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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

BOLIVIA

PROJECT PAPER

DISASTER RECOVERY

Project Number: 511-0581
Loan Number: 511-F-069
511-T-070

AID/LAC/P-067/2

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: C (A = Add, C = Change, D = Delete) — Amendment Number 2

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: BOLIVIA

3. PROJECT NUMBER: 511-0581

4. BUREAU/OFFICE: LAC — 05

5. PROJECT TITLE (maximum 40 characters): DISASTER RECOVERY

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 12 DD 31 YY 86

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 84 B. Quarter 4 C. Final FY 85

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY 84 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total	16,369	10,631	27,000	42,249	10,751	53,000
(Grant)	(7,479)	(1,521)	(9,000)	(7,479)	(1,521)	(9,000)
(Loan)	(8,890)	(9,110)	(18,000)	(34,770)	(9,230)	(44,000)
Other U.S. 1.						
Other U.S. 2.						
Host Country		11,818	11,818		36,927	36,927
Other Donor(s)						
TOTALS	16,369	22,449	38,818			89,927

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1)				9,000	18,000		26,000	9,000	44,000
(2)									
(3)									
(4)									
TOTALS				9,000	18,000		26,000	9,000	44,000

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To help the GOB implement important elements of its emergency plan for recovery from the drought in the highlands and floodings in the southeastern area of the country.

14. SCHEDULED EVALUATIONS

Interim MM 09 YY 84 MM 09 YY 85 Final MM 09 YY 86

15. SOURCE/ORIGIN OF GOODS AND SERVICES

Grant [X] 000 Loan [X] 941 G&L [X] Local [ ] Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a 47 page PP Amendment.)

To promote reactivation of privately owned agro-industrial concerns in Bolivia through the importation of machinery, spare parts and raw materials, and to stimulate the recovery of agricultural production to pre-disaster levels.

The USAID Controller has reviewed the financing procedure described herein and hereby indicates his concurrence.

Joe O. Hill, Jr.
Controller

17. APPROVED BY

Signature

Title: Henry H. Bassford, Director

Date Signed: MM 09 DD 20 YY 84

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

AID 1330-4 (8-79)

to BOLIVIA
American Embassy
La Paz, Bolivia

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AMENDMENT No. 3 TO PROJECT AUTHORIZATION

Name of Country:	Bolivia
Name of Project:	Disaster Recovery Project
Number of Project:	511-0581
Number of Loan:	511-F-069
	511-T-070

1. Pursuant to Section 492b of the Foreign Assistance Act of 1961, as amended, the Disaster Recovery Project for Bolivia was authorized on October 11, 1983. That authorization is hereby amended as follows:

(a) Delete the first sentence of paragraph 1 and substitute in lieu thereof the following sentence:

> Pursuant to Section 492b of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Disaster Recovery Project for Bolivia (the "Cooperating Country") involving planned obligations of not to exceed $34.5 million in loan funds and $9 million in grant funds over a one-year period from date of authorization subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the Project.

(b) Substitute "16.5 million" for "$11.2 million" in paragraph 5.

2. The authorization cited above remains in force except as hereby amended.

Henry H. Bassford
Mission Director

Date: September 29, 1984

La Paz, Bolivia

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AMENDMENT No.2 TO PROJECT AUTHORIZATION

Name of Country:	Bolivia
Name of Project:	Disaster Recovery Project
Number of Project:	511-0581
Number of Loan:	511-F-069
	511-T-070

1. Pursuant to Section 492b of the Foreign Assistance Act of 1961, as amended, the Disaster Recovery Project for Bolivia was authorized on October 11, 1983. That authorization is hereby amended as follows:

(a) Delete the first sentence of paragraph 1 and substitute in lieu thereof the following sentence:

Pursuant to Section 492b of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Disaster Recovery Project for Bolivia (the "Cooperating Country") involving planned obligations of not to exceed $29.2 million in loan funds and $9 million in grant funds over a one-year period from date of authorization subject to the availability of funds in accordance with A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the Project.

(b) Add a new paragraph 5 as follows:

5. Conditions Precedent to Disbursement of the $11.2 million in Loan funds provided under this amendment.

Prior to any disbursement of Loan funds to finance activities under the agroindustrial reactivation component of the Project, Bolivia shall furnish A.I.D., in form and substance satisfactory to A.I.D.:

a. evidence that Bolivia has put into effect an exchange rate policy that maintains the real value of the Peso in relation to the rate of inflation;

b. evidence that Bolivia has implemented a system to reduce and eventually eliminate, subsidies on agricultural products and products derived from hydrocarbons;

c. evidence that Bolivia has begun to implement a policy to increase interest rates periodically.

2. The authorization cited above remains in force except as hereby amended.

Henry H. Bassford
Mission Director

Date: 9-20-84

DISASTER RECOVERY AMENDMENT No. 2

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DISASTER RECOVERY AMENDMENT No. 2

I. SUMMARY

Amendment No. 2 to the Disaster Recovery Project will provide an additional $26 million to enable Bolivian agro-industries to obtain essential imported machinery, spare parts and raw materials needed to stimulate the reactivation of existing productive capacity diminished by the two-year long economic crisis and the El Niño related natural disasters (drought and flooding) of 1983. The proposed amendment for agro-industrial reactivation will complement the fertilizer importations under the original project and the agro-chemical and farm implement importations under Amendment No. 1. The agro-industrial commodities to be imported will help reactivate private sector agro-industry, creating an increased demand for agricultural production and helping arrest the sharp economic decline Bolivia has recently experienced.

Owing to a growing decline in foreign exchange earnings, increasing debt service payments and a general contraction of the economy between 1979 and 1983, total imports by Bolivia have decreased 42 percent. The current depleted level of raw materials, capital goods and spare parts has resulted in a diminished utilization of agro-industrial capacity. Bolivia must increase imports needed by agro-industrial firms in order to stimulate economic growth, and especially increase agricultural production. This Project Amendment will build upon the Mission's strategy of utilizing a demand-pull approach to increase the productivity of Bolivian agro-industries, strengthen markets for agricultural produce, and, by extension, improve the income level and standard of living of farmers. Increased agricultural production will, in turn, contribute to the resolution of the short-term food deficits due to past year's drought and floods and help contribute to longer term economic recovery.

Unquestionably, Bolivia is suffering the worst economic crisis in its history, a situation that is attributable to a number of related factors. Over-investment and over-borrowing based on unsound economic development policies in the 1971-1978 period led to excessive public sector deficits, mounting external debt servicing requirements and a declining level of international reserves. In 1980-81, Bolivia borrowed heavily from Latin American neighbors to cover expanding deficits, which resulted, in part, from a politically based cut-off of concessional donor assistance and a decline in commercial bank lending. Political instability from 1981 to the present has not only contributed substantially to the economic crisis, but has impeded efforts to react effectively to it. The already precarious economic situation was exacerbated by the 1983 El Niño-related natural disasters. The flooding, in addition to causing the death of more than a hundred people and

leaving thousands homeless, affected more than 86,000 hectares of the nation's most productive agricultural land, severely damaged hundreds of kilometers of roads and destroyed eight principal bridges. The drought, centered in Bolivia's Altiplano and highland valleys, affected an estimated 380,000 square kilometers, thirty five percent of the country's area. It destroyed much of the Altiplano's pasture lands and dried up traditional water supplies, reducing herds of llamas, alpacas, beef cattle, and sheep by at least 50 percent. There was a general decapitalization of small farmers, as their seed supplies, food reserves, livestock and cash were consumed at alarming rates. Disaster-related food deficits were calculated at over 1,000,000 metric tons. Most of this shortage was in primary food staples (potatoes, corn and rice) of low income and subsistence farmers of whom it is estimated 1.6 million were effected. In combination, these disasters cost the nation more than $600 million in lost production and damaged or destroyed capital stock.

In 1983, because of Bolivia's severe economic crisis, combined with the added impact of the natural disasters, virtually all segments of the GDP declined, with the sharpest fall (-22.5 percent) occurring in the agricultural sector. Export earnings dropped by approximately nine percent, thus making it even more difficult for the GOB to meet its overdue obligations to foreign banks and other creditors. Interest on public and private debt as a proportion of GDP grew to 4.6 percent and as a proportion of exports to 39.2 percent. While the GOB has taken a series of actions designed to strengthen the economy, to date such actions (e.g. partial devaluations, increases in basic consumer prices, and increases in interest rates) have been insufficient and incomplete. The most recent (April 12, 1984) set of economic reform measures and the complementary actions which took place on May 17, included a 300 percent depreciation of the peso, a 400 percent increase in petroleum prices, a 80 percent reduction in food subsides, and a more than doubling of savings and interest rates. This package has had some beneficial efforts, but it must be followed quickly by other important actions to reverse the deteriorating situation, such as improved tax collection procedures, periodic exchange rate changes to compensate for inflation, regular adjustments in controlled consumer prices and reduction of the public sector deficit.

Occurring in the midst of a severe economic crisis, last year's natural disasters fueled political discontent and made it even more difficult for the Government to respond effectively to an economic situation which now approaches general paralysis. In this situation, the ability of the economy to provide for investment in essential agro-industrial machinery, spare parts and raw materials needed to stimulate increases in food production, and offset the disaster related losses in productivity, is severely restricted.

This Project Amendment will directly benefit a substantial number of large, medium and small size agro-industries located primarily within the La Paz, Cochabamba, Santa Cruz corridor. Based on an average import requirement of $75,000 per agro-industrial firm, it is estimated that 350 agro-industrial firms will participate in the importation of up to $26 million of capital equipment, spare parts and raw materials. Likewise, each of these firms, as a result of increased productivity and plant capacity through the utilization of essential imports, will require more skilled and unskilled labor, thus enhancing employment opportunities of off-farm workers and related industrial and service sub-sectors, as well as farm labor due to increased demand generated for farm produce.

The funds to be provided for the agro-industrial reactivation component of the Disaster Recovery Project will be conditioned upon the Government's taking a series of difficult economic steps to complete the measures necessary to provide for general economic recovery and a more stable climate for agro-industrial investment. The measures upon which this additional assistance will be contingent concern devaluation, interest rates, price subsidies, the fiscal deficit, and renegotiation of Bolivia's private foreign debt.

When and if the GOB takes the economic measures required, USAID will be prepared to initiate disbursements directly to foreign suppliers on behalf of private sector agribusiness concerns interested in importing capital goods, spare parts and raw materials. Importers and their commercial bankers will undertake the competitive procedures presented in A.I.D. Regulation 1, select overseas suppliers and apply for import authorizations to the Ministry of Finance. The Ministry of Finance (MOF) will be assisted in its review of import applications and the monitoring of import transactions by a long-term U.S. commodity procurement expert and three Bolivian procurement assistants. Once approved by the MOF, USAID will issue direct letters of commitment to Code 941 suppliers on behalf of importers. Importers will be required to deposit pesos at the official exchange rate in a special counterpart account managed by the PL 480 Title III Secretariat. The proceeds generated will be used to increase the resources of the Central Banks warrant credit program, to finance rural housing loans, and to undertake development activities in the Chapare region.

The USAID/Bolivia Controller has reviewed and approved on behalf of the Agency for International Development the detailed assessment of the methods of implementation and financing described in the financial section of this amendment number 2 (Section V) pursuant to the Payment Verification Policy Implementation Guidance issued by AA/M, on December 30, 1983.

