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

BOLIVIA

PROJECT PAPER

EMERGENCY AGRICULTURAL CREDIT

AID/LAC/P-343

Project Number:511-0591

UNCLASSIFIED

|  |  |   |                        |                           |
|--|--|---|------------------------|---------------------------|
| AGENCY FOR INTERNATIONAL DEVELOPMENT<br><b>PROJECT DATA SHEET</b>              |  | 1. TRANSACTION CODE<br><input type="checkbox"/> A = Add<br><input type="checkbox"/> C = Change<br><input type="checkbox"/> D = Delete   | Amendment Number _____ | DOCUMENT CODE<br><b>3</b> |
| 2. COUNTRY/ENTITY<br>Bolivia   |  | 3. PROJECT NUMBER<br><input type="checkbox"/> 511-0591 <input type="checkbox"/>   |                        |                           |
| 4. BUREAU/OFFICE<br>L A C <input type="checkbox"/> 05 <input type="checkbox"/> |  | 5. PROJECT TITLE (maximum 40 characters)<br><input type="checkbox"/> EMERGENCY AGRICULTURAL CREDIT <input type="checkbox"/>   |                        |                           |
| 6. PROJECT ASSISTANCE COMPLETION DATE (PACD)<br>MM DD YY<br>03 30 88           |  | 7. ESTIMATED DATE OF OBLIGATION<br>(Under 'B' below, enter 1, 2, 3, or 4)<br>A. Initial FY <input type="checkbox"/> 8 <input type="checkbox"/> 6 <input type="checkbox"/> B. Quarter <input type="checkbox"/> 4 <input type="checkbox"/> C. Final FY <input type="checkbox"/> 8 <input type="checkbox"/> 7 <input type="checkbox"/> |                        |                           |

| 8. COSTS (\$000 OR EQUIVALENT \$1 = ) |             |           |            |                 |            |            |
|---------------------------------------|-------------|-----------|------------|-----------------|------------|------------|
| A. FUNDING SOURCE                     | FIRST FY 86 |           |            | LIFE OF PROJECT |            |            |
|                                       | B. FX       | C. L/C    | D. Total   | E. FX           | F. L/C     | G. Total   |
| AID Appropriated Total                | 50          | 9,950     | 10,000     | 50              | 19,950     | 20,000     |
| (Grant)                               | ( 50 )      | ( 9,950 ) | ( 10,000 ) | ( 50 )          | ( 19,950 ) | ( 20,000 ) |
| (Loan)                                | ( - )       | ( - )     | ( - )      | ( - )           | ( - )      | ( - )      |
| Other U.S.                            |             |           |            |                 |            |            |
| 1.                                    |             |           |            |                 |            |            |
| 2.                                    |             |           |            |                 |            |            |
| Host Country                          | -           | 77,419    | 77,419     | -               | 77,419     | 77,419     |
| Other Donor(s)                        | -           | -         | -          | -               | -          | -          |
| <b>TOTALS</b>                         | 50          | 87,369    | 87,419     | 50              | 97,369     | 97,419     |

| 9. SCHEDULE OF AID FUNDING (\$000) |                         |                       |         |                        |         |                                |         |                    |         |
|------------------------------------|-------------------------|-----------------------|---------|------------------------|---------|--------------------------------|---------|--------------------|---------|
| A. APPROPRIATION                   | B. PRIMARY PURPOSE CODE | C. PRIMARY TECH. CODE |         | D. OBLIGATIONS TO DATE |         | E. AMOUNT APPROVED THIS ACTION |         | F. LIFE OF PROJECT |         |
|                                    |                         | 1. Grant              | 2. Loan | 1. Grant               | 2. Loan | 1. Grant                       | 2. Loan | 1. Grant           | 2. Loan |
| (1) ARD&N                          | 040                     | 044                   |         | --                     |         | 20,000                         |         | 20,000             |         |
| (2)                                |                         |                       |         |                        |         |                                |         |                    |         |
| (3)                                |                         |                       |         |                        |         |                                |         |                    |         |
| (4)                                |                         |                       |         |                        |         |                                |         |                    |         |
| <b>TOTALS</b>                      |                         |                       |         |                        |         | 20,000                         |         | 20,000             |         |

|   |     |     |    |    |  |                            |  |  |  |
|---|-----|-----|----|----|--|----------------------------|--|--|--|
| 10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each) |     |     |    |    |  | 11. SECONDARY PURPOSE CODE |  |  |  |
| 070   | 049 | 943 |    |    |  |                            |  |  |  |
| 12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)    |     |     |    |    |  |                            |  |  |  |
| A. Code   | BR  | BL  | BF | BU |  |                            |  |  |  |
| B. Amount   |     |     |    |    |  |                            |  |  |  |

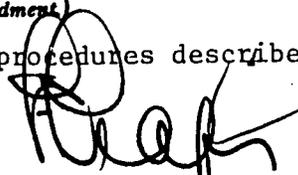
13. PROJECT PURPOSE (maximum 480 characters)

To contribute to agriculture sector recovery by providing agricultural credit to Bolivia's small and medium size farmers during the 1986/87 crop planting and production cycle.

