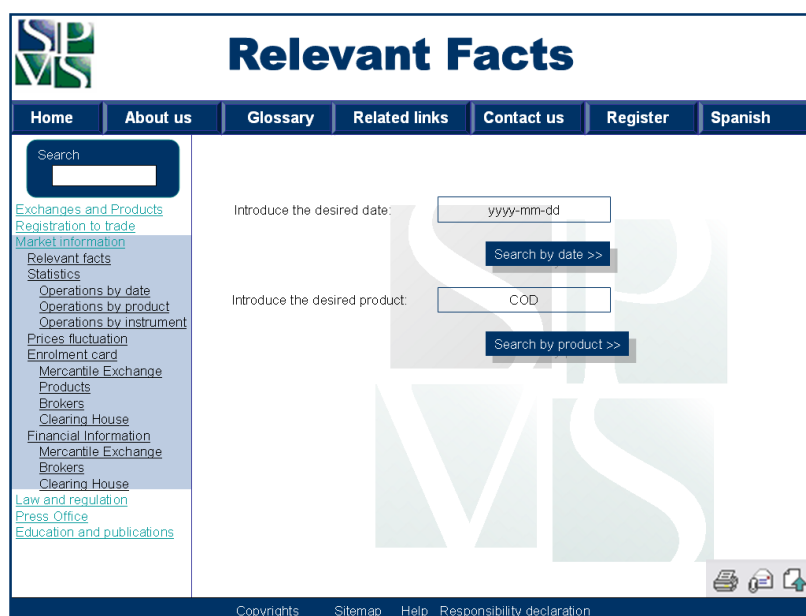
Registration to trade: Shows the requirements for enrolment in the public register of the SPVS. With this button the user can also have the possibility to download the required forms.



Market Information: Through this button the user will have access to the enrolment information, periodic information and relevant facts.



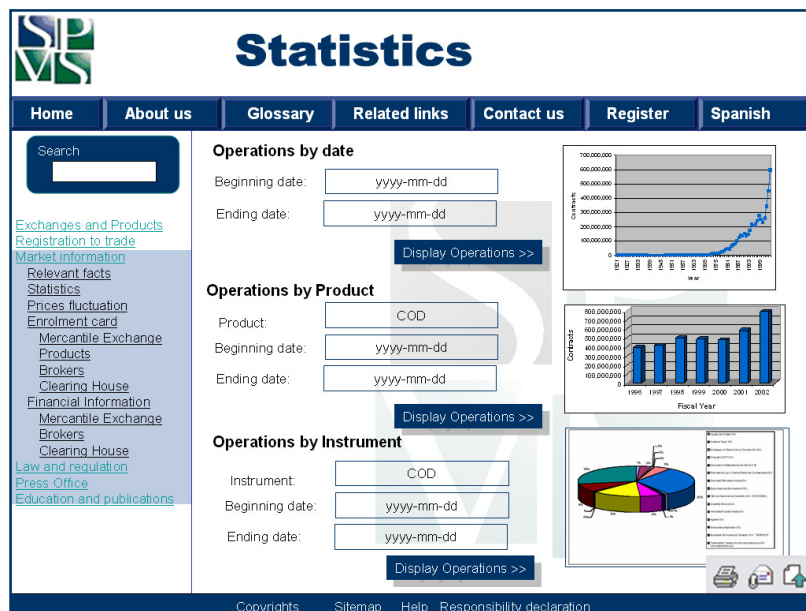
The main facts of the current day's trading should be displayed, but the user should have the opportunity for search for special information by date or by product.



Once the user chooses either the date or the product, the results should be shown as follows:

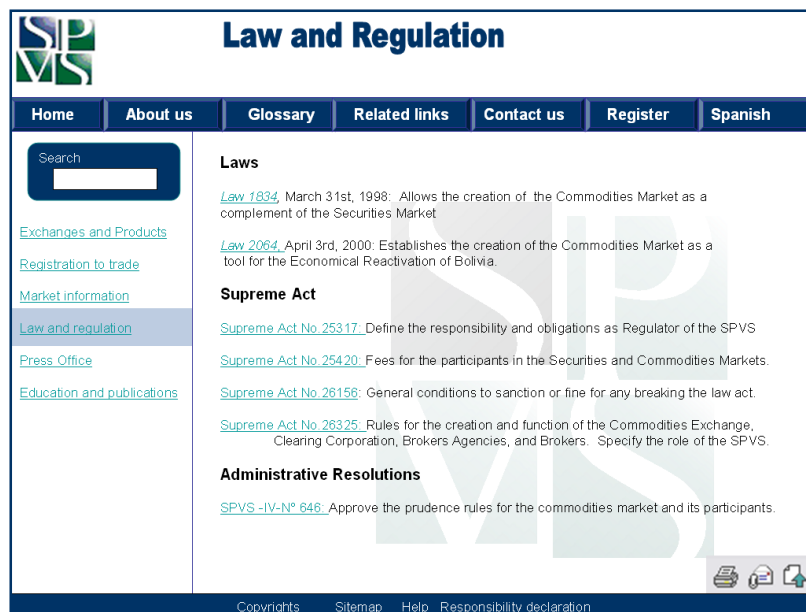


Additional information is required for investors and for suppliers of commodities. The statistics are important and the possibilities of selecting statistics by date, instrument and product is required.



Law and Regulation

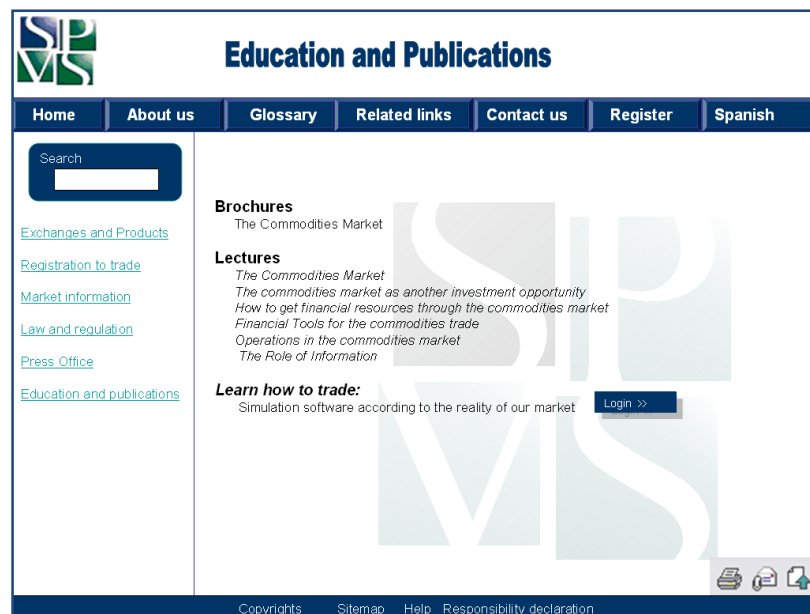
The SPVS as the regulator is responsible of publishing the laws, Supreme Acts and Resolutions to ensure a clear functioning of the market. Their diffusion is necessary for the correct development of the market.



Press Office: Access with the help of a password will give the right to read daily information about the market participants, commodities and prices in press formats with pictures and descriptions. The daily information is often a source of news for journalists and its management can help the SPVS promote transparency.



Education: Will lead users to the training instruments, brochures, lectures on line, downloads and glossary.



The simulation software requires a login ID. The user should be encouraged to create an account in order to simulate buying and selling commodities. Every day, depending on market prices, the user can follow their account status and check if profits were made. This software is just to show how the market works, no money is required and no money is paid.

4.6 IMPLEMENTATION, CONTROL AND FEEDBACK

The implementation, control and feedback of the marketing planning process are three closely related issues; they aim to accomplish the goals set.

The plans should be executed properly, but the results will be defined by the employees' participation and engagement, resources, core competences and possibilities. No matter how well designed the plan is, it can fail if the strategy and the personal commitment are unsuccessful.

Having information is the key factor to evaluate the success of the strategy. Indeed information about customer satisfaction, employee engagement and cost of customer service and productivity is crucial. "Short and informal communications channels and lines of

decision making are necessary in order to be flexible and react quickly to changes”²³⁸.