The USAID Project Development Team for Project Amendment No. 2 included:

Michael H. Lofstrom, Assistant Project Development Officer
Hugh Garmany, Procurement Specialist (Consultant)
Robert Burke, Economist, USAID/Perú
Richard Rorvig, Economist, U.S. Embassy, La Paz
Erhardt Rupprecht, Agricultural Economist LAC/DR
William G. Kaschak, Deputy Project Development Officer
Joe O. Hill, Jr., Controller
Thomas Geiger, Regional Legal Advisor
T. David Johnston, Deputy Chief, Rural Development Office
Roberto León de Vivero, Chief, Development Program Office
Gustavo Vega, Financial Analyst
Raúl Pinto, Financial Analyst
Edmundo Ballivián, Accountant
Jorge Calvo, Office of Rural Development
Luis Ampuero, Private Sector Office
Pascal Sanchis, Private Sector Office
Gerrit Argento, Chief, Private Sector Office
Jaime Vizcarra, Project Development and Implementation Office
Gonzalo Fernandez, Engineer, Project Development and Implementation Office

The PP was reviewed by:

David A. Cohen, Deputy Director
Robert J. Asselin, Jr., Project Development Officer
Timothy Bertotti, Executive Officer

The PP was approved by:

Henry H. Bassford, Director

II. PROJECT RATIONALE AND DESCRIPTION

A. Project Goal and Purpose

The project's goal and purpose remain unchanged. The goal is to assist Bolivia to respond to recent natural disasters and return to a self-sufficient status in the food commodities it traditionally produces. The purpose is to help the GOB implement important elements of its emergency plan for recovery from the drought in the highlands and flooding in the southeastern area of the country. The sub-purpose of the agro-industrial reactivation component being added to the project at this time is to promote reactivation of privately owned agro-industrial concerns in Bolivia and thereby stimulate the recovery of agricultural production to pre-disaster levels.

B. Conformance with USAID/Bolivia Program Strategy

1. Policy Context

A.I.D.'s response to Bolivia's disaster and economic crises is a two pronged approach which addresses the immediate need for humanitarian assistance while simultaneously pressing the GOB to adopt a sound, coherent economic recovery program. With respect to the natural disasters, USAID has provided 43,800 metric tons of P.L. 480 Title II commodities, as well as 29,000 metric tons of rice and 24,000 metric tons of wheat under the Title III program, to help maintain food supplies and prevent possible famine conditions. The peso sales generations of monetized P.L. 480 commodities are being invested in a series of disaster recovery activities (e.g. rural infrastructure, agricultural credit, and seed recovery). The original disaster recovery project, as already amended, is providing $27 million for the rehabilitation of the Santa Cruz-Cochabamba highway, potable water systems, irrigation works, the importation of medicines, fertilizers and agro-chemicals, and disaster recovery program support costs.

Concerning the longer term economic recovery issue, USAID has engaged the GOB in a protracted dialogue encouraging the adoption of measures to stabilize and revitalize the economy. The Mission has used its assistance to induce the GOB to take the actions necessary to create a positive climate for economic growth and preservation of a mixed economy. The GOB has been very reluctant to make the decisions required to do so, and, over the past two years, has taken a series of partial measures which, while somewhat useful, have not been adequate to halt the economy's decline. Measures taken on April 12 and May 17 were significant in that they were the strongest to date and indicated a willingness on the part of the reconstituted UDP Government to do what is necessary to revive the economy. The Mission has told the GOB that additional assistance will be firmly conditioned upon the Government's taking, in a timely fashion, appropriate follow-up steps to the April 12 and May 17 measures.

Implementation of the conditionality measures required by USAID and other international donors will foster substantial improvements to curb inflation, reactivate production, and achieve a stable exchange rate. The measures are designed to halt the continuing decline in consumer purchasing power, reduce the current fiscal deficit, increase incentives to export Bolivian agro-industrial products, and enhance the ability of local agro-industries to utilize domestically produced raw materials.

The Mission will condition the proposed import Program to be financed under Disaster Recovery Amendment No. 2, and proposed new Title I wheat and cotton importations, to policy changes in the following six key areas:

- The adoption of a system of mini-devaluations necessary to maintain a realistic official exchange rate and reduce the difference between the official and parallel exchange rates. This measure will increase the operating revenues of the state mining and oil companies and, over time, help increase Bolivian exports. It will also reduce demand for imports which compete with local, manufactured goods, as well as eliminate inequitable tendencies fostered by the current system of government allocation of scarce foreign exchange.

- The implementation of a crawling peg system for reducing, and eventually eliminating, subsidies on price-controlled food and hydrocarbon products. The proposed system will, in part, serve to reduce Bolivia's heavy consumer subsidization program, which has been a significant factor in the country's destabilizing fiscal deficit and a disincentive to increased domestic production.

- A restructuring of Bolivia's interest rates that will encourage savings and increase capital available for lending to the private sector. The current commercial lending rate of approximately 150 percent is highly negative given the rate of inflation, and "development" financing rates are even lower. The GOB must establish predictable, positive rates of interest in order to encourage long-term planning and investment.

- The preparation and approval of an FY 1985 budget which substantially reduces the planned deficit below that experienced in recent years.

- The preparation and approval of legislation on taxation and tax administration which will result in substantially improved revenues in FY 1985. Bolivia's most basic problem is its inflation-generating fiscal deficit. Spending cuts and budget discipline are required, but the GOB must raise revenues significantly if the deficit is ever to become at least manageable.

- The reinitiation of negotiations with the Government's private foreign bank creditors so as to establish an agreed repayment schedule.

2. Relationship to USAID Assistance Stragegy

USAID/Bolivia's assistance strategy priorities in support of U.S. policy concerns and in response to the economic and political crises now afflicting Bolivia were refined in the CDSS Update (February 1984). The shorter term priorities include: support for accelerated economic recovery; response to the food emergency situation and the implementation of the recovery effort in the rural areas affected by the 1983 disasters; and encouragement of decreases in illegal coca production and narcotics trafficking. The long-term priority is to expand private sector participation in the Bolivian economy with particular emphasis on the La Paz-Cochabamba-Santa Cruz Corridor. The role of the private sector is viewed as key to the achievement of the country's economic recovery, as public sector entities are almost uniformily over-burdened with responsibilities well beyond their management capacity and are too susceptible to political criteria which are contrary to the goals of profitable, productive enterprise.

The USAID/Bolivia longer term assistance strategy supports the fundamental goal of promoting economic growth with equity to achieve an improved standard of living for the country's poor. Specifically, it seeks to promote self-sustaining economic growth in the Corridor and to improve the well-being of the rural poor through increased small farm production, improved employment opportunities, and growing real incomes. To develop the Corridor's growth potential and a productive private sector, the strategy envisions projects which will utilize a demand-pull approach through which increased marketing of agricultural commodities will stimulate growth in production. Efforts will concentrate on creating increased demand for existing Corridor commodities through the development of agro-industries. To meet this increased demand, farm level assistance will reinforce farmers' actions to improve the quantity and quality of their production. Furthermore, it is anticipated that increased market transactions will trigger ancillary "demand-pulls" within the region. For example, increased farm production will heighten the demand for agricultural and agro-industrial inputs, as well as increase the need for production credit and skilled technical assistance. The synergism of these factors should bring increased income and well-being to Corridor residents, raising the demand for consumer goods and basic social services, which, when provided, will contribute to the overall development of the region.

The agro-industrial reactivation component of the Disaster Recovery Project will respond directly to USAID/Bolivia's short-term objective of assisting Bolivia to recover from the El Niño-related disasters which have aggravated the process of economic recovery, by providing imported machinery, spare parts and raw materials urgently needed by private sector processing firms to improve and increase productivity. In conjunction with the Mission's long-term assistance strategy, this new component of the Disaster Recovery Project will contribute directly to the development of private sector agribusiness, especially in the Corridor.

C. Amendment Components

1. Agro-Industrial Imports

a. Demand

Through this Amendment, the Project will provide for the importation of the equipment, spare parts and raw materials most critically needed to recover lost productive capacity in the agro-industrial sector. In this context, the Mission recently conducted a representative survey of agro-industries within the regions of La Paz, Cochabamba and Santa Cruz to determine the volume of imports of capital goods, spare parts and raw materials needed in the short-term. The survey included both relatively large (more than 100 employees) and medium size (between 50 and 100 employees) Bolivian agro-industries in the five major industrial categories listed below:

1) simple processing of agricultural products,
2) more complex food processing systems,
3) textile and garments,
4) leather goods and tanning processing,
5) wood and furniture products,

Interviews were carried out with twenty agro-industries. Subsequently, demand extrapolations were made to apply the data to the 125 large and medium size agro-industries in La Paz, Cochabamba and Santa Cruz falling within the five major industrial categories. The survey identified two principal types of import requirements: (1) capital goods and spare parts; and (2) raw material imports needed to process intermediate and final goods. In terms of total demand for imports projected for the remainder of 1984 through 1986 (approximately 18 months total), the survey estimated that 125 agro-industries will require more than $136 million in imports, a demand level which exceeds the amount to be supplied by this project by a factor of five.

The following tables summarize the results of the analysis of agro-industrial import demand:

TABLE 1

Number of Agro-Industrial Firms Included in the Survey

Agro-Industrial Sector	La Paz	Cocha-bamba	Santa Cruz	Total Firms
1. Simple Processing	2	6	5	13
2. Complex Processing	2	10	10	22
3. Textiles & Garments	26	6	9	41
4. Leather Goods and Tanning	4	11	4	19
5. Wood and Furniture	6	5	19	30
Totals	40	38	47	125

TABLE 2

ANALYSIS OF AGRO-INDUSTRIAL DEMAND FOR CAPITAL EQUIPMENT (Including Spare Parts) AND RAW MATERIAL IMPORTS (IN 000s US$)

	84/85 Demand		85/86 Demand		
	Raw Mate-rial	Capital Equip-ment	Raw Mate-rial	Capital Equip-ment	Totals
1. Simple Processing	1,534	663	1,898	4,528	8,623
2. Complex Processing	2,290	1,074	4,895	2,977	11,236
3. Textiles & Garments	33,210	3,280	37,515	3,485	77,490
4. Leather Goods and Tanning	5,700	1,900	6,175	1,425	15,200
5. Wood and Furniture	3,300	6,300	4,350	9,750	23,700
Totals	$46,034	$13,217	$54,833	$22,165	$136,249

b. Eligibility

(1) Eligible End-Users

Firms that will be eligible to participate in the Agro-industrial Reactivation Program will fall under the generally accepted definition of an agro-industry, which is an enterprise that processes agricultural raw materials, including ground and tree crops as well as livestock. (*) Eligible agro-industries can be categorized according to their degree and level of processing. Eligible agro-industrial imports of capital goods, spare parts and raw materials must be directly related in some way to the following categories of agro-industrial processing:

- Relatively simple cleaning, grading and drying operations which result in products such as fresh fruits and vegetables, eggs, raw milk, and grains.

- Mixing, milling, and ginning operations which yield products such as cereal grains, animal feeds, cotton and meat.

- More complex cooking, freezing, pasteurization, canning, weaving, extraction and assembly processes which result in goods as diverse as dairy products, meats, textiles and garments, leather products, oils, furniture, sugar and beverages.

- Complex chemical alterations and texturization which yield products such as instant foods and textured and processed vegetable products.

In addition to enterprises which process raw agricultural materials, those which manufacture production inputs required by farmers will also be eligible to inport under the project.