|                           |    |    |    |    |       |   |    |   |   |   |  |
|---------------------------|----|----|----|----|-------|---|----|---|---|---|--|
| 14. SCHEDULED EVALUATIONS |    |    |    |    |       | 15. SOURCE/ORIGIN OF GOODS AND SERVICES |    |   |   |   |  |
| Interim                   | MM | YY | MM | YY | Final | MM                                      | YY | <input checked="" type="checkbox"/> 000 | <input checked="" type="checkbox"/> 941 | <input checked="" type="checkbox"/> Local | <input type="checkbox"/> Other (Specify) |
|                           |    |    |    |    |       | 07                                      | 87 |   |   |   |  |

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

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

  
 Steven G. Liapis  
 Controller

|                 |                                  |   |    |    |          |
|-----------------|----------------------------------|---|----|----|----------|
| 17. APPROVED BY | Signature                        | 18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION |    |    |          |
|                 | Title                            | Date Signed   | MM | DD | YY       |
|                 | George A. Wachtenheim            | MM DD YY  | 09 | 30 | 86       |
|                 | Acting Director<br>USAID/Bolivia |   |    |    | MM DD YY |
|                 |                                  |   |    |    | 10 24 86 |

PROJECT AUTHORIZATION

Name of Country: BOLIVIA  
Name of Project: Emergency Agricultural Credit  
Number of Project: 511-0591

1. Pursuant to Part I, Chapter I, Section 103 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Emergency Agricultural Credit Project for Bolivia (the "Grantee") involving planned obligations of not to exceed Ten Million United States Dollars (US\$10,000,000) in grant funds ("Grant") over an 18-month period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB allotment process, to help in financing the foreign exchange and local currency costs of the Project. The planned life of Project is 18 months from the date of initial obligation.

2. The Project ("Project") will provide agricultural production, harvesting and marketing credit to Bolivian farmers during the 1986-1987 crop planting/livestock production cycles.

3. The Project Agreement(s), which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

a. Source and Origin of Commodities, Nationality of Services

Except as A.I.D. may otherwise agree in writing, commodities financed by A.I.D. under the Grant shall have their source and origin in Bolivia or in the United States. With the exception of ocean shipping, the suppliers of commodities or services shall have as their place of nationality the United States or Bolivia, except as A.I.D. may otherwise agree in writing. Ocean freight financed by A.I.D. under the Grant shall, except as A.I.D. may otherwise agree in writing, be carried only on flag vessels of the United States.

b. Conditions Precedent to Disbursement

Prior to the first disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursements will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

- 1) a statement of the name of the person(s) holding or acting in the office of the Grantee, and of any additional representatives, together with a specimen signature of each person specified in such statements;

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- 2) a copy of the model loan agreement to be signed by the PL-480 Secretariat and participating private sector Intermediate Credit Institutions (ICIs); and
- 3) an implementation plan for the credit program which includes a list of the Bolivian private sector Intermediate Credit Institutions through which the A.I.D. funds provided under the Project will be channelled.

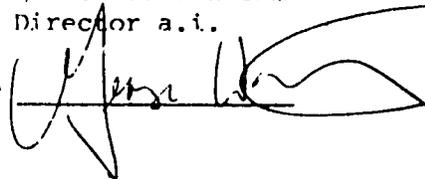
c. Covenants

The Grantee will covenant to:

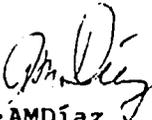
- 1) Provide USAID/Bolivia, through the PL-480 Secretariat, a detailed evaluation plan which it will use to assess the impact and the progress made in attaining the purpose and the targets of the Project, within 90 days of the signing of the Project Grant Agreement;
- 2) Make the necessary arrangements to review on a quarterly basis the performance of each participating private sector ICI. It further covenants that any ICI which fails to comply with the program requirements agreed to between USAID/Bolivia and the Grantee, will be suspended from further participation in the Project;
- 3) Make the necessary arrangements with participating private sector ICIs to direct sub-loans to small and medium size farmers and that the average amount per sub-loan under this project, on a nationwide basis, will be approximately \$4,000; and
- 4) Establish lending rates to private sector ICIs and to sub-borrowers which are positive in real terms.

George A. Wachtenheim  
Director a.i.

Date



9/27/86



Drafter: AMDíaz

CLEARANCES:

PRD:TDJohnston  date 9-30-86  
 CONT:SGLIapis  date 9/30/86  
 PD&I:RJasselin  date 9/26  
 GC/LAC:MRiedy (in draft per State 304949) date 9/27/86

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00401.

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I. SUMMARY

A. Recommendation

Approval of the Emergency Agricultural Credit Project for \$20 million to finance the productive inputs and harvesting and marketing costs which Bolivia's small and medium size farmers will incur during the 1986/1987 agricultural season. The Project Assistance Completion Date is March 30, 1988.

B. Problem and Project Rationale

There are policy, technical, institutional, infrastructural and financial constraints which are impeding Bolivia's economic recovery and growth prospects. Particularly, these constraints affect the country's most important sector - agriculture. The Government of Bolivia (GOB), with donor assistance, is addressing the technical, institutional and infrastructural constraints, to a some extent. The policy constraints are being addressed through the comprehensive economic reform and recovery program, which the GOB launched in October 1985. However, the full effects of the program have not been realized yet, and Bolivia's productive sectors are currently facing a serious financial liquidity problem. Bolivia's financial institutions have been decapitalized due to the erratic economic policies which prevailed until mid 1985, and adequate lending capital is not available to meet the immediate credit needs for economic reactivation. The project will address this constraint in the agriculture sector.