The marketing strategy and the marketing mix will steer the control activity. It is important to define success factors for the service, so by supervising these factors, the goal can be achieved. Corrective actions should be taken when needed, and processes should be flexible enough to allow changes and modifications. .

Feedback is helpful to review the process, adjust it and improve it.

As defined in chapter one, the implementation of this project is subject to the financing negotiations of the SPVS with international organizations, and will not be a part of this study.

4.7 SUMMARY

In order to achieve the goals set at the start of this study, a product development strategy is proposed. This strategy is based on four main points: Development of image and reputation; information spread; potential participants’ education; and a suitable organizational structure and qualified employees.

Even though the survey has shown that the SPVS is considered as a trustworthy and competent institution with qualified employees, this image is not immediately transferred to the commodities market. An image of market transparency is required. Therefore, it will be important to focus on confidence benefits by building trust in the market’s performance, faith in the system, realistic expectations and a high level of service. These characteristics will be developed through customer service, public relations and transparency in information-spread.

The role of the public register RMP is vital, as this unit is responsible for the information-spread. In order to achieve the target segments, it is important to create a database in order to develop a daily e-mailing report, develop a trading simulator software online, provide complete information on the web site; organise seminars for journalists, borrowers and lenders, arrange lectures and printed material related to the market, support universities and

²³⁸ See Kasper, Hans, van Helsdingen, Piet and de Vries jr., Wouter (1999). *Services Marketing Management: An International Perspective*. John Wiley & Sons Ltd. New York, USA.p. 674.

educational institutes and present information about where to find additional data.

Lectures, brochures and booklets are effective educational material, so it is important to consider education as a continuous process. It will start by attracting the interest of potential customers through advertising in printed media. It will then be reinforced through lectures and printed material and will be developed daily through public relations and market reports published in newspapers.

Finally, a qualified structure requires some changes, modifications to the current organization are proposed, seminars and especial training for the SPVS employees are required, and therefore courses and praxis in other countries are proposed.

5. CONCLUSIONS

One of the main tools for the sustainable development of a country is to have a stable and strong financial market. According to statistics, the financial market in Bolivia has shown a stable behavior. Nevertheless, the sociopolitical instability and the lack of information have affected its development.

Through this analysis, the productive capacity of Bolivia was determined as poor mainly because of producers' lack of education and poverty. The lack of monetary resources hampers the government's desire to develop production incentives. One tool to increase investment in the Bolivian productive sector is commodities trading.

In 2000, to promote the development of a sound economic system, the Bolivian government approved the Economic Reactivation Law. Through this law a reactivation strategy was developed and the creation of the commodities market was suggested as an essential tool to channel capital into the financial market. The commodities market is meant to support the development of the productive sector by transferring investment directly to the producers. The aim is for this transfer to increase the liquidity in the productive sector, contribute to the stability and depth of financial markets, create conditions to diversify investments and manage risks, and mainly channel savings into productive investment.

Some studies made by private institutions involved in this project attracted the attention of private investors to create the Mercantile Exchange, which initially would focus on the trade of agrarian products. Unfortunately, nine years after the promulgation of the Economic Reactivation Law, the mercantile exchange is still not in operation, and there is no official

intention of creating the intermediaries such as brokers, general depots, quality certifiers and clearing house. Part of the reason for this delay is that the current conflicts in the political and social environment prevent the establishment of a favorable investment atmosphere. The delay is also of course a result of poor education levels, poor knowledge about the market and a lack of information spread. The surveys conducted for this study show that the lack of understanding about the market generates an incorrect perception of the opportunities and the market's role. This in turn confirms the need for a marketing strategy to develop the commodities market.

The financial market in Bolivia is heavily regulated by the government in order to ensure the soundness of the financial system, improve control of monetary policy and increase the information available to investors. Even though the banking sector is the dominant financial institution, the market's structure allows for the participation of a strong securities market with continuous growth. The commodities market is, according to the law, considered to be part of the securities market.

The regulation of the Bolivian financial system is under the control of the Treasury Department, through the Retirement Funds and Financial Services Department. The SPVS is controlled by this department and considered to be an administrative and technically autonomous unit. Therefore, the SPVS can rapidly create or modify specific laws in order to promote the controlled growth of the commodities market. Since 2000 the SPVS has been working on the development of the commodities market, but creating the laws is just one part of the development. A lack of information, education and knowledge about the market came up clearly in this analysis through interviews with SPVS employees, and the need of a marketing strategy has been proven.

From the study of different definitions, it is possible to conclude that Financial Services Marketing is a process that offers financial value in order to satisfy customer needs and create satisfaction. In this context the Strategic Marketing Plan was followed in the first two phases: Environment Analysis and Planning (Strategic Company Planning, Strategic Marketing Planning and Operative Marketing Planning). Due to the political uncertainty in Bolivia, the last two phases of the Marketing Plan - implementation and control - are not dealt with in this study.

The environmental analysis established that the current socio-political situation in Bolivia was unfavourable for investments. The current Bolivian government has given strong priority to its political agenda, mainly the approval and establishment of the new State Political Constitution (CPE), which is seen by many analysts as full of anomalies and illegalities that exclude a great part of the population from the political process. This caused great confrontation between sectors of the population and led to demonstrations, violent protests and blockades. This in turn had a negative effect on financial investments. Even though the election of Evo Morales to the Presidency of Bolivia presented a new opportunity for the country, the factors that dominate the political debate at the moment elevate the degree of national fragmentation and fail to contribute to real political and economic stability. Indeed, the political arena has been plagued by requests for greater autonomy by some regions of the country.

Because of the negative effect of political instability on investments and the attitude of international investors toward the “nationalization” process developed by the Bolivian government, it was suggested in this study to initiate marketing activities oriented to domestic investors only, and to create incentives, like tax exemptions, to promote investments in this market. The social unrest and desire for regional autonomy explains why the mercantile exchange is located in Santa Cruz, near the main agrarian area.

Even though economic analyses demonstrate that Bolivia is not taking advantage of the favourable external situation in order to obtain higher growth, many economic indicators show a good state of the economic situation, mainly a relatively strong and stable financial market. Continuous financial growth, sound liquidity levels and the preference of the public for debt instruments show that a good opportunity exists for the stable development of the commodities market.

Looking toward the creation of an organized commodities market, the SPVS has created laws which promote security and transparency in operations; it has also defined the role of each participant in the market by establishing their responsibilities and limitations. The mercantile exchange has also conducted feasibility studies and agreed to start operations in the agrarian sector. Nevertheless, even though the SPVS has emitted specific norms that define the participants’ obligations and limitations, the operational system, the public auction system

(open outcry); the financial tools (cash, forwards, futures and options, repo and contracts upon maturity) and the pricing process, the market has not started operations yet. The need for a marketing strategy is again made clear.

In order to define the marketing strategy three levels of planning have been distinguished.

Strategic planning: defines the main path to growth. The mission and vision for the SPVS were redefined in order to incorporate the commodities market as a market under its tuition; and new objectives were proposed, each of them with corresponding key success factors.

The strategy proposed for the SPVS includes the development of the commodities market as an important part of the development of the intendancy of exchange. A “product (service) development strategy” was defined, since market growth is the main goal and a new financial service will be introduced. This is also a diversification strategy because it includes offering different services and investment alternatives in the commodities market.

Strategic marketing plan: The implementation of the marketing plan focuses the first stage of the project on two different target groups: domestic institutional and corporate borrowers on the one hand and agrarian lenders registered as large-scale tax payers and small-scale organized tax payers on the other hand.

Perceptual Maps or Positioning Maps were also used in order to identify the most critical attributes of competing services from the customer’s perspective. Through surveys, a comparison between banking, loan & savings institutions, stock exchange market and commodities market attributes was made and the gap with the SPVS expectation was defined.

The results of this study mainly revealed that:

The SPVS enjoys a good reputation in the financial market, characterized by the qualification of their employees and a professional behaviour which led to good organization and fairness in the market.

Lenders have a wrong perception of risk levels in the market primarily because of a lack of information, but they have positive expectations toward market liquidity and profitability. The

role of brokers as facilitators in the trading process seems to compensate for the perception of a “complicated” market to navigate in. A great demand for information was exposed and included the need for education about the market’s operations. It was shown that high expectations about transaction costs exist and that people place significant importance on the need for clear information as a market transparency indicator.