In general, the amount of capital investment, technological complexity and managerial requirements for an agro-industry tend to increase with the degree of processing required to develop a final product. The requirements for imported spare parts, raw materials and capital equipment also tend to increase with the degree of processing. However, notwithstanding the need to import

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(*) The categories of agro-industries are found in James E. Austing Agro-industrial Project Analysis, 1981, World Bank Economic Development Institute Series in Economic Development.

certain critical capital goods and spare parts, an agro-industry's most significant input expenditure is usually for domestically produced raw material purchases. As a result, raw material purchases provide the agro-industry with a direct link to the domestic farm sector.

Agro-industries can also generate strong backward or demand pull linkages to the farm sector by requiring more or different agricultural outputs. These backward linkages are significant because they increase farm employment and incomes. Therefore, the two primary factors in determining agro-industry project eligibility will be the amount of backward linkage to Bolivian agricultural production (preferably that the agro-industry's final product utilize a significant amount of basic indigeneous raw materials, or a combination of semi-processed or manufactured goods produced in Bolivia, and that the industry be employment generating, either directly as a result of expanded plant and productive capacity, or indirectly through the creation of additional jobs from enhanced agro-industrial activity).

In addition to falling under one of the categories listed above, eligible agro-industries must be solvent enterprises, with the financial wherewithal to repay peso loans for the importations desired. Normally, each agro-industry will present a "bankable" project or acquisition to its local commercial bank which will evaluate the financial viability of the transaction proposed.

Lastly, only private sector entities will be eligible for imports financed under the program. Each eligible agro-industry must have at least 60 percent of its voting stock held by private individuals.*

(2) Commodity Eligibility

As noted above, the importation of processing machinery, spare parts for processing machinery and raw materials not available in Bolivia will be allowed under the program. It has been decided not to attempt to compile a "positive" list for the program because by necessity it would have to be continually revised. Other categories of commodities required by agro-industrial firms, such as vehicles, have been excluded because in most cases they are available locally. If conditions change as the program proceeds, consideration will be given to expanding the categories of commodities eligible for financing.

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* It should be noted that the program will not support expansion of agro-industries which deal with "sensitive" commodities, such as the production of edible oil for export in the event of a world surplus. When cases arise which are sensitive to current international production, the GOB will consult USAID for a determination.

With regard to raw materials, the program will not finance imported raw materials for agro-industries which do not also process an appreciable amount (e.g. 50%) of indigenous raw material. For example, the importation of acrylic fiber for production of 100% acrylic cloth would not be eligible, whereas acrylic to be blended with locally produced cotton would be.

(3) Types of Import Transactions

Three types of import transactions will be eligible for financing under the program:

a) Importation directly by eligible end-users following the informally competitive procedures required by A.I.D. Regulation 1.

b) Importation by authorized Bolivian dealers or distributors, which have exclusive rights to import from specific overseas suppliers, for resale to eligible end-users.

c) Importations of "brand-name" items for sale to eligible end-users by commercial Bolivian importers who purchase from authorized distributors located overseas which have exclusive rights to sell to the geographic region which includes Bolivia.

Eligible end-users who do not wish to buy from Bolivian import houses under the second or third alternatives, and must purchase using informally competitive procedures, may ask Bolivian import firms to order for resale to them, but the end-users will usually handle contacts with potential suppliers themselves.

c. Procurement Procedures

The procedures to be followed by eligible end-users and importers, their commercial banks, the Ministry of Finance (MOF) and USAID to approve and effect import transactions are outlined in full in Section III A - Importation Procedures and Duties. The following is a brief outline of the steps to be followed.

To prepare for the program, the staff of the MOF's office responsible for the program will be augmented by hiring three commodity procurement assistants to help with the administration of the program. A direct hire or contract U.S. specialist with experience in commodity import program administration will also be hired to work directly with the MOF. The GOB will issue a communique to the commercial banking community explaining the terms and conditions of the program. The MOF and USAID will canvass potential end-users/importers to determine their importation requirements for the purposes of publishing advertisements in the U.S. advising potential suppliers of the names and addresses of Bolivian importers interested in purchasing specific types of commodities.

To effect each transaction:

1. The end-user/importer will contact his commercial bank for assistance and peso financing (if necessary) to participate in the program.

2. The commercial bank will review (a) the viability of the proposed transaction, (b) the eligibility of the end-user, and (c) the eligibility of the proposed commodity import. The bank will also advise its customer on the informally competitive solicitation procedures to be followed.

3. The importer will reply to correspondence received as a result of the "blanket" advertisements placed by USAID, unless purchases from an exclusive dealer or importer of brand name commodities is contemplated.

4. Pro-forma invoices will be sent to the importer's commercial bank (with a copy to USAID), and the bank will assist its customer in selecting a supplier.

5. The importer and his bank will submit an import application to the MOF, which includes proof for end-user and commodity eligibility, a summary of bids received, and a Financing Request (FR) for an A.I.D. letter of commitment.

6. The MOF (with USAID participation) will approve the transaction and forward the FR and relevant background documents to USAID. (Approval of the GOB Exchange Control Commission will not be required).

7. The importer will place his order and deposit his pesos at the official rate in a counterpart account held by the Title III Secretariat. USAID will then issue a letter of commitment.

8. Commodities will be shipped by suppliers, and payment documents will be forwarded to USAID.

9. USAID will pay the suppliers.

10. When the commodities arrive, they will be cleared through customs by the importer, who will pay all taxes due.

Commercial banks will be required to monitor shipment of commodities and report periodically to the MOF and USAID. USAID will periodically audit selected transactions and perform end-use checks.

2. Local Currency Program

The peso proceeds of the sale of foreign exchange to finance eligible imports will be deposited with the Secretariat for the P.L. 480 Title III Program and passed on the various implementing agencies which will administer activities under this project component's local currency program. Proceeds totaling the equivalent of about $25 million will be generated under this amendment. They will be used as follows:

a. Warrant Credits - $17 million
b. Rural Housing - $6 million
c. Chapare Development Activities - $2 million

a. Warrant Credits

(1) Demand

Peso generations from the sale of approximately $17 million worth of agro-industrial capital goods, spare parts and raw materials will be utilized to augment the resources of the warrant credit system managed by the Central Bank (BCB). The BCB's warrant mechanism provides working capital credit to eligible agro-industries for purchases of farm produce needed throughout the agricultural year. These commodities are typically supplied to agro-industries by small farmers who cannot wait until the agro-industries sell their processed products to be paid. The warrant credit mechanism has the dual function of providing immediate cash payments to farmers supplying agricultural commodities and enabling agro-industrial firms to meet their short-term obligations related to the purchase of basic commodities. Moreover, the warrant credits are fully secured credit instruments, which reduce the financial risk to commercial banks . The BCB's warrant program also finances the production credit needs of medium to large scale farmers who use their unsold produce in storage to collateralize credits for ongoing operations.

Table 3 provides data on warrant credits issued to the private sector over the past three years. In 1983, the existing warrant credit program only disbursed a total of $10.1 million to private agro-industries, compared to $31.4 million in 1982, and $49.8 million in 1981. This was due to a shortage of liquidity within the Central Bank. By taking an average of the dollar demand for private sector warrant credits over the two relatively normal years of 1981 and 1982, it is conservatively estimated that an annual demand of $40 million in warrant credits exists. The $19 million in peso generations from the sale of agro-industrial imports allocated for warrant credits will help meet the gap between this demand and the resources currently available in the BCB.

TABLE 3

WARRANTS DISBURSED BY COMMODITY TO THE PRIVATE SECTOR

Millions of $b.

Commmodity	1981 1/	1982 2/	1983 3/
Sugar	784.8	864.0	-
	$31.4	$19.6	-
Cotton	283.2	377.3	419.8
	$11.3	$8.6	$2.1
Wines	-	105.4	316.6
		$2.4	$1.6
Wheat	-	6.4	-
	-	$.1	-
Corn	27.0	29.9	241.0
	$1.1	$.7	$1.2
Oil	150.2	-	1,034.3
	$6.0	-	$5.2
Total	$b 1,245.2	$b 1,383.0	$b 2,011.7
Total $US Dollars	$49.8	$31.4	$10.0

1/ $b. converted at $b. 25 = $1
2/ $b. converted at $b. 44 = $1
3/ $b. converted at $b.200 = $1

(2) Credit Mechanism

The existing system of warrant credits administered by the BCB provides up to 70 percent of the demand for working capital of private sector agro-industrial firms and medium to large scale agricultural producers. Central Bank resources typically refinance 42 percent of each warrant credit, while an additional 28 percent is covered from resources of participating local commercial banks. This means farmers and agro-industrialists can finance about 70 percent of their inventories under the program.

The addition of $19 million in warrant credit funds provided under the project will enable the BCB to increase its participation from 42 percent of each credit to approximately 60 percent, and at the same time will reduce slightly the financial input from local banks from 28 percent to 20 percent. This financial structure will allow for 80 percent financing of private sector warrant credit requirements.

Interest charges on private sector warrant credits are presently fixed at 110 percent over a term of one year (versus 85 percent interest on public sector warrant credits). Of the 110 percent charged in interest, the local bank's margin is 50 percentage points, with 50 percentage points collected by the BCB to cover its operational expenses, and the remaining 10 percentage points used to capitalize existing BCB lines of credit. Interest earnings divided among the local banks and the BCB will remain proportionately the same as interest rates increase over the two-year life of project.

b. Low-cost Housing

Under Amendment No. 1, a rural housing subproject was created for which the equivalent of $2.5 million from the sale of agricultural inputs to be financed under the Disaster Recovery Project was budgeted. These funds are to be managed by the Bolivian Savings and Loan System to finance home improvement loans for families with incomes below the national median. With this project amendment, a new subproject for low cost housing is being created to include participation by the GOB's Banco de la Vivienda (assuming it meets certain requirements) which will receive $5 million in financing from the proceeds of the sale of agro-industrial imports.

c. Chapare Development Activities

The Chapare Regional Development Project has recently begun operating in the Chapare following the initation of coca control activities by the GOB. To augment the Chapare project, it had been planned to use some of the money budgeted under the Mission's Village Development Project to finance small, community-based infrastructure activities to be carried out under the aegis of the GOB's National Community Development Service (NCDS). Over the course of the last

several months, however, it became apparent that the NCDS could not manage the Village Development Project, and the project is being cancelled. The need for community-based infrastructure activities in the Chapare remains, nevertheless, and it has been decided to allocate part of the proceeds of the agro-industrial import program to the Secretariat for the Development of the Bolivian Tropics (SDBT), which coordinates all Chapare - related activities, so that it can undertake the necessary infrastructure activities.

3. Technical Assistance

Implementation activities will be facilitated by one long-term (two year) commodity procurement specialist. The incumbent will be responsible for establishing procedures for the review of importation applications. Additionally, this technician will work closely with participating commercial banks and establish a procurement monitoring system to ensure that adequate project records are kept and updated in accordance with Ministry of Finance (MOF) and AID regulations and procedures.

Three Bolivian commodity procurement assistants will be hired to assist the MOF and the long-term procurement expert with project implementation. These individuals will focus on such matters as verification of sub-borrower eligibility criteria, review of import application documentation and monitoring of commodity import shipments. As in the case of the long-term advisor, they will be employed for the entire two year duration of this project and will be financed with project loan funds.

Three full-time voucher examiners will also be hired to assist the USAID Controller Office with the issuance and management of direct letters of commitment issued under the Project.