Consistent with USAID's primary objective of promoting Bolivia's economic recovery, the goal of the Project is to increase agricultural production, thereby increasing farmers' incomes and contributing towards this objective. To attain its goal, the project will provide up to \$20 million for agricultural credit to Bolivian farmers during the 1986/87 crop planting/livestock production cycle.

C. Project Description

The project will help meet Bolivia's agricultural credit requirements during the 1986/1987 planting and production cycle. The project will finance seeds, fertilizers, agricultural implements, labor, veterinary medicines, and related agricultural and livestock inputs, (except pesticides), and harvesting and marketing costs. All legitimate crops, plus livestock activities, will be eligible for financing. Funds will be provided to target farmers in the main agricultural areas - in the altiplano, the intermediate zones and the lowlands - through the GOB PL-480 Secretariat, which has developed the required institutional capacity to analyze projects and channel funds through intermediate credit institutions (ICIs). Farmers in the agricultural areas of the Chapare region will be excluded from participation in the Project because resources are available through the Chapare Regional Development Project to meet their credit needs, once certain conditions are satisfied.

It is expected that approximately 5,000 loans will be extended to a like number of beneficiary farmers in the altiplano, the intermediate zones and the lowlands. By the end of the Project, it is expected that agricultural production will have increased significantly over the depressed levels experienced in 1985.

D. Relationship of Project to A.I.D. Strategy and Program

The Project is consistent with USAID/Bolivia country strategy to foster economic stabilization and promote growth with equity to improve the quality of life of the Bolivian people. It directly contributes to meeting USAID/Bolivia's objectives contained in the 1986/87 Action Plan. It also is in accord with A.I.D. Policy Determinations on food and agriculture, the private sector and development.

E. Implementation Mechanism

A Project account will be established by the GOB PL-480 Secretariat. A.I.D. will disburse project funds in pesos to the account on a rolling 30-day advance basis. The Secretariat will disburse funds from the Project account to separate trust fund accounts it maintains with participating ICIs based on their credit requirements for financing of the project's target population, specifically the country's small and medium size farmers.

F. Project Approval Factors

The project design team which prepared the Project Paper has concluded that the Project has a sound financial, economic, technical and social basis, and that Bolivia has the appropriate institutional mechanisms (the PL-480 Secretariat and intermediate credit institutions) to implement it effectively. Also, it has determined that the Project will not have an adverse effect on the environment, and, therefore, a categorical exclusion has been recommended based on the provisions of Section 262.2(C) of 22 CFR part 216 on environmental procedures.

G. Project Design Team

The USAID/Bolivia Project Design Team was composed of:

|                 |            |
|-----------------|------------|
| Angel M. Díaz   | USAID/PD&I |
| Jaime Vizcarra  | USAID/PD&I |
| Clark Joel      | USAID/Econ |
| David Jessee    | USAID/PRD  |
| Gustavo Vega    | USAID/PRD  |
| Gerardo Mendoza | USAID/PRD  |

The Project paper was reviewed by the following USAID/Bolivia officials:

Robert J. Asselin, Jr.  
Guillermo Peñaranda  
Anthony A. Funicello  
T. David Johnston

Chief, PD&I  
Acting Chief, Controller  
Program Officer  
Chief, PRD

## II. PROJECT BACKGROUND AND RATIONALE

### A. Background/Problem Description

After nearly eighteen years of almost uninterrupted military rule, Bolivia returned to constitutional democratic government in October 1982. The country was suffering from a deepening economic crisis, but the mood was hopeful that the new administration of Hernan Siles Zuazo would resolve the nation's economic and political problems.

Upon assuming office in October 1982, the Siles Government confronted an economic crisis of great magnitude that had caused the resignation of the military government which preceded it. The economic situation resulted from poorly conceived investments in the public sector, excessive overseas borrowing, and unsound economic policies (1971-1978). External debt servicing requirements mounted when glowing predictions of increased Bolivian mineral and hydrocarbon export receipts did not materialize. When international bank credits dried up in the late 1970's, the GOB borrowed from other Latin American nations to cover rapidly expanding fiscal deficits. Government-to-government concessional credits were largely cut off in 1980 following the Garcia Meza coup. This situation led to growing fiscal and balance-of-payments deficits and the beginning of an unprecedented inflationary spiral.

Constant political instability limited the Siles Government's ability to develop a comprehensive and sustained response to the nation's economic problems. From October 1982 to August 1985, the GOB adopted six separate "packages" of economic reforms. Some of these were more meaningful than others, but strongly negative political reaction to all of the economic packages resulted in vacillation by the Siles administration and a lack of follow-up actions. The net effect of these isolated attempts at economic reform was to exacerbate the nation's economic difficulties. Bolivia experienced negative GDP growth rates of -6.6% in 1982, -7.3% in 1983, -3.1% in 1984, and -2.1% in 1985. Inflation reached a twelve-month rate of more than 23,000% through September 1985.