For borrowers the surveys served to highlight their ignorance about the market’s operations and the need for education and information. Indeed, they perceive the commodities market to be complex and difficult as a way to access credit due to the high degree of technical knowledge required and because the requirements established by the law are not yet of public knowledge. Wrong perceptions about liquidity and profitability and a cautious view are again the result of a lack of education about the market.

Operative marketing plan: With these results, the marketing plan proposed four main pillars: SPVS image and reputation in order to achieve confidence in the market; education about the market and its implications; information about the market, products, operations and the law; and an adequate organizational structure in order to achieve a transparent market.

The proposal is divided into two parts: first an operative marketing plan is considered. Then, to generate a better image and reputation of the market, a few activities are suggested, including education about operations, information diffusion tools, a suitable organizational structure and qualified employees. These activities are closely related to each other. Market education and information spread will have repercussions on the image and reputation of the SPVS and the market. Indeed they will create confidence in the market’s performance, encourage trust in the system and help set realistic expectations about the market. Information is required to achieve market transparency, clarity and trust.

The following table summarizes the operative activities proposed, relating each of them to the set of problems defined in the first chapter of this study. As a result, the hypothesis developed is confirmed and the fulfillment of the objectives is guaranteed.

Table 15: Solutions proposal

Main Goal	Goals	Goals Factors	Tasks/Problems:	Solutions:
Commodities Market Development	Investment	Acceptance from Investors	Achieve credibility and confidence	Provide information for decision making
			Lack of market information	Internet
				E-mailing
				Lectures
			Lack of a specific perception of the market	Information as an image generator
				Public Relations: Press
			Transaction costs not defined	Pricing Strategy
			Ignorance about the market	Lectures for Target Group
				Lectures through Universities
	Direct marketing			
	Printed material: information, brochures and booklets			
	Incentives for investments	Tax exemptions		
	Commodities Supply	Education and knowledge	Facilitate the acquisition of operating capital	Through a transparent, secure and confident market based on demand and supply
			Promote agricultural trading	Providing the mechanisms for trade
			Transaction costs not defined	Pricing Strategy
			Need for advice and information	Placement Strategy: New location Santa Cruz
				Public Register (RMP) as information spreading unit
				HHRR Special Training
Ignorance about the market			Lectures for Target Group	
			Lectures through Universities	
			Printed material: Information brochures and booklets	
	Direct marketing			

As a final result of this study we can accept the hypothesis defined (Figure 45).

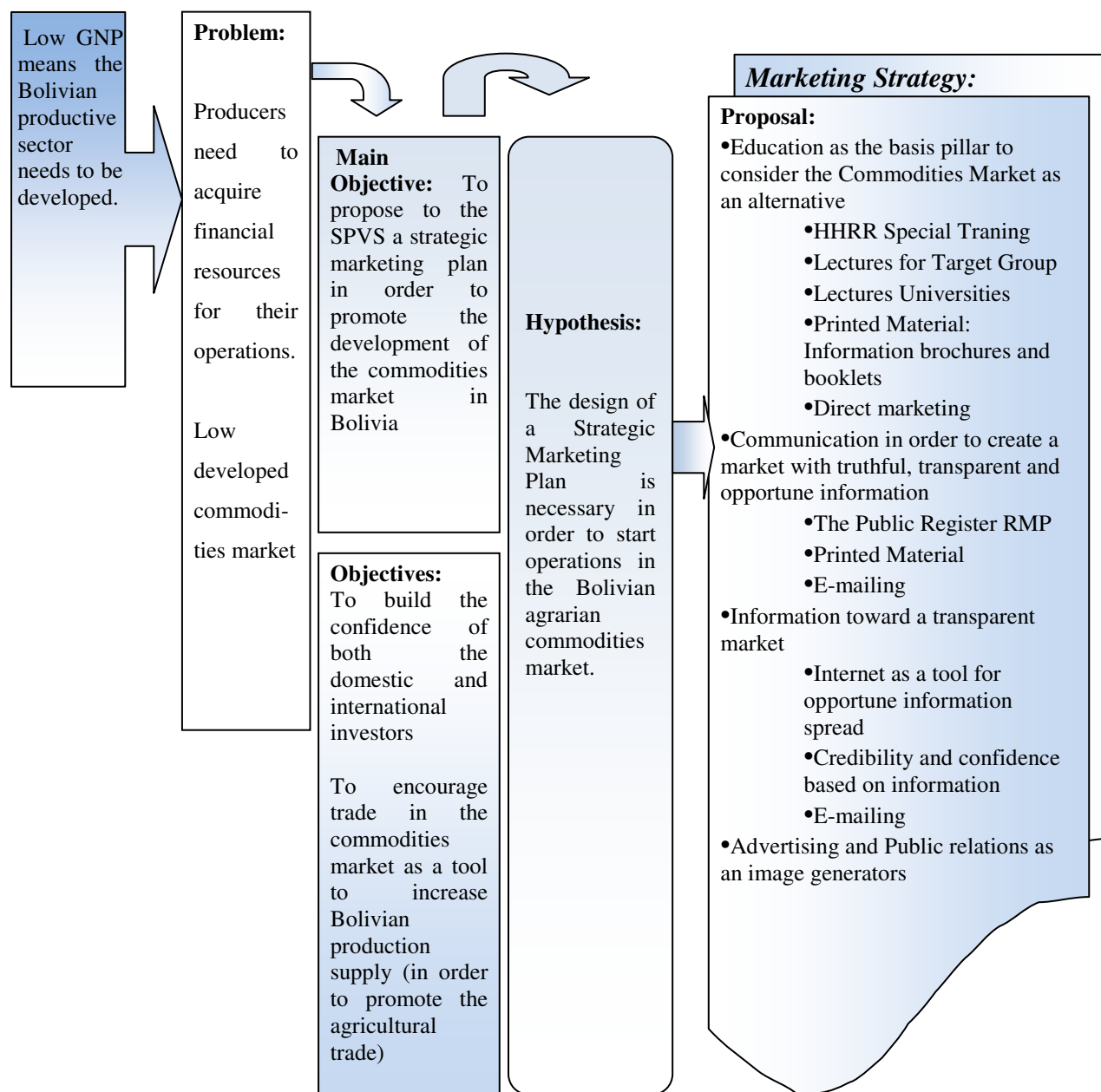


Figure 45: Proposal

It is important for the SPVS to obtain the financial resources to execute the marketing plan as soon as possible because the constant changes in the political and social situation could make the continuous development of this market difficult and full of delays. At present, international organizations such as the World Bank, the CAF or the BID support this

initiative, which in turn makes financing this marketing plan feasible in the short term.

The importance of the role of the intermediaries in the market has been observed, mainly of the brokerage agencies and mercantile exchange as facilitators in the process, advisers and educators.