The Project will also finance two full time local banking experts to work directly with the Central Bank in managing its warrant credit program. Assistance will be provided by these employees in monitoring peso deposits generated by the importation of agro-industrial goods, and ensuring efficient distribution of these funds in the warrant credit program.

III. IMPLEMENTATION PLAN

A. Importation Procedures and Duties

The eligibility criteria for end-users, commodity categories and types of eligible import transactions are given in Section II C.1.b. above. The eligible source/origin for commodities being imported under this program will be A.I.D. Geographic Code 941 (Selected Free World).

Immediately after the signing of Amendment No.2, the MOF will issue a communique to all local banks stating the guidelines for the eligibility of end-users and the categories of commodities acceptable for importation under the Program. The communique will also include a form to be filled out by end-users stating 1) the firm's name, address, telephone , telex; 2) his local bank's name, address, telephone, telex; 3) the type of business in which he is engaged; 4) a concise generic list of the commodities desired; 5) estimated CIF value of the proposed procurements; and 6) the signature of sub-borrower and local bank. This form will be used to initiate work by end-users and their bankers on transactions to be financed under the program and to compile advertisements for the U.S.

Each importer's bank will verify the eligibility of the end-user, the commodities he wishes to import, and the type of import transaction, and analyze the financial viability of the firm and transaction proposed. Upon completion of this initial review, if the transaction does not involve purchase by an exclusive representative or a brand-name item, and it is over $25,000 (exclusive of transportation), the local bank/end-user will contact USAID for assistance in placing an advertisement in the United States. Beginning with the date of publication by AID, a period of 45 days must elapse before selection of the supplier will be made. To the extent possible, of course, USAID will attempt to advertise for as many end-users and importers as possible at the initiation of the program. If end-users/importers have not applied and not been included in these early "blanket" adversements, however, separate ads will be required. Importers will also be encouraged to advertise in local papers and to contact Embassy/Consulate commercial officers of countries included in AID Geographic Code 941, to get in contact with other potential suppliers.

In order to facilitate equitable submission of offers, it will be the responsibility of the importers to respond to all supplier inquiries, giving detailed specifications when necessary. To avoid discrepancies in documentation related to the bidding process, importers will keep a record of initial inquiries and subsequent correspondence with all interested suppliers and will make this information available to their bank and the MOF. Importers and their banks will be required to follow sound procurement practices and will accept the most advantageous competitive offer, price and other pertinent factors considered (such as quality, delivery time, transportation costs, payment terms, availability of spare parts, installation and repair services).

In the case of purchase from authorized exclusive dealers in Bolivia, or purchases of brand names from authorized overseas distributors to Bolivia, advertisements and contacts with more than one supplier will not be required.

Each importer's application for an import authorization will be forwarded by his bank to MOF. It will be accompanied by (a) an executed copy of the Financing Request (FR) for issuance of a Letter of Commitment, (b) a summary of bids received, including copies, in duplicate, of all suppliers' offers, a record of initial inquiries and correspondence received from or sent to suppliers, and the name of the selected supplier (including justification of selection), (c) documentation regarding the eligibility of the end-user and the desired commodity, and (d) confirmation by the bank that the counterpart local currency is available for deposit.

With the assistance of A.I.D.'s long-term DH or contract commodity procurement expert and the project-funded procurement assistants, the MOF will review the import application, checking (a) the eligibility of the end-user, commodities sought and type of import transaction, (b) the source/origin and competitive process followed in selecting the supplier, and (c) the acceptability of the FR. This process should normally not take more than 48 hours if the importer's documentation is complete.

Upon receipt of the MOF import authorization, and deposit of counterpart pesos by the importer, USAID/Bolivia will issue a Direct Letter of Commitment to the successful supplier. The GOB will agree that the MOF import authorization will constitute GOB approval for resulting disbursements under the Loan. The Letter of Commitment will include all relevant instructions for complying with Regulation 1 requirements (including the enclosure of applicable forms in the case of non-U.S. suppliers).

Importers' banks will be responsible for monitoring the shipping status of approved commodity imports. Monthly reports summarizing the status of transactions in which each commercial bank is involved will be sent to the MOF and USAID. Importers will be responsible for clearing their commodities through GOB customs and paying all customs duties and charges (not eligible for A.I.D. financing).

USAID will periodically audit selected transactions to ensure that all A.I.D. regulations have been followed. Periodic end-use audits will also be carried out.

1. Importer/End-User Duties

The importer/end-user will satisfy its local bank, the MOF and USAID that the commodities to be procured are eligible under the program and consistent with project goals. Importers will provide their local banks with all financial documents and feasibility studies necessary for review and approval of their loan requests.

Importers will ensure that all suppliers who contact them are advised, on a timely basis, of specifications and delivery schedules so that competitive offers may be obtained. Specifications are not to be so restrictive so as to favor any specific supplier.

Importers will ensure that all the requirements of A.I.D. Regulation 1 are met and advise prospective suppliers to certify on their pro-forma invoices that the origin of the commodities being furnished will be from a Code 941 country as defined by A.I.D. regulations, and instruct prospective suppliers to provide the appropriate seven digit Schedule B numbers for the commodities cited on their pro-forma invoices. All requests for quotations will require the suppliers to submit with the quotations a detailed description of the commodity being offered, a realistic delivery date and all information not previously furnished which is pertinent to the commodity procurement. Also included will be a detailed estimated cost breakdown which specifies the costs in terms of US dollars, FOB value, forwarder fees, all risk marine insurance, ocean freight (on an eligible carrier as defined by A.I.D.), freight or bunker surcharges (if any), CIF value to port of discharge, port clearance fees, inland transportation, and insurance charges to the final destination.

Upon receipt of their commodities, importers will complete an inspection and receiving report, and if any loss, damage or other irregularities has occurred, they will cease further uncrating and immediately notify the designated local bank to arrange for inspection by, and a written report from, an independent inspection agency (photographs should be taken). A copy of the inspection report will be provided to the MOF and USAID/Bolivia as soon as it is available.

Finally, importers will cooperate with USAID/Bolivia in its performance of end use checks and audits which are required by A.I.D. regulations.

2. Local Commercial Banks

Local banks will certify the eligibility of end-users and assist importers in performing the responsibilities outlined above.

They will submit Financing Requests, through the MOF, to the USAID/Bolivia Controller requesting issuance of Direct Letters of Commitment to successful suppliers, and will monitor the terminal contracting and disbursement dates of Letters of Commitment so that appropriate extensions may be made on a timely basis. Local banks will also advise USAID/Bolivia as soon as possible of any needed amendments to Letters of Commitment, such as for commodity names, value, terms, closing dates, etc., by submitting an FR amendment. When appropriate, a copy of the supplier's concurrence will accompany the FR request. Monthly progress reports on the status of procurements will be submitted to the MOF and USAID/Bolivia.

With assistance from importers, local banks will maintain complete records and make available to USAID/Bolivia reports on the status of all shipments, including customs clearances, inspection and receiving reports and claim actions taken for any shortages or damaged material. Excessive loss, customs clearance delays, inordinate delays enroute or other irregularities, are to be brought immediately to USAID/Bolivia's attention. Local banks will immediately notify by telegram the railroad, shipping company or supplier, as appropriate, of an intent to file claim when a significant loss is encountered.

USAID/Bolivia will be contacted immediately by local banks for guidance if other than good commercial practices are suspected in the course of any transaction. In this context, local banks will ensure that larger procurements by a sub-borrower are not broken down into units having lesser value in order to avoid AID publication.

Finally, local banks will assist USAID/Bolivia in the performance of end use checks and audits, which are required under A.I.D. regulations.

3. <u>USAID/Bolivia</u>

USAID/Bolivia will provide guidance to local banks, the MOF and importers with respect to eligibility of commodities, ineligible carriers, ineligible suppliers, and A.I.D. documentation and regulations, USAID will furnish local banks/importers with appropriate A.I.D. forms as may be deemed necessary to accomplish procurement, monitoring, inspection, reporting and end-use checks.

Upon receipt from the Ministry of Finance of an approved copy of the import authorization USAID/Bolivia will issue a Letter of Commitment to the supplier, indicating the documentation and certifications necessary for payment. Upon receipt of satisfactory documentation as prescribed in the Letter of Commitment, USAID/Bolivia will make payment to the supplier and advise the appropriate local bank. Payment to the supplier will be in the form of a U.S. Treasury check or, at the supplier's option, by electronic funds transfer if payment exceeds $25,000.

USAID/Bolivia will conduct end-use checks to ensure that commodities are being utilized in a timely fashion and in accordance with the purposes of the program. Audits will be conducted to ensure that proper fiscal, accounting, and reporting procedures have been followed.

4. Ministry of Finance (MOF)

The Ministry of Finance will confer with USAID/Bolivia to effect immediate issuance of the communique on the program to appropriate local banks and importers.

The Ministry of Finance will approve and issue import authorizations, or any subsequent amendments thereto, after examination of required documentation received from local banks/importers, and will furnish a copy of the approved authorization to the USAID/Bolivia Controller with a FR. The MOF will also advise USAID/Bolivia of rejected import authorization applications.

The documentation submitted for the MOF should contain in duplicate, the local bank confirmation that the counterpart deposit is available, copies of quotations received from all suppliers, and a record of initial inquiries and subsequent correspondence regarding the transaction, a statement of why the successful supplier was chosen, eligibility information, and the FR.

The Ministry of Finance will take appropriate measures to ensure that when import authorization approval is made customs officials at designated points of entry receive a copy of the approved authorization. Finally, the MOF will ensure that local banks keep it informed of shipping status and, in turn, advise USAID of any inordinate delays.

B. Implementation Schedule

1. PACD

The PACD for the project's existing activities is December 31, 1985. It is anticipated that the agro-industrial import program will take up to two years to implement starting from the date on which the significant economic policy conditions precedent are met by the GOB. Based on prior experiences it would seem prudent to allow the GOB 120 days - until December 31, 1984, to satisfy the conditions precedent to this project component. It has therefore been decided to set the overall project revised PACD at December 31, 1986.

2. Schedule of Activities

1984

September	-	MOF/USAID complete preparation of communique outlining eligibility criteria for agro-industrial firms to import commodities with funds provided under Amendment No. 2. Includes forms for local banks/sub-borrowers to submit import request.
November	-	Long-term technical advisor contract and local hire contracts signed, and MOF counterpart office organized.
December	-	GOB complies with all conditions precedent.
	-	Communique issued.

1985

January	-	USAID/Bolivia compiles advertisement for publication in U.S. and forwards to AID/W for publication.
	-	Local banks/importers submit applications for import authorizations to USAID/Bolivia for those transactions not requiring AID/W publication.
February	-	MOF reviews and forwards to USAID approved import authorizations and L/COM issued to suppliers.
	-	Local banks/importers receive quotations from Code 941 suppliers for those initial transactions requiring AID/W publication.
March	-	Local banks/importers submit import authorization applications to MOF for those initial transactions which required U.S. advertising. MOF reviews and approves, sends copy of import authorization to USAID/Bolivia Controller. Direct Letters of Commitment issued by USAID/Bolivia Controller.
	-	First shipments made under the initial transactions not requiring AID/W publication.
April	-	First shipments made under initial transactions which required AID/W publication.
	-	Continuation from October of import transactions from initial review, AID/W advertising, import authorizations, letters of commitment issuance, shipments.

September	-	Overall project evaluation.
December	-	60 percent of available funds in Letters of Commitment, 40 percent of commodities shipped, 30 percent arrived.