The transfer of power (the first in Bolivian history between two democratically elected political parties) to the newly elected MNR Government of Victor Paz Estenssoro took place on August 6, 1985. The economic situation faced by the Paz Government upon taking office called for drastic actions to restore public confidence and bring about economic stabilization and recovery. Reform measures were essential to reduce the fiscal deficit, to adjust the exchange rate, and to expand the productivity of the economy.

Sweeping economic recovery measures were enacted in October 1985, just three weeks after President Paz Estenssoro assumed power. The measures (referred to as "New Economic Program" -NEP) were designed to halt hyperinflation, provide free-market incentives for the reactivation

of domestic production, eliminate price distortions in the economy, restructure state enterprises, and provide the economic basis upon which the Paz Government would be able to govern the country. The far-reaching measures (1) devalued the peso by 93.3% and implemented a flexible mechanism to allow the exchange rate to be adjusted in accordance with market forces, (2) eliminated all price controls (except those on petroleum products--which were raised to world prices--and utility services), (3) froze public sector salaries, (4) provided for free negotiation of private sector wages, (5) abolished interest rate controls, and (6) provided for the decentralization of Bolivia's main state enterprises (COMIBOL, the state mining corporation, YPF, the state petroleum company, and CBF, the state manufacturing conglomerate). Equally important, the new Government engaged in a new private sector-based development strategy, which contrasts sharply with the statist development model which had been followed by Bolivian governments during the last thirty years.

The Paz Government's economic measures were a bold first step, more comprehensive and farther reaching than had been expected or believed politically possible. The initial results of the NEP have been impressive. Inflation has been virtually halted in the wake of effective government deficit control measures. Central government employment has begun to be reduced. The exchange rate has stabilized. Previous distortions in economic activity, caused by the GOB's counterproductive subsidization policies and rampant inflation, have all but disappeared, and economic activity is slowly returning to normal. The IMF, World Bank, IDB, and bilateral donors have responded to this promising situation with negotiations to increase the flow of concessional assistance to Bolivia. An IMF Standby Agreement was reached in June 1986.

Despite this progress, much remains to be done to promote growth, including measures to address the problem of growing numbers of displaced workers from the public sector, reorganization and privatization (when appropriate) of state enterprises, stimulation of private sector investment, revitalization of the financial sector, and increased tax collection and fiscal control.

One important effect which the lowered mineral prices and hydrocarbon prices have had on the country has been an attitude change on the part of many leaders. In the past, little attention was given to the agricultural sector, because mining and petroleum activities were considered to be more important. Now, however, it has become clear that the GOB must increase its emphasis on the sector as a source of employment, export earnings and economic growth. To realize its potential, sectorial constraints must be effectively addressed and farmers must have increased access to improved marketing systems, agricultural support services, and credit to finance production inputs.

## B. The Role of the Agricultural Sector in Bolivia's Economy

Agriculture is the most important sector of the Bolivian economy. Currently, it accounts for over 20 percent of Bolivia's gross domestic product (GDP) and employs over 47 percent of its labor force. In contrast, all service sectors combined account for 49 percent of GDP and employ about 36 percent of the economically active population.

Given its importance and potential, development of the agricultural sector is vital for Bolivia's economic recovery and long-term growth. The uncertainties in the international mineral markets underline even more strongly the need for Bolivia to depend increasingly on the agricultural sector to increase national production, to feed its increasing urban population, to generate raw materials for agro-industrial development and to generate foreign exchange.

Currently, there is consensus that:

1) the agricultural sector can provide additional production for domestic and foreign markets, because Bolivia has large areas that are either not used for agriculture or else are farmed or ranched very extensively, and

2) the potential exists for large production increases, but these increases will not be forthcoming unless Bolivian ranchers and farmers begin to use improved technologies which will allow them to compete on equal terms with farmers and ranchers in neighboring countries.

For Bolivian farmers to attain the necessary level of production effectiveness and competitiveness, however, the critical sectorial constraints discussed below must be addressed intensively, and on a sustained basis, for the next several years.

There are five types of inter-related constraints which have inhibited the development of Bolivia's agricultural sector.

1. Policy Constraints. Government of Bolivia efforts to develop a policy for agricultural sector development had, until August 1985, been erratic and inconsistent. The sector has suffered for years from underinvestment. GOB policies, particularly regarding price controls, provided subsidies for urban consumers and miners at the expense of farmers and disrupted internal markets. Import taxes on agricultural machinery and inputs and export taxes on agricultural production discouraged production. Foreign exchange controls made it difficult to import agricultural inputs. In response to these policies, many farmers responded by employing traditional, low yielding production technologies, and by minimizing the use of agricultural machinery and chemical inputs.

These main policy constraints are now being addressed through the far reaching economic reform and stabilization program which the Government launched in mid-1985 to increase production in all sectors of the economy. Particularly important for the agricultural sector, are the policies to: (a) abolish all price controls on agricultural products, and (b) let market forces set appropriate exchange rates. These free enterprise-oriented policies will take several years to impact fully on the economy, and thus the various economic sectors have yet to reap all the benefits of the measures.