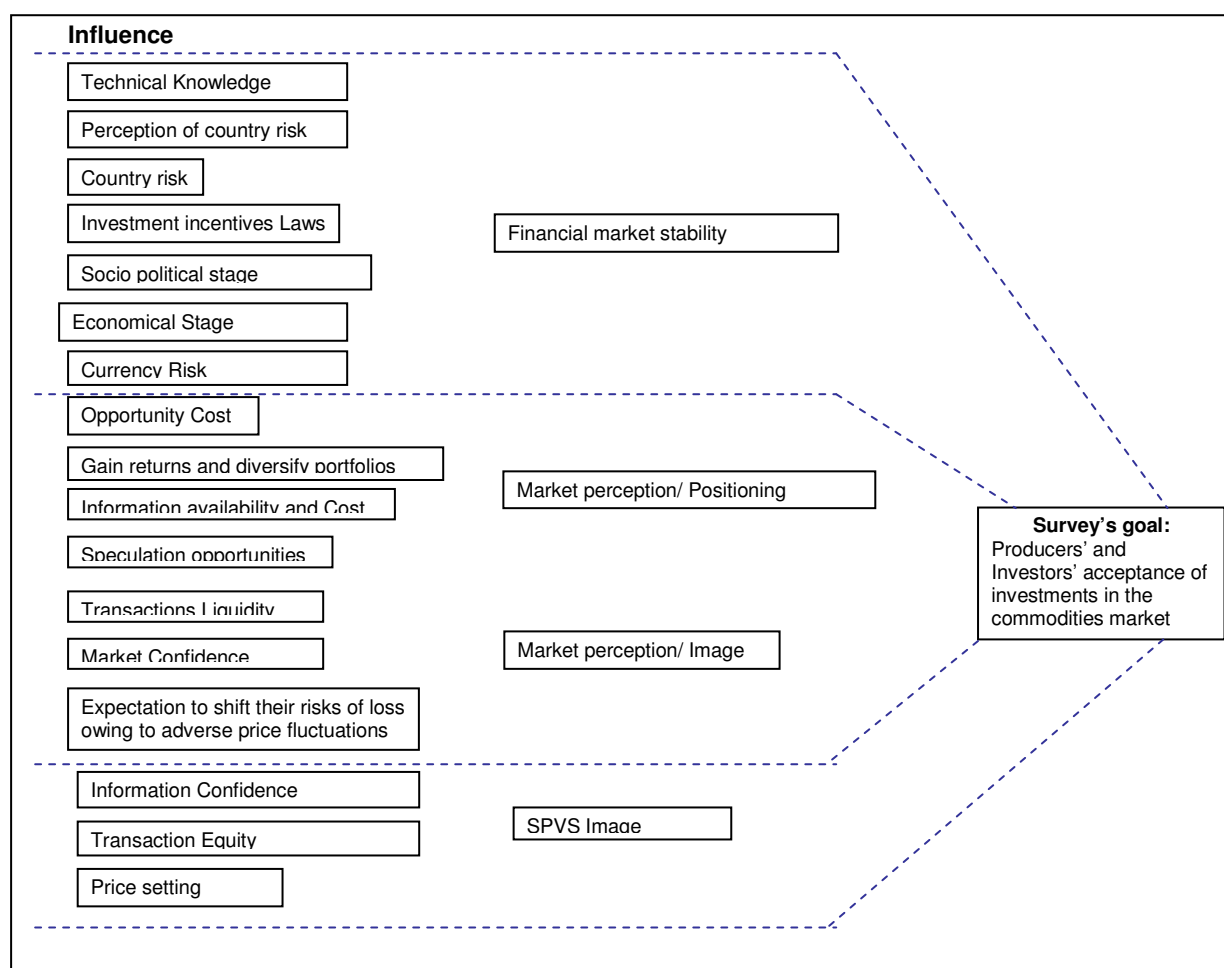
The need for a continuous process has been observed throughout this study. Continuity will help create a trade market for agricultural products that can then be extended to support investments in other productive sectors such as mining, livestock ranching and others.

APPENDIX 1: SURVEY DESIGN

Survey's Goal:

To analyze the perceptions of producers and investors and evaluate their acceptance of investments made in the commodities market.

Framework



Study design

The study was made with the use of qualitative research, so that a more flexible relationship with the target group can be established. The information result in a more in-depth and richer study of the context. These conditions are required in order to find new insights and

perspectives.²³⁹ Sixteen face to face interviews and individual semi-structured questionnaires were conducted with the respondent to get his/her perception in detail. In order to increase the response quality and considering that the population size is large and homogeneous, the study was made with non probabilistic sampling.

The target population was key factor, in the case of producers affiliated to the Hydrocarbon and Farming Chambers were considered. For the investors sampling, information from the Commerce and Industry Chamber were considered.

Two different questionnaires will be elaborated, one for producers and another for investors. The purpose of this qualitative study is to analyze the need for different marketing activities in order to achieve the producers' and investors' acceptance and their investments in the commodities market.

Investors Questionnaire

Thank you for participating in this study. Your answers will help us to analyze the *Investors* acceptance toward trading in the commodities market in Bolivia. It considers the commodities market as a financial alternative to enable different productive sectors to interact in the Bolivian market. The information provided will remain totally anonymous and will be used only for research purposes.

This questionnaire is addressed to *investors*, especially members of the Industry and Commerce chambers in Bolivia. The research is administered as a project guided by the Institute of Marketing and Management at the University of Hanover in Germany.

It takes about 25 minutes to answer the questions.

If you are interested, we will send you a summary of the survey results prior to their official presentation. Please indicate at the end of the survey if you are interested in this service.

²³⁹ Kumar, V.; Aaker, David; and Day, Georges (1999).

1. Defining the general financial market perception:

First we would like to gain some information about investments as a general topic and their importance.

a. Of the following institutions how intensive is your contact? Select one box in each line

	Very strong	strong	regular	weak	none
Bank	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Savings and Loan Cooperative	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Stock Exchange Market	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Commodities Market	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

b. Which characteristics do you look for when choosing a financial institution and which is the most important, second and third?

No. 1: _____

No. 2: _____

No. 3: _____

c. How do you feel about taking investment risks?

- I would rather be safe than sorry.
- I want to be sure before I purchase anything
- I avoid risk
- I prefer to take some risk and look for better profitability

d. In order to understand the importance of some factors on decision making about investments, please select one box per line:

	Very important	Important	undecided	Not so important	Not important at all
Technological knowledge	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Socio political stage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Economic Stage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Country risk qualifications	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Regulatory incentives (e.g. tax exemptions)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Specific risk qualification	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Currency Risk	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

e. In addition to the last question, what do you think are the three most important factors that influence investments decision making? Please rank them according to their relevance:

No. 1: _____

No. 2: _____

No. 3: _____

2. Perception about the Financial Market Stability

a. How would you define the financial market in Bolivia?

_____.

- b. Now we would like to know your opinion about the Bolivian market and the percentage amount of your investments. Please select one box in each line.

	Agree	Some what agree	undecided	Some what disagree	Disagree
I consider the Bolivian market as a good opportunity for investment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I consider Bolivia as a very stable country	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
More than the 50% of my investment is made in Bolivia	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
More than the 60% of my investment is made in Bolivia	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
More than the 70% of my investment is made in Bolivia	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I invest all my money in Bolivia	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I think the Bolivian financial market achieves the minimum requirements for my investments	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I prefer to make investments in US dollars than in Bolivianos	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3. Perception about the commodities market

Now we will specifically discuss the commodities market in Bolivia. This part is about your perception and we need you to answer honestly in order to analyze the quality and impact of the information provided about this market.

- a. Can you mention three words that come to your mind when you think of the commodities market?

_____.

b. Do you have some experience trading in the commodities market?

Yes (explain and go to d) No

_____.

c. What conditions should be present in order to encourage you to invest in this market? Please select one box in each line.

	Very important	Important	undecided	Not so important	Not important at all
more information	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ample supply of products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
economic stability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
better rates	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
speculation opportunities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other:_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

d. How would you define operations in the commodities market? Please select one of each line

Easy	<input type="checkbox"/>	Difficult	<input type="checkbox"/>
Reliable	<input type="checkbox"/>	Unreliable	<input type="checkbox"/>
Simple	<input type="checkbox"/>	Challenging	<input type="checkbox"/>
Helpful	<input type="checkbox"/>	Unhelpful	<input type="checkbox"/>

Others:_____.

e. If you have to give a grade to each of the following industries meeting your expectations, how would you rank them? Please select a box for each characteristic and each market (1 = low and 7 = high). This is important in order to understand the commodities market's positioning.

Bank

	Low						High
	1	2	3	4	5	6	7
Risk	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Liquidity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Investment Facilities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Profit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Return	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Prestige perception	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Credit Accessibility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Monetary cost	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Market confidence	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Clarity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Transparency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
My personal knowledge about it	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Loan and Savings Cooperatives

	Low						High
	1	2	3	4	5	6	7
Risk	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Liquidity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Investment Facilities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Profit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Return	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Prestige perception	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Credit Accessibility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Monetary cost	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Market confidence	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Clarity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Transparency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
My personal knowledge about it	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Stock Exchange

	Low				High		
	1	2	3	4	5	6	7
Risk	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Liquidity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Investment Facilities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Profit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Return	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Prestige perception	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Credit Accessibility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Monetary cost	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Market confidence	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Clarity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Transparency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
My personal knowledge about it	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Commodities Market

	Low				High		
	1	2	3	4	5	6	7
Risk	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Liquidity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Investment Facilities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Profit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Return	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Prestige perception	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Credit Accessibility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Monetary cost	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Market confidence	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Clarity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Transparency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
My personal knowledge about it	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

4. SPVS Image

a. Do you know which role the SPVS plays in the commodities market?