1986

April	-	75 percent of available funds in Letter of Commitment, 60 percent of commodities shipped, 50 percent arrived.
June	-	100 percent of available funds in Letters of Commitment, 70 percent of commodities shipped, 60 percent arrived.
September	-	90 percent of commodities shipped, 80 percent arrived.
	-	Component evaluation.
November	-	100 percent of commodities shipped, 95 percent arrived.
December	-	Last commodities arrive.

C. Evaluation PLan

One special evaluation of this component will be conducted during the life of the Project, in September 1986, to measure the component's socio-economic impact. As part of the evaluation of the overall Disaster Recovery Project in September 1985, this component will also be examined. That evaluation will examine the efficiency of the financing and importation mechanism being used and, if necessary, recommend improvements in the component's operating procedures, and make an initial attempt at analyzing the impact of imports on economic productivity and employment generation in the agro-industrial sector.

D. USAID Monitoring

Three USAID offices will be involved in the implementation of this component of the project. The Mission plans to obtain the services of a DH commodity procurement specialist who will report directly to the Chief of the Office of Project Development and Implementation. (Funds are reserved to hire a contractor if a DH experts cannot be made available.) This person will work directly with the MOF office responsible for approving import authorizations and report implementation problems to PD&I as necessary. This person will also work closely with the USAID Controllers Office, which will be responsible for issuing and monitoring the direct Letter of Commitment. The Rural

Development Divison, which supervises the activities of the Disaster Recovery Project Coordination Office, will monitor the progress of this component of the project directly, as it does all the other components of the project.

Aside from the technical assistance personnel mentioned earlier, no additional USAID staff will be required to monitor the project.

IV. PROJECT ANALYSES

A. Economic Analysis

Bolivia is currently in the throes of its worst economic crisis in history, a situation exacerbated by natural disasters which have devastated agricultural production and produced negative levels of economic growth. The economic crisis has been characterized by an increasingly large balance of payments deficit, runaway inflation fueled by persistent fiscal budget deficits, and an overvalued exchange rate. Bolivia suffers from the lack of revenue-generating capability further hampered by an ineffective tax collection system and a subsidized pricing structure for food and non-durable commodities. The Disaster Recovery Project Amendment No. 2 is part of an overall effort to address the immediate humanitarian needs of the crisis situation, and to contribute to the restoration of productive economic activity, particularly in agricultural and agro-industrial development areas.

Agricultural crop surveys and projections indicate that significant agricultural production recovery is already underway. Major gains are anticipated in the production of rice (45 percent increase), and overall Bolivian agricultural output is expected to rise between 10 and 15 percent this year. Concomitant to the improved agricultural outlook, the GOB economic measures taken on April 12th and May 17th offer a foundation on which to construct an economic recovery in Bolivia. By means of this Amendment to import essential agro-industrial inputs, USAID is undertaking the next implementation phase of a comprehensive disaster recovery program. Many sectors of the Bolivian economy are urgently in need of critical imports, especially manufacturing firms which have in the past required more than 50 percent of total Bolivian imports. The Mission has specifically focused on the agro-industrial sector because it represents the most immediate and positive way to impact on the Bolivian economy and to assist in the overall recovery effort. Given recently improved agricultural conditions and the potential for increased agricultural production, this Amendment will provide a means for private sector agro-industries to access the foreign exchange needed to import capital equipment, spare parts and raw materials. These inputs will stimulate agro-industrial activity, increase plant productivity and capacity, benefit domestic agricultural production directly and indirectly, and enhance employment opportunities.

The following economic analysis of Bolivian import requirements, contibutions to gross domestic product by the agricultural and manufacturing sectors, and the employment generating capability within the agro-industrial sector of the economy, demostrate why agro-industry is the primary vehicle for future economic growth in Bolivia.

1. Imports

The value and composition of Bolivian imports has fluctuated widely in the past five years in response to changes in the real exchange rate, exchange controls, and, to a lesser extent, the reduced level of national economic activity. In 1979, imports reached $951 million as a result of a high level of economic activity, an increasingly overvalued exchange rate, and the stockpiling of goods in anticipation of currency devaluation. In terms of end usage, 20 percent of imports were consumer goods, 34 percent raw materials and intermediate goods, 40 percent capital goods and 6 percent other imports. The fact that, on the average, 50 percent of all imports to Bolivia were destined for the manufacturing sector (including agro-industries) reflects the heavy dependence on essential imports by a relatively small (16.2 percent of GDP) component of the economy.

Total imports declined by 26 percent in 1980 following the November 1979 devaluation. The sharpest decline was measured in capital goods (36.1 percent). Imports of consumer goods rose somewhat in response to a continuing expansionary monetary and fiscal policy. Despite a moderate decline in economic activity, import levels in all categories jumped sharply in 1981 to $1.01 billion. This increase was in response to the substantially overvalued exchange rate. Capital goods imports rose to almost their 1979 levels, while imports of raw materials and semi-finished products exceeded their 1979 levels. Consumer goods imports declined sharply from 1980, but remained at historically high levels through 1981.

The imposition of strict exchange controls in July 1981, a substantial effective devaluation of the peso in February 1982, a sharp decline in economic activity, and the increasing shortage of foreign exchange, produced a substantial drop in imports in 1982. Consumer goods imports in 1982 decreased 70.1 percent from their previous total, while capital goods imports declined 48.1 percent, agriculture 77.5 percent, transportation 57.3 percent, and imports of raw materials 32 percent.

The volume of imported goods for 1983 shows the full effects of the GOB foreign exchange control regime. Consumer goods imports, for which official foreign exchange was generally not provided, declined 37.6 percent to only $53.4 million. Imported inputs other than capital goods remained essentially constant at $227 million, while capital goods imports increased 29 percent to $224 million, reflecting the favored position of the latter category of imports under the exchange allocation system.

Over the entire period 1979-1983, the pattern of imports has been altered drastically as a result of exchange controls. The overall level of merchandise imports was substantially reduced to 42 percent below the 1979 level, and 45.4 percent lower than the 1981 high. Consumer goods, which accounted for 20 percent of the total in 1979, have declined 71 percent and now account for less than ten

percent of total imports. Imported merchandise inputs have declined 36 percent over the same period but their share in total imports has risen from 34 to 41 percent. Imported capital goods have declined 40 percent.

Table 4 presents the import trends between 1979 and 1983.

TABLE 4

TOTAL IMPORTS OF RAW MATERIALS, INTERMEDIATE GOODS AND CAPITAL GOODS BY SECTOR
($US millions)

Category and Sector	1979	1980	1981	1982	1983
Raw Materials and Intermediate Goods	325.3	250.5	341.9	231.9	227.0
Agriculture	9.9	11.2	14.7	6.1	6.2
Manufacturing	267.6	205.6	264.0	181.0	177.2
Construction	38.1	32.0	49.3	36.0	40.6
Fuel	9.7	1.7	13.9	8.8	3.0
Capital Goods	376.1	240.3	334.8	173.7	224.4
Agriculture	16.6	13.6	20.4	4.6	6.9
Manufacturing	212.7	145.8	195.3	118.2	167.5
Transport Equipment	146.8	80.9	119.1	50.9	50.0
Other and Consumer Goods	249.8	212.0	333.4	113.9	100.0
Total Imports	$951.2	$702.8	$1,010.1	$519.5	$551.4

Source: IMF Report, May 3, 1984 p. 105.

Manufacturing;	($US MILLIONS)				
Raw Materials, Intermediate, Capital Goods	$480.3	$351.4	$459.3	$405.6	$344.7
% of Total Imports	50.5%	50.0%	45.5%	57.6%	62.5%

2. Agriculture

Agriculture comprises approximately 17 percent of Bolivia's GDP, employs 46 percent of the country's active labor force, and contributes 5 percent of total annual exports. Between 1970 and 1981, the sector's growth rate averaged approximately 4.1 percent per annum, which was above the rate of population increase and somewhat better than the rates achieved by the rest of the economy. Until recently, sector growth has been sufficient to permit Bolivia to meet most of its internal demand for food with domestic production. The only significant shortfall has been in wheat output, which has averaged only 15 to 25 percent of national requirements. Consequently, the Bolivian milling industry has had to rely on imports.

The development of agriculture in Bolivia has traditionally been limited by an unbalanced distribution of land and population. Two thirds of Bolivia's rural population is concentrated in the cold and relatively infertile Altiplano and in high Andean valleys. In these regions, subsistence cultivation of grains, potatoes and vegetables predominates. Land holdings tend to be small; farmers are self sufficient, and the marketing system in this region is underdeveloped. The other third of Bolivia's rural population lives in the lower Andean valleys and the Eastern lowlands of the provinces of Santa Cruz and the Beni. Here the weather is warm and humid, the soil more fertile, and holdings extensive. Cash crop cultivation of coffee, cacao, cattle, soybeans, sugar and rice is well developed.

In 1983, agricultural production decreased dramatically due to a prolonged drought in the Altiplano and extensive flooding in the Eastern lowlands. Total agricultural production in Bolivia fell by nearly 25 percent. Much of the decline in production resulted from the failure of the Altiplano potato crop, which decreased 65 percent from 900,000 metric tons (MT) in 1982 to 316,000 MT in 1983. However, lowland crops were also severely affected. Rice and soybean production fell 28.6 and 39.8 percent respectively, largely because heavy rainfall delayed soil preparation prior to planting.

Current crop surveys and projections by USAID and the Ministry of Agriculture indicate that 1984 will be a year of substantial recovery for Bolivian agriculture. Acreage under cultivation has risen dramatically since 1983 although it has yet to regain the levels of 1982. Rice, corn and potato plantings are up 177, 32 and 23 percent respectively, while average per hectare yields are also expected to improve with the return of normal weather.

Several areas of shortage still remain. For 1984, the deficit in potatoes is estimated at 200,000 MT because many Altiplano farmers were forced to consume their potato seed during last year's drought, and due to the late onset of the 1983-84 rainy season. A

further 360,000 MT of wheat will have to be imported to meet internal needs. Cotton production will be only 900 MT, or about 11 percent of the 7,400 MT the textile industry will require as raw material.

The proposed project amendment will strive, by means of specific elibigility criteria, to stimulate productive agricultural sector linkages between agribusinesses and farmers through the importation of agro-industrial capital goods, spare parts and raw materials. These linkages will encourage increased agricultural production through the demand-pull effects created by enhanced agro-industrial markets, improved plant capacity and increased productivity within the agro-industrial sector.

3. Manufacturing

Manufacturing in Bolivia is heavily oriented toward import substitution. With the exception of smelting, sugar refining, and saw milling, Bolivian manufacturing is geared almost entirely to the internal market. Only 4 percent of Bolivia's exports are completely finished manufactured goods. The rest consist primarily of unfinished products and semi-processed raw materials such as metal pellets or concentrates. In 1983, manufacturing accounted for 15.9 percent of GDP and employed approximately 155,000 people, or 9 percent of the labor force.

After increasing at an annual average rate of 4.8 percent between 1970 and 1981, manufacturing output declined 15.3 percent in 1982 and 0.1 percent in 1983. At present, few enterprises operate above 50 percent of installed capacity due to a lack of foreign exchange to import essential productive inputs and the overall economic crisis which has significantly decreased consumer demand.