2. Inadequate Use of Agricultural Technologies. In comparison to other countries in the region, the use of adequate agricultural technologies by Bolivian farmers is low. This is due to a series of inter-related constraints, including poor public and private institutions to facilitate the technology transfer process, low levels of education among the rural population, and poor infrastructure to facilitate access to productive inputs and the marketing of produce. These constraints are compounded by the scarcity of resources to finance the inputs that generally lead to higher agricultural yields and increased production, such as fertilizer, seeds, chemicals, veterinary medicines, and appropriate agricultural equipment.

3. Weak Institutions. GOB agricultural sector institutions are generally weak. They have been unable to develop a coherent strategy to address farmers' problems and have never received the budget resources necessary to mount effective programs. As a result, public sector interventions in the agriculture sector have generally been erratic and not provided the information and incentives that farmers need to invest and increase production. Agricultural extension services, for instance, are inadequate and have lacked the resources needed to develop and transfer modern, appropriate technologies.

The two most important public institutions involved in the agriculture sector are the Bolivian Agricultural Bank (BAB), and the Ministry of Agriculture and Campesino Affairs (MACA). Both of these institutions have been affected by highly politicized policies, corruption, poorly trained personnel, overcentralized personnel and other problems similar to those of many central government institutions in developing nations. Given these problems, neither institution has been able to provide effective agricultural support services on a continuing basis, despite the substantial financial and technical assistance provided to these institutions by international development agencies.

The Departmental Development Corporations (DDCs) have begun to provide, in recent years, some agricultural services to farmers in their departments. The DDC's success in these endeavors has been mixed. At times, DDCs have carried out very effective regional programs, but these successes have normally been short lived. Like the BAB and MACA, the DDCs are also strongly influenced by political appointments and periodic turnovers in staff which have made it difficult for them to carry out continuing programs for the provision of agricultural support services.

4. Inadequate Agricultural Marketing Systems. The marketing of most agricultural commodities in Bolivia is chaotic and disorganized. Market information systems and quality standards are nonexistent. This results in frequent market gluts and shortages, as well as high post-harvest losses. Since there are no established systems for providing farmers with timely price, quantity and quality information, farmers are normally forced to make planting decisions based only on their personal experiences of the past few years. This information is normally incomplete, always out of date, and may be incorrect if their local market has not been closely connected to the major regional markets in La Paz, Cochabamba and Santa Cruz. In addition, there is a generalized lack of marketing infrastructure in the country, and a scarcity of proper storage capacity for most crops further exacerbates seasonal market gluts and shortages.

Two other important marketing constraints are the lack of an adequate transportation infrastructure and the nonexistence of modern wholesale markets. Of particular importance is the lack (or poor condition) of many farm-to-market roads which precludes the production of many perishable crops in most regions. Bolivia's rugged terrain and poor roads increases transportation costs of many commodities to such an extent that farm gate prices are often too low to provide positive incentives for farmers in areas that are not served by major highways.

5. Lack of Financing. Adequate lending capital is not currently available from Bolivia's financial sector institutions due to the misguided economic policies which were in effect until late 1985. Bolivia's recent history of hyperinflation and mandated lending and savings rate ceilings, set at only a fraction of the inflation rate, caused commercial bank deposits to drop sharply from 1982 to mid-1985. With this drop in commercial bank deposits, resources to finance agricultural credit came mostly from the Central Bank's (BCB) credit refinancing lines (FRA I and II and a 1983 IDB Agriculture Credit Loan), but because of the negative real interest rates at which these funds were lent, these lines of credit have been decapitalized. The problem which the agricultural sector now faces is that the financial system (private banks and the Central Bank) does not have enough capital to meet agricultural credit demand. This is a critical, immediate constraint, despite the fact that banks are now free to set their interest rates on deposits, and that deposits have begun to rise slowly. <sup>1/</sup> Donor financing of agricultural credit has thus become critical to the success

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<sup>1/</sup> Particularly, this constraint affects small and medium size farmers. In a liquidity crunch, such as the one Bolivia is facing now, large farmers tend to continue to satisfy their credit needs because they generally have established long-term relationships with banks and they can provide adequate guarantees and/or make adequate arrangements for obtaining productive inputs through suppliers' credits.

of the GOB's recovery efforts. Such financing will enable the GOB at least to finance part of the country's demand for agricultural credit in a manner that avoids excessive unbacked monetary emissions that would exacerbate inflationary pressures.

### C. Current Efforts to Address Agriculture Sector Constraints

As explained under Section II.3.a., the GOB began in August 1985 a comprehensive economic recovery and stabilization program to address the policy constraints which had been inhibiting Bolivia's development. Technological, institutional and marketing constraints are being addressed, at least partially, through financial and technical assistance programs sponsored by the USAID, the Inter-american Development Bank, the World Bank and the United Nations Development Program. Complementary programs sponsored by the USAID, for instance, include:

- (1) The Policy Reform Project, which seeks to identify and help implement GOB macro-economic and sectoral policy reforms aimed at reactivating productive economic activity.
- (2) The Agribusiness and Artisanry Project, which seeks to: strengthen the institutional capability of Bolivia's intermediate credit institutions to finance agribusiness and artisanry activities.
- (3) The Private Agricultural Producers Organization Project, which seeks to strengthen the institutional and technological capacity of private agricultural organizations through technical assistance.
- (4) Local currency assistance to finance the restructuring of the GOB Ministry of Agriculture to make it more responsive to the needs of the agriculture sector.
- (5) Local currency assistance to finance agro-industrial activities which contribute to creating jobs and increasing production.
- (6) A reprogramming of \$10 million from the Agro-Industrial Reactivation Component of the Disaster Recovery project to increase the availability of financing for agricultural credit during the 1985-1986 agricultural production cycle.