- Yes No (explain and go to b)

b. In your opinion, which aspects are the most important to describe the image of the commodities market?

c. In order to define your attitude toward the SPVS, please evaluate each of the following criteria. Select one box in each line

I consider the SPVS and its employees...

- | | | | | | | | | |
|-------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|-------------------|
| Not at all good | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | very good |
| Not at all professional | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | very professional |
| Not at all qualified | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | very qualified |
| Not at all competent | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | very competent |
| Not at all reliable | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | very reliable |
| Not at all well known | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | very well known |

d. Do you believe that they provide equality during market transactions?

- Yes No (if no, why?)
-

e. Now we would like you to express your opinion about the market price setting system. Please mark one box in each line.

I consider the market price setting system...

- | | | | | | | | | |
|---------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|-------------|
| Unattractive | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | attractive |
| Undependable | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | dependable |
| Unreliable | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | reliable |
| Untrustworthy | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | trustworthy |
| Inexperienced | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | experienced |

f. What influence do you think the government has? Is that positive or negative?

5. Communication channels

Finally, we would like you to define the importance of media as a communication channel for financial information.

a. Please rank the following information sources

- Newspaper
- Conference/University
- Magazine
- Brochure
- Television
- Internet
- Book
- Others (specify) _____.

Thank you for your time and information. For further information about this study you can write your e-mail here: _____.

Producers Questionnaire

Thank you for participating in this study. Your answers will help us to analyze the *Producers* acceptance of trading in the commodities market in Bolivia. The information provided will be totally anonymous and will be used only for research purposes.

This questionnaire is addressed to *producers*, especially members of the Agrarian and Mining Chambers in Bolivia. The research is administered as a project at the University of Hanover in Germany.

It takes about 25 minutes to answer the questions.

If you are interested, we will send you a summary of the survey results prior to their official presentation. Please indicate at the end of the survey if you are interested in this service.

1. Defining the general financial market perception:

First we would like to gain some information about the financial market as a tool used in order to finance your business operations.

a. From the following institutions how intensive is your contact?

	Very strong	strong	regular	weak	none
Bank	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Savings and Loan Cooperative	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Stock Exchange Market	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Commodities Market	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

b. Which characteristics do you look for when choosing a financial institution and which is the most important, second and third?

No. 1: _____

No. 2: _____

No. 3: _____

c. How do you feel about taking risks?

- I would rather be safe than sorry.
- I want to be sure before I purchase anything
- I avoid risk

d. Now we would like to know your opinion about financial credit opportunities.
Please select the item you feel best expresses your opinion.

Having access to financial resources:

- It is fast and easy to have credit.
- It is easy but can take some time.
- It is difficult but fast
- It is difficult and takes a long time
- It is impossible.

e. In order to understand the importance of some factors on decision making about credits management please select one box per line:

	Very important	Important	undecided	Not so important	Not important at all
Technological knowledge	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Socio political stage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Economic Stage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Country risk qualifications	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Regulatory incentives (e.g. tax exemptions)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interest rate	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Specific risk qualification	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Currency Risk	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

f. In addition to the last question, what do you think are the three most important factors that influence investments decision making? Please rank them according to their relevance:

No. 1: _____

No. 2: _____

No. 3: _____

2. Perception about Financial Market Stability

a. How would you define the financial market in Bolivia?

b. Now we would like to know your opinion about the Bolivian market and the percentage amount of your investments. Please select one box in each line.

	Agree	Some what agree	undecided	Some what disagree	Disagree
I consider that the Bolivian financial market gives minimal services required for my business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I consider Bolivia as a very stable country	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
More than 50% of my credit is obtained in Bolivia	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
More than 60% of my credit is obtained in Bolivia	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
More than 70% of my credit is obtained in Bolivia	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I finance all my operations in Bolivia	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I think the Bolivian financial market achieves the minimum requirements for my investments	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I prefer to take credit in US dollars rather than in Bolivianos	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3. Perception about the market

Now we will talk specifically about the commodities market in Bolivia. This part is about your perception and we need your honesty in order to analyze the quality and impact of the information provided about this market.

a. Can you mention three words to characterize the commodities market?

b. Do you have some experience trading in the commodities market?

Yes (explain and go to d) No

c. What conditions should be present for you to offer your products in this market? Please select one box in each line.

	Very important	Important	undecided	Not so important	Not important at all
more information	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ample demand of products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
economic stability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
better rates	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
speculation opportunities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other: _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

d. How would you define operations in the commodities market? Please select one box in each line

Easy	<input type="checkbox"/>	Difficult	<input type="checkbox"/>
Reliable	<input type="checkbox"/>	Unreliable	<input type="checkbox"/>
Simple	<input type="checkbox"/>	Challenging	<input type="checkbox"/>
Helpful	<input type="checkbox"/>	Unhelpful	<input type="checkbox"/>

Others: _____

e. If you have to give a grade for each of the following industries meeting your expectations, how would you rank them? Please select a box for each characteristic and each market (1 = low and 7 = high). This is important to understand the commodities market's positioning.

Bank

	Low				High		
	1	2	3	4	5	6	7
Risk	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Liquidity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Investment Facilities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Profit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Return	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Prestige perception	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Credit Accessibility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Monetary cost	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Market confidence	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Clarity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Transparency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
My personal knowledge about it	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Loan and Savings Cooperatives

	Low				High		
	1	2	3	4	5	6	7
Risk	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Liquidity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Investment Facilities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Profit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Return	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Prestige perception	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Credit Accessibility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Monetary cost	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Market confidence	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Clarity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Transparency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
My personal knowledge about it	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Stock Exchange

	Low			High			
	1	2	3	4	5	6	7
Risk	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Liquidity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Investment Facilities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Profit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Return	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Prestige perception	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Credit Accessibility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Monetary cost	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Market confidence	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Clarity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Transparency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
My personal knowledge about it	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Commodities Market

	Low			High			
	1	2	3	4	5	6	7
Risk	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Liquidity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Investment Facilities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Profit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Return	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Prestige perception	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Credit Accessibility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Monetary cost	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Market confidence	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Clarity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Transparency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
My personal knowledge about it	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

4. SPVS Image

a. Do you know which role the SPVS plays on the commodities market?

- Yes No (explain and go to b)

b. In your opinion, which aspects are the most important to describe the image of the commodities market?

c. In order to define your attitude toward the SPVS, please evaluate each of the following criteria. Select one box in each line to express the direction of your evaluation.

I consider the SPVS and its employees...

- | | | | | | | | | |
|-------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|-------------------|
| Not at all good | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | very good |
| Not at all professional | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | very professional |
| Not at all qualified | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | very qualified |
| Not at all competent | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | very competent |
| Not at all reliable | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | very reliable |
| Not at all well known | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | very well known |

d. Do you believe that they provide equality during market transactions?

- Yes No (if no, why?)
-

e. Now we would like you to express your opinion about the market price setting system. Please mark one box in each line to express the direction of your evaluation.

I consider the market price setting system...

- | | | | | | | | | |
|--------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|------------|
| Unattractive | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | attractive |
| Undependable | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | dependable |
| Unreliable | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | reliable |

Untrustworthy trustworthy
Inexperienced experienced

f. What influence do you think the government has? Is that positive or negative?