About one-third of industrial value added is produced by smelting and petroleum refining. The remaining two-thirds are accounted for by light consumer products such as processed foods, beverages, shoes, and textiles, all of which fall within the agro-industrial sector. The Bolivian government is heavily involved in the ownership and management of larger manufacturing enterprises. During the 1970s, the GOB, through the Bolivian Development Corporation (CBF), expanded into sugar refining, milk processing and cement making industries. As a result, the public share of total industrial investment increased from 15 percent in 1970 to 40 percent in 1979, and has remained constant since that time.

Food processing and beverage industries within the manufacturing/agro-industrial sector account for approximately one-third of industrial value added, and are comprised of 35 public and privately owned firms, which employ roughly 10,000 workers. These enterprises have been among the most severely affected by the recession. They depend on imports for their production and bear the brunt of the current weak consumer demand due to declining real

incomes. Most of the firms in this sector are operating at less than 40 percent of capacity and few have been profitable in recent years. Food processors are further hampered by government price controls with flour, refined sugar, noddles, and dairy products all under officially established prices, and are therefore unable to secure the necessary raw materials for production.

The agro-industrial subsector has been severely affected by a lack of foreign exchange which has limited the availability of imported inputs, and by the economic recession which has cut real income levels and reduced consumer demand. In addition, shortages of agricultural raw materials in 1982-83, resulting from the natural disaster, caused a decline in the output of foodstuffs, beverages, textiles, and other "processed" agricultural products.

TABLE 5

IMPORTS BY END-USE CATEGORY
(MILLION U.S. DOLLARS)

	1979	1980	1981	1982	1983
Total Consumer Goods	186.3	199.6	268.8	80.4	53.4
Durables	111.6	104.6	115.9	32.6	24.1
Nondurables	74.7	95.0	152.9	47.8	29.3
Raw Materials & Intermediate Goods	325.3	250.5	341.9	231.9	227.0
Agriculture	9.9	11.2	14.7	6.1	6.2
Manufacturing	267.6	205.6	264.0	181.0	177.2
Construction	38.1	32.0	49.3	36.0	40.6
Fuel	9.7	1.7	13.9	8.8	3.0
Capital Goods	376.1	240.3	334.8	173.7	224.4
Agriculture	16.6	13.6	20.4	4.6	6.9
Manufacturing	212.7	145.8	195.3	118.2	167.5
Transport and Equipment	146.8	80.9	119.1	50.9	50.0
Other	63.5	12.4	64.6	33.5	46.6
Total Imports C.I.F.	$951.2	$702.8	$1,010.1	$519.5	$551.4

Source: IMF Report, May 3, 1974, p. 105

TABLE 6

SECTORAL COMPOSITION OF GROSS DOMESTIC PRODUCT
(MILLION 1970 PESOS)

	1979	1980	1981	1982	1983
GDP at Market Prices	19,104	19,324	19,031	17,368	16,26
Agriculture, Forest and Fishing	3,222	3,390	3,496	3,420	2,667
Mining	1,131	1,117	1,187	1,040	1,046
Petroleum and Gas	211	198	206	222	211
Manufacturing	3,094	3,063	3,014	2,553	2,550
Construction	804	764	463	278	208
Utilities	318	326	373	375	369
Transport & Comm.	2,234	,2,279	2,269	2,097	1,996
Commerce and Finance	3,086	3,111	2,956	2,464	2,182
General Government	1,797	1,820	1,870	1,883	1,906
Other	3,207	3,256	3,197	3,036	2,891

Percentage Change in GDP

	1979	1980	1981	1982	1983
GDP at Market Prices	1.8	1.2	-1.5	-8.7	-7.7
Agriculture, Forest. and Fishing	2.9	5.2	3.1	-2.2	-22.0
Mining	8.5	-1.2	6.3	-12.4	0.6
Petroleum and Gas	-7.5	-6.2	4.0	7.8	-5.0
Manufacturing	2.8	-1.0	-1.6	-15.3	-0.1
Construction	-1.1	-5.0	-39.4	-40.0	-25.2
Utilities	5.3	2.5	14.4	0.5	-1.6
Transport.& Comm.	4.3	2.0	-0.4	-7.6	-4.8
Commerce and Finance	1.6	0.8	-5.0	-16.6	-11.4
General Government	5.6	1.3	2.8	0.7	1.2
Other	1.5	1.5	-1.8	-5.0	-4.8

Source: IMF, Recent Economic Developments, May 3, 1984, Table 25.

4. Import Capacity and Implications for Growth

Important sectors of the economy (manufacturing in particular) are heavily dependent on imported inputs. Such inputs are essential to achieving increases in productive capacity. Based on estimates of consumer goods imports, and a series of sector-specific import coefficients derived from a 1978 input-output matrix, USAID has determined that total imports of approximately $680 million, (which includes a private sector agro-industrial import requirement of $135 million) will be needed to achieve the GOB goal of one percent growth in GDP for the coming year. Agro-industrial import projections for the coming year take into account a 15 percent increase in agro-industrial output based on improved crop yield projections. In order to assist in achieving the one percent growth goal and allow for private sector agro-industrial imports to reach a level of $135 million, this project amendment will provide $26 million for critically needed agro-industrial imports to help alleviate the problem of scarce foreign exchange, revitalize Bolivian agro-industry and restore plant capacity and productivity to pre-crisis levels.

Based on agro-industrial import levels between 1979 and 1983, the objective of boosting private sector agro-industrial imports to $135 million in 1985/86, appears readily achievable. Table 7 presents USAID estimates of effective annual demand by private sector agro-industries for imported raw material inputs and capital goods between 1979 and 1983. Average annual private sector agro-industry imports for 1979-83 were $141.3 million. The figure for the 1979-81 period is $157.6 million. The 1982-83 average dropped to approximately $116.9 million, which reflects the sector's current low level of capacity utilization and the lack of foreign exchange for imports. The proposed $26 million program will help Bolivia meet the expected increased demand for imports by private sector agro-industrial firms and achieve the $135 million import target necessary for positive economic growth.

TABLE 7

PRIVATE SECTOR AGRO-INDUSTRIAL RAW MATERIALS, INTERMEDIATE AND CAPITAL GOODS IMPORTS 1979-1983
($US millions)

Import Category and Industry Classification	YEAR 1979	1980	1981	1982	1983	Average 1979-83
A. Raw Materials						
Intermediate Goods						
Processed Foods & Beverages	65.8	50.6	65.0	44.5	43.6	53.9
Textiles, Clothings, Leather Goods	24.1	18.5	28.3	16.2	16.0	20.6
Wood Products	1.6	1.2	1.6	1.1	1.1	1.3
Subtotal	91.5	70.3	94.9	61.8	60.7	75.8
B. Capital Goods						
Processed Foods & Beverages	61.3	42.0	56.2	34.0	48.2	48.3
Textiles, Clothings and Leather Goods	15.3	10.5	14.0	8.5	12.1	12.1
Wood Products	6.4	4.4	5.9	3.5	5.0	5.0
Subtotal	83.0	56.9	76.1	46.0	65.3	65.4
A + B						
Processed Foods, Beverages	127.1	92.6	121.2	78.5	91.8	102.3
Textiles, Clothings, Leather Goods	39.4	29.0	42.3	24.7	28.1	32.7
Wood Products	8.0	5.6	7.5	4.6	6.1	6.5
Total (includes raw materials, intermediate and capital goods (US millions)	$174.5	$127.2	$171.0	$107.8	$126.0	$141.3

	1979-80	1980-81	1981-82	1982-83
2 yr. Av. of Private Agro-Industrial Imports 1/	$150.8	$149.1	$139.4	$116.9

1/ A two-year average was used to obtain a trend of agro-industrial imports and to eliminate yearly distortions in total imports resulting from producer expectations of future currency devaluations. Firms tend to build inventories of raw materials, intermediate and capital goods in excess of their real requirements as a means of hedging against imminent devaluations. Therefore, subsequent year's imports tend to decrease correspondingly. Thus, by taking a two-year average of total agro-industrial imports a downward trend is established, which is more reflective of the actual behavior of imports over the past 5 years.

5. Employment

In 1983, approximately three-fourths of the 155,000 workers employed in the manufacturing sector, or 115,000 employees, were employed in small workshops or cottage industries with less than five employees. Many of these small cottage industries are devoted to artisan and handicraft activities involving textiles, leather and wood products, as well as some milling of grains. Artisan contact with the formal agro-industrial sector is minimal; such individuals are not significantly dependent on imported raw materials, parts or equipment. Some, particularly those artisans in textile and leather good activities, will benefit from the output of more capital intensive agro-industries whose products include yarn and cured leather.

Of the 40,000 remaining workers in the manufacturing sector, approximately 22,400 are directly employed in the relatively capital-intensive agro-industrial sector. Excluding the roughly 3,500 public sector agro-industry employees, approximately 18,900 workers would directly benefit from the proposed private sector import program. Using the same proportion of workers in the non-formal manufacturing sector calculated in 1977 in a U.N. study, 51,000 of these cottage workers are engaged in non-formal food, beverage and tobacco activities, 27,000 in textiles and garments and 12,000 in wood products manufacturing. Thus, 78 percent (or 90,000) of the 115,000 cottage workers are employed in agro-industrial activities.*

B. Technical Analysis

1. Examples of Agro-Industrial Import Requirements

The following contains a sample of nine agro-industrial firms which represent potential importers of project capital goods, spare parts, or raw materials. All nine firms have immediate requirements for increasing plant utilization and expanding productive capacity, and will require credit and foreign exchange to finance these activities. It is estimated that in the initial months of project implementation, all of these firms will apply for import credits to meet their requirements for calendar year 1985.

Source: Bolivia: Strategy for Industrial Development in Bolivia, 1977 Table 1.11 pg. 23

a. Molinera Río Grande: Santa Cruz
(Simple Agro-Industrial Processing)

Molinera Río Grande is a grain milling firm with annual sales of US$ 900,000. It is located in one of the many industrial parks of Santa Cruz. It mills basic grains, produces flour and is in the process of expanding its production to include different varieties of noodles. In 1983, Molinera Rio Grande spent approximately $78,000 on imported spare parts, and it expects to increase that amount to $100,000 this year. In 1985, imported spare parts will amount to $130,000. Estimated import credits for 1985 of $600,000 will be required for a new line of spaghetti production, with the new equipment to be imported from the U.S. or Brazil.

Molinera Río Grande maintains links with wheat producers in the Department of Santa Cruz, purchasing an average of 4,300 tons of wheat per year, which produces benefits to 300 families.

b. Nutrinal: Santa Cruz
(Simple Agro-Industrial Processing)

Nutrinal is a medium size firm with an annual sales volume of $3.5 million. It produces balanced animal feeds, 90 percent of which are used in poultry production. Last year, Nutrinal imported from the U.S. a total of $150,000 in vitamins and antibiotics needed for its feed production process. It is anticipated that import requirements of raw materials will be increased to $300,000 by the end of 1984 and will rise to $330,000 in 1985. In addition, Nutrinal hopes to import capital equipment in 1985 to be used for corn and grain pulverizing processes. This equipment is estimated to cost $65,000, and will be imported from the U.S. or Brazil. Nutrinal purchases locally the major portion of its yearly raw material requirements of 8,500 tons of corn, 3,000 tons of soybean meal, 600 tons of bone flour and 520 tons of corn cobs. Approximately 800 producer families in Santa Cruz provide these required raw material inputs to Nutrinal.

c. Manhattan: La Paz
(Textiles)

Manhattan is classified as a medium size textile firm involved in the final production of shirts, uniforms, trousers, shorts, and other finished textiles. The firm has a staff of 88 people and an annual sales volume of $1.9 million . Raw material requirements for special poplin and threads are estimated to be $900,000 in 1984, and the same in 1985. The firm's stock of Singer sewing machines will require $100,000 in spare parts in the near future. In 1985, Manhattan will have to import 60 new machines from the U.S., for a total of $300,000. The firm will have to secure credit in order to finance the above import requirements. The firm uses cotton produced locally as a raw material.

d. Dillmann: Cochabamba
(Complex Agro-Industrial Processing)

One of the largest meat and produce packing firms in Bolivia with an annual sales average of $1,750,000, Dillman sells a wide variety of canned and packaged food products throughout the country. In 1983, Dillman imported artificial flavorings, preservatives, synthetic fillers as well as packaging and canning materials, totalling $24,000. In 1984 and 1985, production levels will necessitate that Dillmann import over $100,000 per year of the same raw materials.