In addition, efforts are underway to design a FY 1987 Project to strengthen Bolivia's financial institutions so they can become effective mechanisms to mobilize resources and serve the productive sectors of the economy.

Other USAID-sponsored programs are supporting rural roads development activities, market town development, and agro-industrial development, all of which will help in agriculture sector development and economic recovery. Complementary GOB and other donor efforts to address the liquidity/financial constraint are discussed in Section D. below.

D. Demand and Supply of Agricultural Credit Financing

Three estimates of demand are calculated in the Technical Analysis included in Section V.A.1. The absolute minimum financing needed during the 1986/87 agricultural season is \$86 million. Production, however, would decline significantly at this level because of inadequate credit. If \$168 million is made available, Bolivian intermediate credit institutions will be able to meet practically all credit applications by Bolivian farmers during the 1986/87 planting season. Bolivia's financial institutions could lend as much \$280 million if adequate preparations could be made for a proper promotion campaign. However, it is too late now to do such preparations for the 1986/87 season.

The estimated credit available for the planting season is \$77.4 million. The sources of available credit are detailed in Section V.A.2. and are as follows: ICIs should loan \$8.0 million from deposits, the Agricultural Bank \$7.3 million, the PL-480 Secretariat \$4.7 million, other Bolivian private organizations, including PVOs, \$2.4 million, and the Central Bank \$55 million. Using the \$168 million estimate of credit requirements, which is considered the most appropriate level under present circumstances, there will be an estimated \$90 million short fall, not counting A.I.D. financing.

Shortfalls in agricultural credit financing would normally be covered by BCB refinancing lines and additional lending financed with bank deposits. The later category of financing is not expected to increase significant by over the level provided in 1985/86 given current economic conditions. The BCB's refinancing lines were decapitalized during the 1983-85 period, and the only potential sources of BCB financing are an estimated \$16 million in reflows from the \$20 million AID-CAF 1985-86 Emergency Agricultural Fund (EAF) <sup>1/</sup> and reflows from a \$13 million IDB credit which was not disbursed until the 1986 winter crop season.

The IDB is currently negotiating a \$100 - 150 million agricultural sector credit loan with the GOB, and has agreed to finance BCB credit as of the date the loan is approved by the IDB Board. This has led the GOB to decide tentatively to emit Treasury funds to finance

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<sup>1/</sup> The BCB has agreed not to collect all debts due from ICIs under the 1985-86 EAF for reasons that are not clear.

about \$26 million in credit. The amount of credit actually financed with GOB Treasury funds most likely will depend on how soon (and whether) the IDB loan is approved and how much of a risk the GOB will wish to run in fueling higher inflation by increasing its budget deficit before IDB dollar financing is available.<sup>1/</sup> Even if the BCB finally refinances in credit, and A.I.D. is able to finance all of the \$23.5 million it would like to make available, , a significant shortfall in required agricultural credit is expected (over \$66 million).

E. Conformance of Project with GOB, A.I.D. and other Donor Objectives

1. GOB Objectives

The highest priority of the new Bolivian Government which assume office in August 1985 is the success of the comprehensive economic reform and stabilization program launched in October 1985. The program seeks to restructure the Bolivian economy by providing the conditions for increased private sector investment and production, and stimulating the agricultural sector to complement the depressed mineral and hydrocarbon sectors. The most urgent requirement at present to stimulate development of the agricultural sector is financing for agricultural credit.

2. A.I.D. Country Development Strategy

USAID/Bolivia's development strategy focuses on three objectives: (1) short-term economic stabilization, (2) basic structural and policy reforms leading to long-term sustained economic growth, and (3) a wider sharing of the benefits of growth through increased farmer production, expanded employment opportunities and higher real incomes. To achieve these objectives, USAID/Bolivia's program emphasizes the promotion and financing of private sector investments in agro-industry which support, and help create markets for, growing domestic agricultural production, and thus increase rural incomes. The Emergency Agricultural Credit Project, which seeks to promote agricultural production by increasing farmers' access to credit, is fully consistent with this strategy. The Project also complements other USAID projects in the agricultural sector, as explained earlier.

3. Other Donor objectives

Bolivia's other donors have objectives similar to A.I.D.'s, and are also increasing their assistance programs. The proposed project provide agricultural credit to finance agricultural inputs, harvesting and marketing costs, in complement to current and proposed other donor credit programs.

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<sup>1/</sup> The IDB loan will finance agricultural production credit, agro-industrial credit and on-farm investments. If is not expected to be approved before November or December 1986, and the GOB will probably not meet all conditions precedent before June 1987.