5. Communication channels

Finally, we would like you to define the importance of media as a communication channel for financial information.

a. Please rank the following information sources, assign the number 1 to the most important and the number 7 to the least important

- Newspaper
- Conference/University
- Magazine
- Brochure
- Television
- Internet
- Book
- Others (specify)_____

Thank you for your time and information. For further information about this study you can write your e-mail here: _____

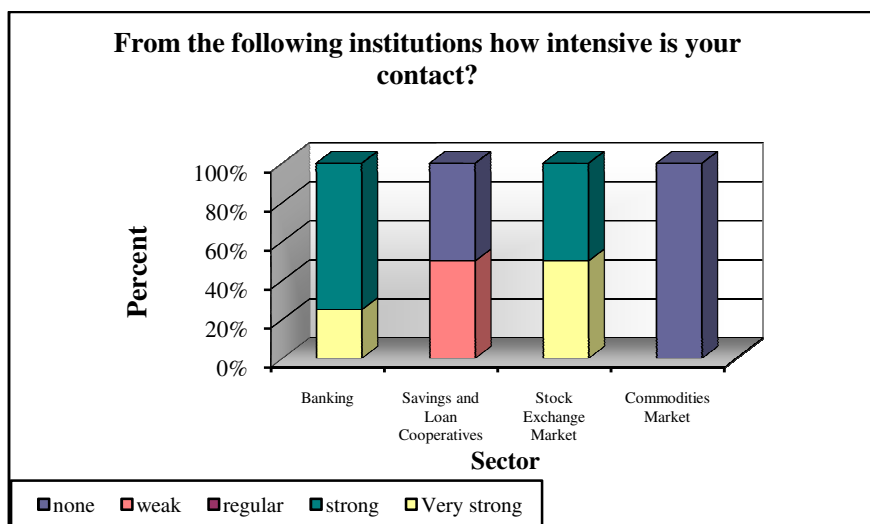
APPENDIX 2: SURVEY RESULTS

In December 2005 and January 2006 in La Paz- Bolivia, two separate surveys were conducted with executives and businessmen who were both potential producers (8 surveys) and investors (8 surveys) in the commodities market. The sample was defined randomly from a list provided by the SPVS. This list was made considering the stock exchange market information, information about the members of different chambers (commerce industry, farming, aviculture, cotton producers, milk, horticulture, oily rice dealer, wheat, cane and livestock dealers) and the associations in different sectors related to the commodities market.

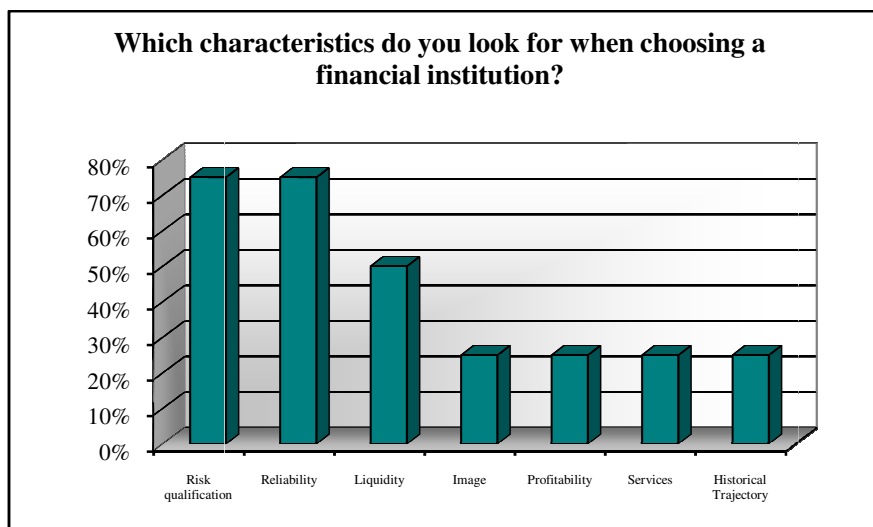
The surveys were interactive, which means that the researcher conducted face to face surveys in order to analyze the knowledge level and get an accurate understanding of these surveys. Even so, two of the surveys were not considered in the results because of inconsistencies in the answers, caused mainly by the person's ignorance about the commodities market.

The results of this survey are the following:

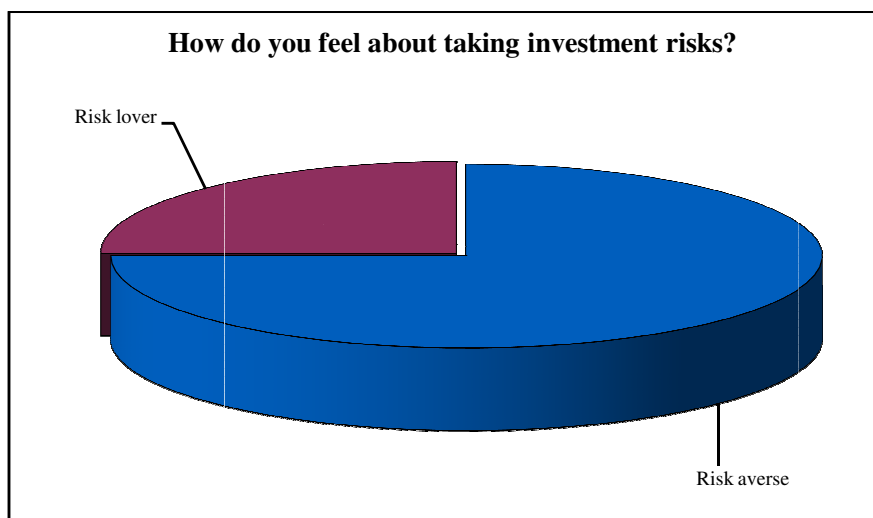
Defining the general perception of the Bolivian financial market:



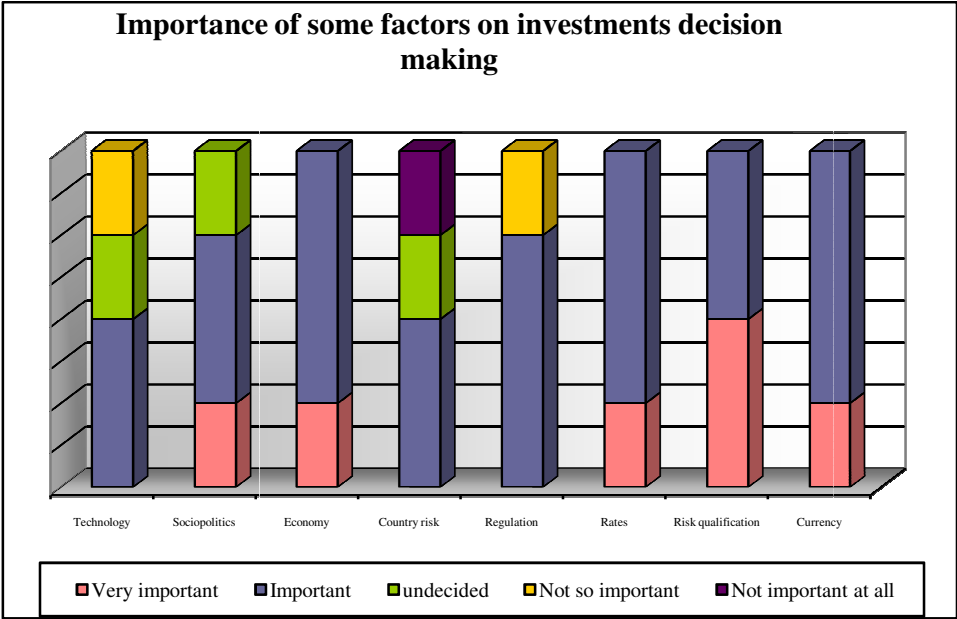
According to the above graph the sectors with greatest contact are Banking and the Stock exchange. No one had contact with the commodities market. That is because operations in the Bolivian market had not started yet and there was a strong perception of high costs involved by operating in other countries.



Nearly 75% of those interviewed placed special importance to risk qualifications and the reliability of the issuer. 50% think that liquidity is also important, while image, profitability, secure operations and the historical trajectory of the issuer seem to be less important.