Dillmann has direct ties to local producers of pork, beef, fruits and vegetables, from whom they purchase 64,000 kilograms per year. Likewise, Dillman purchases large quantities of sugar used in food processing.

e. Industrias Del Valle: Cochabamba
(Complex Agro-Industrial Processing)

Del Valle is a fruit juice and vegetable canning firm which has grown considerably over the past few years despite the contracting economy and lack of foreign exchange to import capital goods. Del Valle has an annual sales volume of $720,000. Last year's raw material imports of $52,000 consisted of preservatives, maizena and tilose, all purchased from Peru and Brazil. Management estimates that raw material import requirements will increase in the next two years, but spare parts for machinery will only be purchased as needed. New capital equipment, consisting of a mechanized bottle filler estimated to cost $15,000, will be purchased toward the end of 1984. All fruits and vegetables used in Del Valle's agro-industrial processing are purchased locally from approximately 165 growers.

f. SONATEX S.A.: La Paz
(Textiles)

SONATEX is considered a large textile firm, employing more than 180 people and having an annual sales volume in escess of $5 million. It produces finished products in cotton yarns, polyester and rayon garments, with a primary sales market located in La Paz. Management estimates that, in 1985, requirements for spare parts from the U.S. at an estimated cost of $100,000.

The raw compressed cotton utilized by SONATEX is obtained locally from the cotton producers association in Santa Cruz. This local investment is expected to reach $600,000 per year, providing a direct benefit to the members of the cotton association.

g. Industria Boliviana de Calzado Ltda.: Cochabamba
(Leather Shoes)

A medium size shoe manufacturer located in Cochabamba, this firm has average annual sales of approximately $400,000 of sport shoes for men, women and children. The firm will import raw materials of threads and synthetic components estimated for the coming year to be $75,000. Additionally, Industria Boliviana de Calzado will import $51,000 in spare parts, primarily from Chile and Brazil, plus new sewing machines will require credits of $52,000.

This firm relies on local production for of all the leather it uses, thereby impacting directly on the domestic economy.

h. CIMAL Ltda.: Santa Cruz
(Wood Products)

CIMAL is a labor intensive furniture and wood product firm having direct linkages to Santa Cruz landowners, colonists and wood transporters. CIMAL employs over 200 workers, and has an annual sales volume of $1,026,000. In 1985, CIMAL will need to replace old processing machinery with new, imported equipment, estimated at $650,000. Imported raw materials will require $345,000, while imported spare parts will amount to $8[illegible],000. All capital goods imports are expected to be purchased in the U.S. or Brazil.

New investments in capital goods for the next few years will increase the number of direct jobs to be offered by this firm. The local purchase of wood, which is the only local raw material purchased by this industry, will indirectly benefit hundreds of colonists, small landowners and wood transporters.

i. Curtiembre Oriental Ltda.: Cochabamba
(Leather Goods)

Curtiembre imports from the U.S. the majority of chemical products utilized in its tanning processes. In 1985, these raw material costs are expected to exceed $330,000. Commercial credit will be needed to finance these costs, as well as $35,000 in spare parts for existing machinery. The firm's annual sales volume next year is projected to be $950,000.

Curtiembre directly employs 90 workers. However, through the purchase of local leather materials used for tanning and curing, Curtiembre has a significant impact on local employment and productivity in other eonomic subsectors of Cochabamba, such as cattle production and leather product distribution and marketing.

2. Loan Capacity of Commercial Banks

The ability of the participating local commercial banks to make available a sufficient amount of peso loan capital to project

sub-borrowers, must be demonstrated to justify $26 million in agro-industrial imports. Therefore, the following analysis puts forth the estimated loan liquidity position of the commercial banks which are expected to participate in the project, as well as the amount of funds currently available to banks through Central Bank rediscount lines which could be used to finance agro-industrial imports.

As of June 30, 1984, Bolivian banks had total peso deposits available for lending equal to approximately $11.9 million. Obviously, these funds alone would not be able to cover all of the potential $26 million in loan requests under the project. However, when these funds are combined with the financing available from the rediscount lines of credit in the Central Bank ($65.2 million), it is apparent that banks will be capable of providing peso loans to meet import loan requests.

The Central Bank rediscount lines available to project importers are as follows:

	Pesos Bolivianos (millions)	
Special Development Line	12,474	
IDB Agribusiness Line	82,688	
Rotating Industrial Fund	13,062	
Agribusiness and Artisanry Line	22,171	
	130,395	= $ 65.2 million

C. Institutional Analysis

1. Local Commercial Banks

The participation and cooperation of local commercial banks in carrying out certain administrative functions under the project will be essential to the efficient importation of agro-industrial goods financed under Amendment No. 2. In addition to their more traditional duties involving credit analysis and letter of commitment monitoring, local banks will be involved in: a) the verification of agro-industrial eligibility, and the eligibility of imported commodities in accordance with project criteria and AID procurement regulations and b) ensuring that competitive procedures are followed by their customers in selecting the most responsive supplier of agro-industrial commodities. This activity will involve the receipt of all offers and pro-forma invoices submitted by foreign suppliers, as well as final selection of the supplier in conjunction with the sub-borrower. Local banks will also assist the importer in tracking and monitoring the shipment of goods, and clearing those goods through customs at the point of entry in Bolivia. Since local banks will use the imported commodities as collateral for their peso loans to importers, it will be in the best interests of the banks to monitor the shipment and delivery of the commodities to their end users.

By means of a project-financed cadre of technical assistance set up within the Ministry of Finance, plus support from USAID direct hire personnel, local banks will be able to obtain help in checking sub-borrower and commodity eligibility, compliance with procurement regulations and follow-up procedures on commodity shipment and delivery. Although most local banks queried during the early stages of project development indicated a relative lack of experience with importation of agro-industrial commodities, it is envisioned that through the provision of complete instructions and procurement checklists, and with project technical assistance, that local banks will be capable of carrying out the administrative responsibilities assigned to them.

2. The Ministry of Finance

The MOF will be responsible for the review and approval of import applications and the monitoring of import transactions financed under the program. As noted earlier, the MOF will be assisted in these tasks by a long-term US commodity procurement advisor and three locally hired procurement assistants.

It has been decided to set up the project counterpart office in the Ministry of Finance to avoid going through the Central Bank, which is trying unsuccessfully to administer similar lines of credit from the IDB and CAF. The Central Bank (BCB) has traditionally processed import applications very slowly, and both the IDB and CAF are very dissatisfied with the rates of disbursement under their BCB-managed loans. To complicate matters, the current BCB administration is highly politicized. Given this situation, the MOF has agreed to augment its staff in a special section set up to administer AID's agro-industrial reactivation import program. With the technical assistance to be provided under the project, the MOF will be fully capable of administering the program.

V. COST ESTIMATE AND FINANCIAL PLAN

Table 1

AGRO-INDUSTRY IMPORTS - SUMMARY BUDGET

($US 000)

COMPONENTS	A.I.D. Loan FX	A.I.D. Loan LC	Total A.I.D.	Host Country Contribution (from sales proceeds) LC	Total
I. Agro-Industrial Machinery Spare Parts and Raw Materials	25,000		25,000		25,000
II. Local Currency Program					
A. Warrant Credit Operation				17,000	17,000
B. Low Cost Housing				6,000	6,000
C. Chapare Development Activities				2,000	2,000
III. Technical Assistance (2 years)	250	120	370		370
Procurement/Mgt. Specialist (1)	250		250		250
Foreign Commerce Specialist (3)		45	45		45
Procurement Voucher Examiners (3)		45	45		45
Warrant Credit Personnel (2)		30	30		30
VI. Contingencies	630		630		630
Total	25,880	120	26,000	25,000	51,000

Table 2

COST ESTIMATE AND FINANCIAL PLAN
(US$ 000)

	Components	A. I. D. Grant	A. I. D. Loan	Total A.I.D.	GOB	Community	Host Country Contr.*	Total Host Country	Grand Total
I.	INFRASTRUCTURE	4,370	11,328	15,698	4,861	1,338		6,199	21,897
	A. Roads	996	9,614	10,610	4,104			4,104	14,714
	B. Potable Water & Irrigation	3,374	1,714	5,088	757	1,338		2,095	7,183
	1. Potosí	623		623	95			95	718
	2. Sucre	479		479	30			30	509
	3. CARE	1,750		1,750	80	410		490	2,240
	4. Irrigation	522	1,714	2,236	552	928		1,480	3,716
II.	COMMODITY IMPORTS	2,762	31,500	34,262	4,709	19	25,000	29,728	63,990
	A. Fertilizers	1,535		1,535	41 1/			60	1,595
	B. Medicines	1,137		1,137	168 1/			168	1,305
	C. Agricultural Inputs	90	5,500	5,590	4,500 1/			4,500	10,090
	D. Agro-Industry Imports		26,000	26,000			25,000	25,000 2/	51,000
III.	DISASTER ASSISTANCE PROGRAM SUPPORT	1,476		1,476	569 1/			569	2,045
	A. Coordination Unit	315		315	100			100	415
	B. Support for Food & Rural Recapitalization Program	511		511	218			218	729
	C. Disaster Surveillance Data Collection System	447		447	144			144	591
	D. Audits and Evaluation	103		103	107			107	210
	E. Short-Term Technical Assistance and Other	100		100					100
IV.	CONTINGENCIES & INFLATION	392	1,172	1,564	322 1/			322	1,886
		9,000	44,000	53,000	10,461	1,357	25,000	36,818	89,818

* From Sales Proceeds.