### III. PROJECT STRATEGY AND DESCRIPTION

#### A. Project Strategy

The Project will help meet Bolivia's small and medium size farmers agricultural credit requirements during the 1986/87 planting and production cycle, and thus contribute to Bolivia's economic recovery and development of the agricultural sector. The Project will finance seeds, fertilizers, agricultural implements, veterinary medicines, and related agricultural and livestock inputs (except pesticides), and harvesting and marketing costs. All legitimate crops, plus livestock activities, will be eligible for financing. Funds will be provided to small and medium size farmers in the main agricultural areas - in the altiplano, the intermediate zones and the lowlands - through the GOB PL-480 Secretariat, which has developed the required institutional capacity to channel funds through intermediate credit institutions (ICIs). Farmers in the agricultural areas of the Chapare region will be excluded from participation in the project because resources are available to meet their credit needs, once certain conditions are satisfied, through the Chapare Regional Development Project.

The main GOB counterpart agency to carry out the Project will be the PL-480 Secretariat. The Secretariat is a semi-autonomous GOB institution established in 1979, to manage local currency generations from PL-480 programs. Since its inception, the Secretariat has built an effective capability to analyze, monitor and evaluate development projects. More recently, it has developed trust fund arrangements with private banks and other private sector ICIs to finance private sector credits and investments. These trust funds have been set up to assist ICIs to reach many customers that were not formerly served. Given the need to direct project funds to project beneficiaries in the most expeditious and effective way possible, the Secretariat has definite advantages over traditional institutions, such as the Central Bank and the Agricultural Bank, whose long loan review and approval procedures have been detrimental in the past to the implementation of refinancing activities.

A.I.D. project funds will be deposited in a Special Trust Fund Account established by the Secretariat for channelling funds through private sector ICIs. In turn, the Secretariat will make periodic disbursements to the ICIs based on their documented needs for refinancing of specific loan applications by qualified farmers. The procedures for approving and disbursing projects is explained in Section III.B.5 of this paper.

The project will benefit small and medium size farmers in the altiplano, the intermediate zones and the lowlands. Farming in the altiplano is carried out almost exclusively by small landholders, and all loans extended in this region are expected to benefit small farmers. In the lowlands, there is a combination of small, medium and large scale

farmers. To assure a predominant participation by small and medium size farmers in the project, the Secretariat will further develop special credit programs to reach small farmers not normally served by the ICIs. For example, a special incentive for ICIs to make special efforts to reach small farmers will be provided through the interest rate spread. (see Technical Analysis).

A.I.D. funds will be provided to the GOB on a grant basis, reflecting an A.I.D. decision of August 1986 that assistance to Bolivia should be grant-funded, in view of its low per capita income (under \$400), its current development stage, its limited financial resources, and its heavy external debt burden.

B. Project Description

1. Goal: To increase agricultural production, thereby increasing Bolivian farmers' incomes and promoting Bolivia's economic growth.

2. Purpose: To contribute to agricultural sector recovery by providing agricultural production credit to Bolivia's small and medium size farmers during the 1986/87 crop planting/livestock production cycle.

Accomplishment of the project purpose will be measured by the following End of Project Status (EOPS) indicators, as assessed by an evaluation to be conducted before the Project Assistance Completion Date:

The PL-480 Title III Secretariat will have established a close working relationship with at least 10 private sector Intermediate Credit Institutions for channelling credit to small and medium size farmers in Bolivia's major agricultural areas.

At least 10 Bolivian private sector ICIs will be providing timely credit programs to small and medium size farmers.

Agricultural production during the 1986-1987 will have increased significantly over the previous cycle.

3. Outputs: To attain the above EOPs, the following outputs will take place:

A Trust fund will be established within the PL-480 Title III Secretariat, which will administer the disbursement of credits, through private sector ICIs, to farmers.

Approximately 5,000 loans will be extended to farmers in the altiplano, the intermediate zones and the lowlands.

Approximately 40,000 additional hectares of land will be planted.

#### 4. Inputs:

A.I.D.: A.I.D. will provide up to \$20 million in FY 1986 and FY 1987 grant funds to help finance the credit needs of Bolivian small and medium size farmers during the 1986/87 agricultural planting and production cycle. These funds will be administered by the PL-480 Secretariat and channelled to farmers through participating private sector ICIs.

Host Country: The GOB will provide \$67 million in agricultural credit financing, \$4.7 million through the PL-480 Title III Secretariat, \$55 million through the Central Bank, and \$7.3 million through the BAB. ICIs will provide up to \$8 million from their deposit resources, and other private sources will provide \$2.4 million.

#### 5. The Credit Program

##### a. Coverage and Terms

The full amount of the Project funds will be channeled to private sector intermediate credit institutions through the existing Trust Fund Program managed by the PL 480 Secretariat. The Project funds will be managed under the same terms and conditions which apply to other funds managed under the Program, with a few exceptions noted below. The existing trust funds have been established in private banks and are governed by a letter of understanding signed between each ICI and the Secretariat. A revised letter of understanding will be signed between the Secretariat and each bank participating under this Project. The letter of understanding will limit credits to small and medium size farmers, provide special incentives, through the interest spread to ICIs serving small farmers, and establish maximum limits per loan so that the average size of loans through each ICI is around \$40,000.

Project funds will finance seeds, fertilizers and fuels, agrochemicals, agricultural implements and harvesting and marketing costs. Livestock coverage will be limited to veterinary supplies.