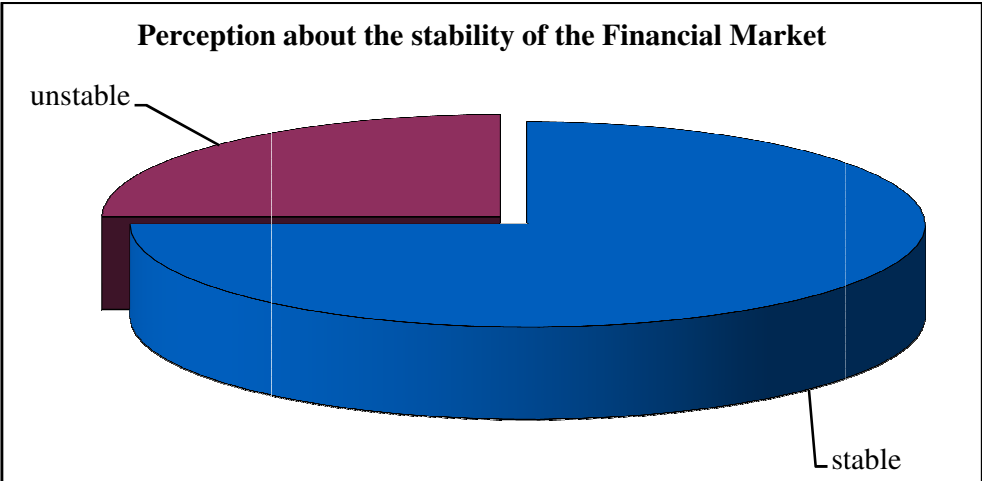


75% show a risk averse behaviour, while 25% seem to be risk lovers. This fact will not affect operations in the commodities market but will be reflected in the portfolio management.

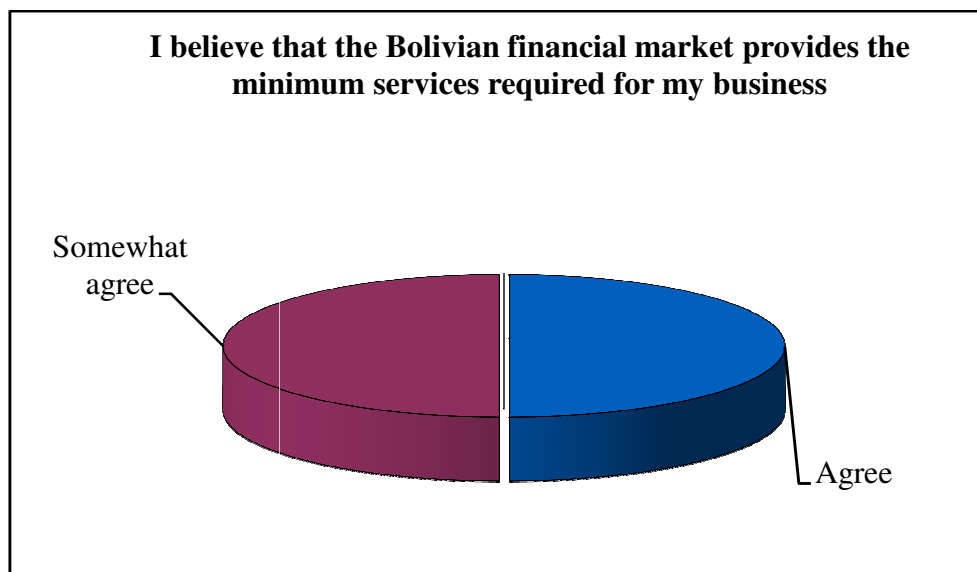


From the factors presented above, most are considered to be important. The most important factor (50%) is specific risk qualification, but the following factors are considered very important (25% each): socio-political situation, economic stability, interest rates and currency risk. The surveys show that 75% of those surveyed think that the following factors are just as important: economic stability, regulatory incentives (e.g. tax exemptions), interest rates and currency risk.

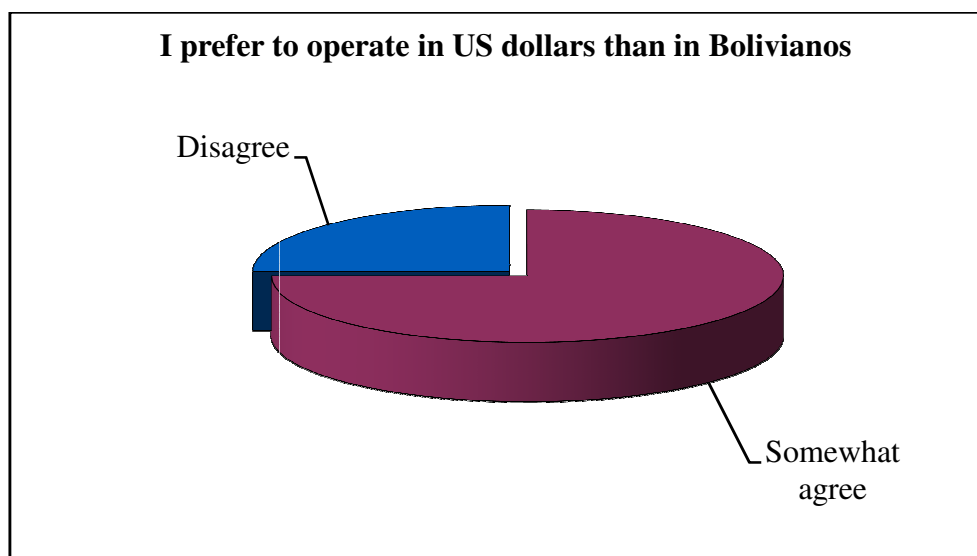
Perception about the stability of the financial market:



75% think that the financial market is stable even though the economic situation appeared to be uncertain.



The people who took the survey think that the financial market provides the minimum services in order to operate; 50% somewhat agreed, while the other 50% agreed.



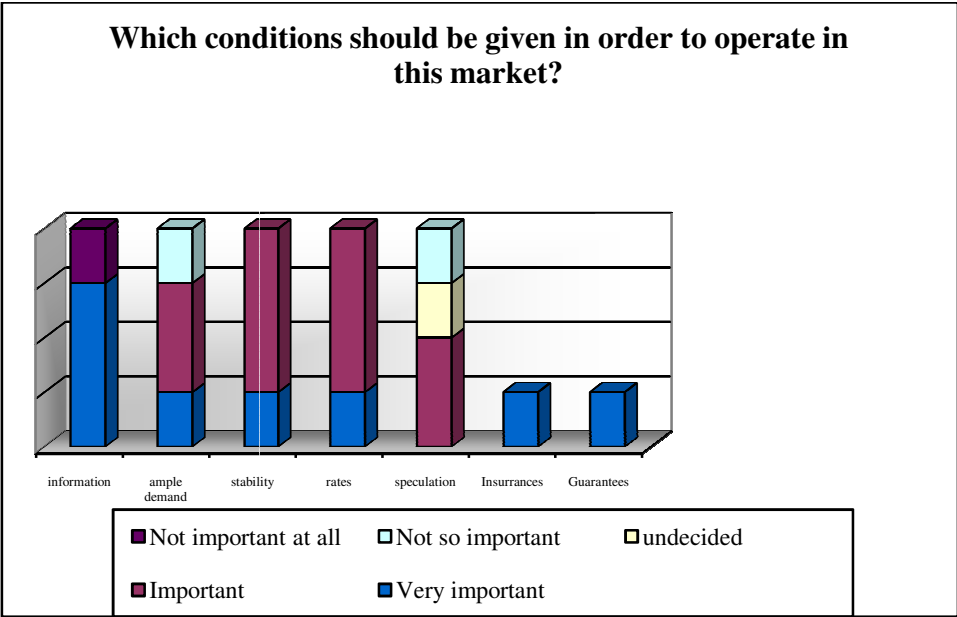
As shown in the operations, most people (75%) would rather operate in US dollars than in the Bolivian currency.

Perception about the Commodities Market:

To the question “can you mention three words to characterize the commodities market?” the answers were mainly: financing, diversification, incipient, secure, developer, price fixing, speculation and competitive

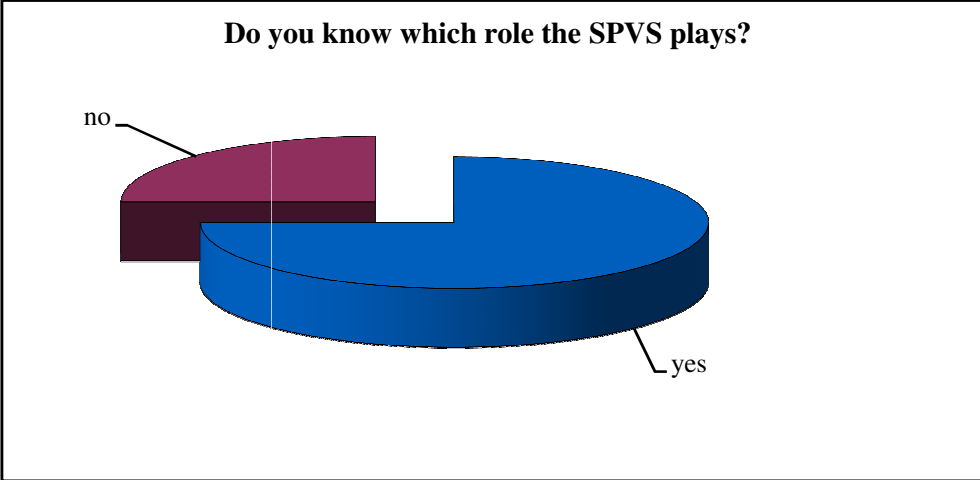


No one has already operated in the commodities market; this indicates the reduced possibilities of operating in international markets.