1/ The GOB contribution from sales proceeds generated by Amendment No. 1 (Agricultural Inputs) will be applied as follows:

- Development of Integral Cooperatives US$1.5 million
- Artisanry Development 0.5 million
- Rural Housing 2.5 million
- Fertilizers 0.041 million
- Medicines 0.068 million
- Disaster Assistance Program 0.569 million
- Contingencies and Inflation 0.322 million

2/ The GOB contribution from sales proceeds generated by Amendment No. 2 (Agro-Industry Imports) will be applied as follows:

- Warrant Credit Operation US$17.0 million
- Low Cost Housing 6.0 million
- Chapare Development Activities 2.0 million

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III COST ESTIMATE AND FINANCIAL PLAN

(US$. 000)

COMPONENTS	A. I. D. ORIGINAL BUDGET GRANT FX	GRANT LC	LOAN FX	LOAN LC	TOTAL	A.I.D. AMENDMENT No. 1 FUTURE REQUIREMENTS GRANT FX	GRANT LC	LOAN FX	LOAN LC	TOTAL	A. I. D. AMENDMENT No. 2 GRANT FX	GRANT LC	LOAN FX	LOAN LC	TOTAL	A. I. D. NEW GRANT	A. I. D. TOTALS LOAN	TOTAL A.I.D.	GOB	COMMUNITY	HOST COUNTRY CONTRIBUTION*	TOTAL HOST COUNTRY	GRAND TOTAL
I. Infrastructure	2,949	2,696	604	7,396	13,645	374	(1,649)	1,614	1,714	2,053						4,370	11,328	15,698	4,861	1,338		6,199	21,897
A. Roads	996		604	7,396	8,996			1,614		1,614						996	9,614	10,610	4,104			4,104	14,714
Construction Materials			604	3,491	4,095			1,114		1,114							5,209	5,209					5,209
Earth Movement				2,616	2,616												2,616	2,616	4,104			4,104	6,720
Bridge Construction				1,289	1,289			500		500							1,789	1,789					1,789
Spare Parts and Excess Property	575				575											575		575					575
Technical Assistance	421				421											421		421					421
B. Potable Water and Irrigation	1,953	2,696			4,649	374	(1,649)		1,714	439						3,374	1,714	5,088	757	1,338		2,095	7,183
1. Potosí	410				410	213				213						623		623	95			95	718
Materials																			61			61	61
Spare Parts and Excess Property	400				400	203				203						603		603					603
Operating Expenses																			19			19	19
Maintenance																			15			15	15
Transportation	10				10	10				10						20		20					20
2. Sucre	260	65			325	89	65			154						479		479	30			30	509
Pumps, Instruments, etc.	160	5			165	44				44						209		209					209
Pump Houses		25			25											25		25	30			30	55
Pipe	100				100											100		100					100
Installation		10			10											10		10					10
Transportation		25			25											25		25					25
Design and Supervision							65			65						65		65					65
Transformer and Power Lines						45				45						45		45					45
3. CARE	915	835			1,750											1,750		1,750	80	410		490	2,240
4. Irrigation	368	1,796			2,164	72	(1,714)		1,714	72						522	1,714	2,236	552	928		1,480	3,716
Construction Materials and Labor		1,714			1,714		(1,714)		1,714								1,714	1,714	212	928		1,140	2,854
Design and Supervision																			240			240	240
Equipment and Spare Parts	254				254	72				72						326		326					326
Technical Assistance	90	76			166											166		166					166
Training	24	6			30											30		30					30
Operating Expenses																			100			100	100

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ITEMS	A.I.D. ORIGINAL BUDGET GRANT FX	GRANT LC	LOAN FX	LOAN LC	TOTAL	A.I.D. AMENDMENT No. 1 FUTURE REQUIREMENTS GRANT FX	GRANT LC	LOAN FX	LOAN LC	TOTAL	A.I.D. AMENDMENT No. 2 GRANT FX	GRANT LC	LOAN FX	LOAN LC	TOTAL	A.I.D. NEW GRANT	A.I.D. TOTALS LOAN	TOTAL A.I.D.	GOB	COMMUNITY	HOST COUNTRY CONTRIBUTION*	TOTAL HOST COUNTRY	GRAND TOTAL
II. Product Imports	2,524	196			2,720	220	(178)	5,500		5,542			25,880	120	26,000	2,762	31,500	34,262	4,709	19	25,000	29,728	63,990
A. Fertilizers	1,408	127			1,535	127	(127)									1,535		1,535	41 1/	19		60	1,595
Fertilizers and Transportation	1,372	86			1,458	127	(86)			41						1,499		1,499		2		2	1,501
Personnel		29			29		(29)			(29)									29	1		30	30
Vehicles	36				36											36		36					36
Evaluation and Operating Expenses		12			12		(12)			(12)									12	16		28	28
B. Medicines	1,116	69			1,185	20	(68)			(48)						1,137		1,137	168 1/			168	1,305
Medicines	1,000				1,000											1,000		1,000					1,000
Vehicles and Equipment	72	8			80		(8)			(8)						72		72	8			8	80
Technical Assistance	44				44	20				20						64		64					64
Rehabilitation of Facilities		26			26		(26)			(26)									26			26	26
Operating Expenses		3			3		(2)			(2)						1		1	112			112	113
Transportation		10			10		(10)			(10)									22			22	22
Training		22			22		(22)			(22)													
C. Agricultural Inputs						73	17	5,500		5,590						90	5,500	5,590	4,500 1/			4,500	10,090
Inputs								5,500		5,500							5,500	5,500					5,500
Environ. Protection Activities						73	17			90						90		90					90
Development Programs from Sales Proceeds																			4,500			4,500	4,500
D. Agroindustry Imports													25,880	120	26,000		26,000	26,000			25,000	25,000	51,000
Agroindustrial Machinery and Spare Parts													13,000		13,000		13,000	13,000					13,000
Raw Materials													12,000		12,000		12,000	12,000					12,000
Technical Assistance													250	120	370		370	370					370
Warrant Credit Operation																				19,000	19,000	19,000	19,000
Low Cost Housing																				5,000	5,000	5,000	5,000
Chapare Development Activities																							
Contingencies													630		630		630	630		1,000	1,000	1,000	1,000
III. Disaster Assistance Program Support	401	36			437	817	222			1,039						1,476		1,476	569 1/			569	2,045
A. Coordination Unit	240	36			276	45	(6)			39						315		315	100			100	415
Coordinator	240				240	45				45						285		285					285
Irrigation Specialist		18			18		(5)			(5)						13		13	46			46	59
Accountant		18			18		(10)			(10)						8		8	30			30	38
Secretary							4			4						4		4	14			14	18
Ag Input Admin. Advisor							5			5						5		5	10			10	15

Best Available Document

COMPONENTS	A. I. D. ORIGINAL GRANT FX	GRANT LC	LOAN FX	A.I.D. BUDGET LOAN LC	TOTAL	A.I.D. AMENDMENT No. 1 FUTURE REQUIREMENTS GRANT FX	GRANT LC	LOAN FX	LOAN LC	TOTAL	A. I. D. AMENDMENT No. 2 GRANT FX	GRANT LC	LOAN FX	LOAN LC	TOTAL	A. I. D. NEW GRANT	TOTALS LOAN	TOTAL A.I.D.	GOB	COMMUNITY	HOST COUNTRY CONTRIBUTION*	TOTAL HOST COUNTRY	GRAND TOTAL
B. Support for Food and Rural Recapitalization Programs						369	142			511						511		511	218			218	729
Coordinator						155				155						155		155					155
Assistant Coordinator						15				15						15		15					15
Food Inspectors							25			25						25		25	75			75	100
SNDC Advisor							12			12						12		12					12
Secretaries							14			14						14		14	35			35	49
TA for Rural Rice Sales						70				70						70		70					70
TA for Rural Recapitalization Program																			100			100	100
Vehicles						49				49						49		49					49
Equipment						2				2						2		2					2
Training																			8			8	8
Field Offices						78	91			169						169		169					169
C. Disaster Surveillance Data Collection System						361	86			447						447		447	144			144	591
System Supervisor						180				180						180		180					180
Field Supervisor							6			6						6		6	24			24	30
Data Collectors							30			30						30		30	120			120	150
Vehicles						100				100						100		100					100
Computers						9				9						9		9					9
Technical Assistance						57				57						57		57					57
Operating Expenses						15	50			65						65		65					65
D. Audits and Evaluations						103				103						103		103	107			107	210
Audit Supervisor						6				6						6		6	21			21	27
Audit Contracts																			80			80	80
Field Auditors						7				7						7		7	6			6	13
Evaluations						90				90						90		90					90
E. Short Term Technical Assistance and Other	161				161	(61)				(61)						100		100					100
IV. Contingencies and Inflation		198			198	194		1,172		1,366						392	1,172	1,564	322 1/			322	1,886
TOTAL	5,874	3,126	604	7,396	17,000	1,605	(1,605)	8,286	1,714	10,000	-	-	25,880	120	26,000	9,000	44,000	53,000	10,461	1,357	25,000	36,818	89,818

* From Sales Proceeds.

1/ The GOB contribution under this sub-element amounts to $us. 5.5 million as follows:

Development of Integral Cooperatives	$us.	1.5 million
Artisanry Development	:	0.5 million
Rural Housing		2.5 million
Fertilizers		0.041 million
Medicines		0.068 million
Disaster Assistance Program		0.569 million
Contingencies and Inflation		0.322 million

IMPLEMENTATION AND FINANCING PROCEDURES

A.I.D. funds for the project will be channeled in the following way:

Funding Procedures for A.I.D. Resources (US$ 000)

Major Element	Method of Implementation	Method of Financing	Approximate Amount
Agro Industrial Machinery, Spare Parts and Raw Materials	Contract for Commodities (Host Government)	Direct L/Com	$25,000
Technical Assistance	Personal Service Contract	Direct Pay	$ 370
			$25,370
	Contingency		630
		Total	$26,000

VI. CONDITIONS AND COVENANTS

The Project Agreement will contain the following Condition Precedent to the disbursement of funds under the Disaster Recovery Amendment No. 2.

The GOB will, except as A.I.D. may agree otherwise in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) a legal opinion of the Attorney General of Bolivia or other counsel acceptable to A.I.D. to the effect that the Project Agreement, as amended by Amendments No.1 and No.2 has been duly authorized and/or ratified by, and executed on behalf of Bolivia, and that it constitutes a valid and legally binding obligation of Bolivia in accordance with all of its terms;

(b) a statement of the name of the person holding or acting in the office of Bolivia responsible for implementation of the agroindustrial reactivation component of the Project and a specimen signature of such person;

(c) evidence that Bolivia has carried out a substantial real devaluation of the Peso and implemented a system of frequent mini-devaluations which permit the exchange rate to keep pace with inflation;

(d) evidence that Bolivia has implemented a crawling-peg system for reducing and eliminating subsidies on price-controlled foods and hydrocarbon products;

(e) evidence that Bolivia has restructured its lending and saving instruments, such that (i) private banks can maintain their current effective loan interest rates without discounts and service charges; and (ii) there are substantial real increases in interest rates paid to savers.

(f) evidence of the preparation and approval of a FY 1985 budget which substantially reduces the planned deficit below that experienced in recent years;

(g) evidence of the preparation and approval of legislation on taxation and tax administration, which will result in substantially improved revenues in FY 1985, and

(h) evidence of a reinitiation of negotiations with the Government's private foreign bank creditors so as to establish an agreed upon schedule for repayment of Bolivia's foreign debt.

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

LAC/DR-IEE-85-14

ENVIRONMENTAL THRESHOLD DECISION

Project Location	: Bolivia
Project Title and Number	: Disaster Recovery Amendment 511-0581
Funding	: $26,000,000 (G)
Life of Project	: 2 years, 3 months
IEE Prepared by	: Candy Mirrer USAID/La Paz
Recommended Threshold Decision	: Negative Determination
Bureau Threshold Decision	: Concur with Recommendation
Comments	: Concurrence subject to having Condition Precedent in PROAG prohibiting the procurement or use of pesticides with these amendment funds.
Copy to	: Henry Bassford, Director USAID/La Paz
Copy to	: Candy Mirrer, USAID/La Paz
Copy to	: Eric Zallman, LAC/DR
Copy to	: IEE File

James S. Hester Date JAN 31 1985

James S. Hester
Chief Environmental Officer
Bureau for Latin America
and the Caribbean

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