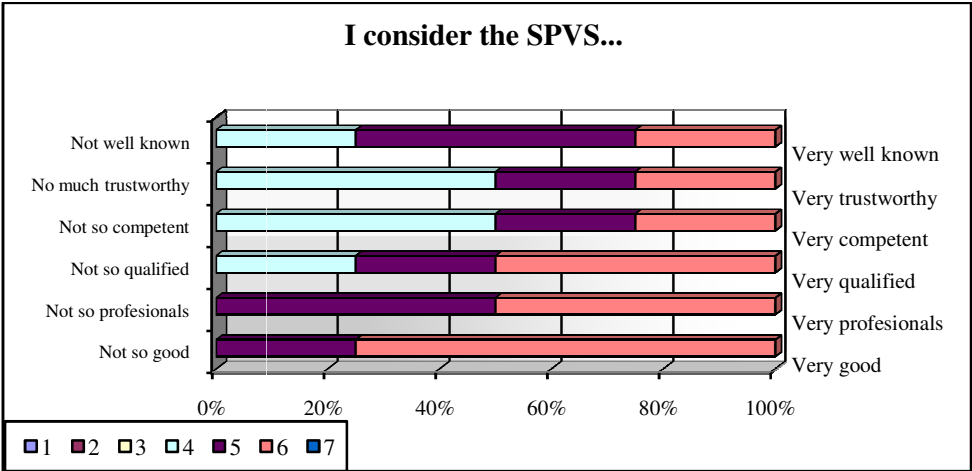


The most important factor in order to stimulate operations is the information spread (75% considered this to be very important). Stability and interest rates were also considered important (75% of responses). Ample demand of products and speculation opportunities received 50% of opinions.

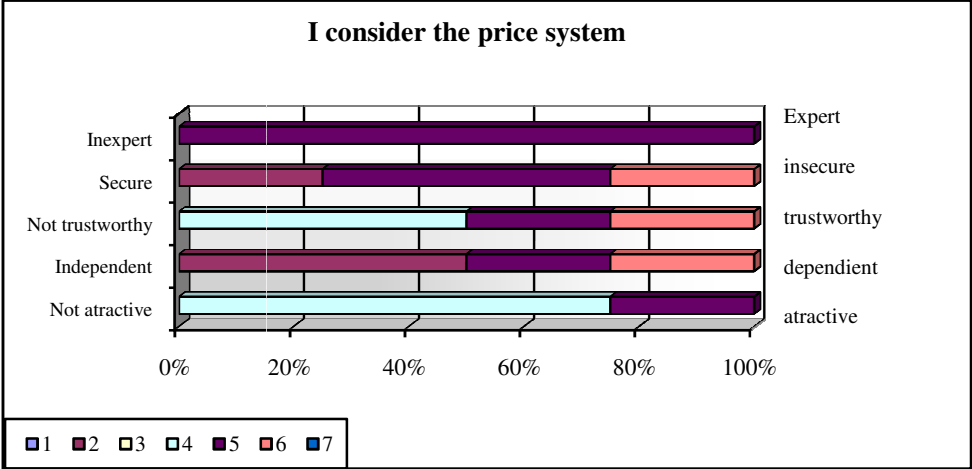
SPVS Image:



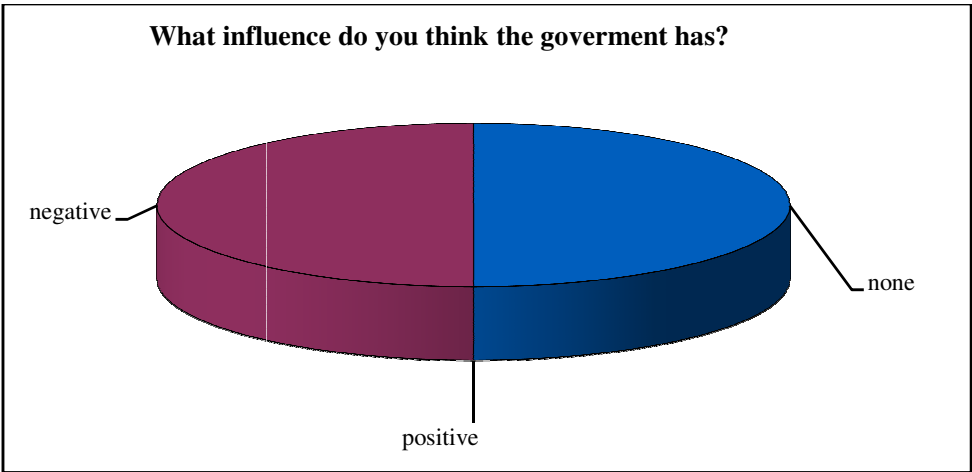
Most of the people who took the survey knew the SPVS’s role; just 25% did not have a clear idea.



Even though no one qualified the SPVS with the highest score (7), the general image of the SPVS is within the four highest qualifications, specifically between 4 and 6. It is therefore possible to conclude that it is perceived as a sound organization, with reasonably (50%) well-qualified employees and an adequate reputation. Two important factors to work on are trustworthiness and competence.

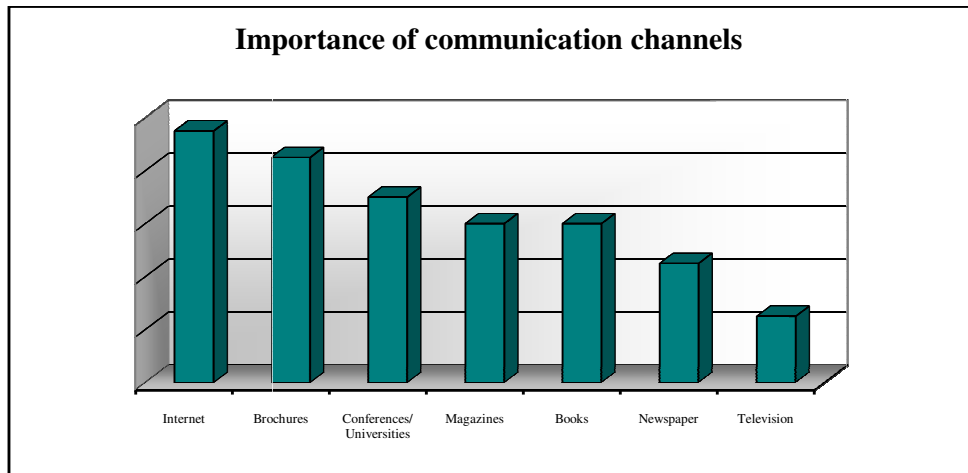


Even though the operational mechanisms are not officially defined for the commodities market, they were also evaluated by the survey respondents. An analogy with the stock exchange market was assumed but the surveyors tended to be cautious.



The government’s influence is perceived as negative. People expect more incentives and conclude that the government has a negative influence because of the unstable socio-political and economic situation.

Communication Channels



The internet seems to be the most important communication media, but the influence of brochures and conferences also appear to be an interesting communication channel. This demonstrates the need for general information in order to encourage and develop better understanding about the commodities market.

APPENDIX 3: INFORMATION BOOKLET DEVELOPED BY THE SPVS:



Analysis:

- The information is general; it is not sufficiently thorough for someone who is considering investing in the market.
- The design is acceptable for students or producers who need basic information as a first approach.
- The need for information booklets or brochures for investors and producers is clear. The design should express reliability, trustworthiness and security.
- The information should be explained in detail.

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