The maximum term of subloans will be twelve months. The maximum size of loans, the interest rate and lender contribution will conform to existing trust fund guidelines, if appropriate. Presently, the maximum loan to an individual is \$15,000 and to a firm or cooperative is \$70,000; the interest rate to the ICI is 9 per cent while to the borrower it is 13 percent. These rates will be adjusted, as necessary, to reflect real/market interest rates during the life of the project. Most individual loans are expected to be under \$4,000, so that ICIs loans will average about \$4,000. Higher spreads will be made available to ICIs which adapt special lending programs to reach small farmers, either individually or through arrangements with associations and cooperatives. Financing will cover up to 100% of each loan made.

In contrast to the existing Trust Fund operation, Project funds will be placed with the ICIs for only 12 months. When the funds return to the Secretariat, they will be eligible to be reprogrammed and again placed in the trust funds of the ICIs for further lending following procedures established by the Secretariat and the ICI.

Under the Letter of Understanding, which constitutes a civil agreement, the ICI accepts all risks associated with the on-lending of the trust fund. The ICI is responsible for repayment of the trust fund and is subject civil actions if it fails to uphold the contract.

b. ICI Participation Requirements

Participating ICIs must meet certain requirements, which have been established by the PL-480 Secretariat based on its experience with ICI trust funds. Basically, to be eligible for participation in the project, each ICI must:

- . be a privately-owned entity;
- . have a capable staff experienced in managing agricultural credit programs;
- . have had successful experience in participating in the 1985-1986 agricultural credit program;
- . agree to comply with certain specific criteria for loan approval, as developed by the PL-480 Secretariat and approved by the USAID; and
- . agree to comply with certain reporting requirements.

Once accepted to participate in the program, any ICI will be subject to suspension from further participation, if it fails to comply with the program requirements. The banks which presently participate actively in the PL 480 Trust Fund Program will be permitted to participate in this Project. These banks are:

Banco Nacional  
Banco de Cochabamba  
Banco Boliviano Americano  
Banco de Crédito Oruro  
Banco de Potosí  
Banco de Inversión Boliviano  
Banco Hipotecario Nacional  
Banco Industrial y Ganadero del Beni  
Banco Mercantil  
Banco de la Unión  
Banco Industrial S.A.  
Banco de Santa Cruz de la Sierra  
Banco de La Paz  
Banco LatinoAmericano de Desarrollo

c. Financing Procedures

The procedures for managing Project funds will be as follows:

1. The PL-480 Secretariat will establish a special local currency project account in the Central Bank.
2. The Secretariat will formally notify all ICIs participating in its Trust Fund Program that it is accepting proposals to establish trust funds under this Project. The notification will include outlines of the schemes for lending in cooperation with farmer organizations and agro-industrial firms, which are described in the Technical Analysis in Section V.A. It will also contain a new draft Letter of Understanding.
3. The ICIs will submit applications to participate.
4. A joint PL 480/USAID committee will review the applications and allocate the funds among ICIs.
5. The Secretariat will notify the selected banks of their allocations.
6. The ICIs will refine loan application forms, loan contracts, and other procedures.
7. The Secretariat will request 30 day advances based on anticipated disbursements. (No interest can be earned on A.I.D. funds before they are disbursed to ICIs).
8. The ICIs will periodically submit to the Secretariat lists of the loans to be made to justify the disbursement of funds into their accounts. (ICIs will be responsible for certifying that the loans for which they request financing meet project eligibility criteria).
9. As soon as the ICIs submit the lists of loans actually to be made, the Secretariat will disburse to ICIs. Once a month, it will submit a SF 1190 to USAID which includes the list of loans financed, loan purposes, and the name of the concerned ICI to clear the advance and request another.
10. The ICIs will submit monthly reports to the Secretariat and A.I.D.
11. Audits will be done in December 1986 and August 1987, to ensure that the ICIs are following Project regulations. Serious infractions of the rules will require immediate reimbursement of the funds to the Secretariat.

12. The funds will return to the Secretariat within twelve months and will be placed in an interest bearing account to be used under the on-going rules and regulations of the Trust Fund Program.

IV. COST ESTIMATE AND FINANCIAL PLAN

A. A.I.D. Grant

A total of up to \$20.0 Million (\$19.9 million for agricultural credit financing, \$80 thousand for one program evaluation and two audits and \$20 thousand for contingencies) will be provided by A.I.D. as a grant for the life of the project (LOP), as further described in the LOP Cost Estimate and Financial Plan Chart below:

B. Host Country Contribution

The GOB and private ICIs will provide a total of \$77.4 million including: \$7.3 million from the Agricultural Bank, \$55 million from the Central Bank, \$4.7 million from the PL-480 Program, and \$10.4 million from private ICIs and other organizations, as detailed in Section V.

LOP COST ESTIMATE AND FINANCIAL PLAN  
(US 000's)

| <u>PROJECT INPUTS</u>            | <u>S O U R C E S</u> |               |               |                |                  |               |
|----------------------------------|----------------------|---------------|---------------|----------------|------------------|---------------|
|                                  | <u>HOST COUNTRY</u>  |               |               |                | <u>T O T A L</u> |               |
|                                  | <u>A.I.D.</u>        | <u>GRANT</u>  | <u>GOB</u>    | <u>PRIVATE</u> |                  |               |
|                                  | <u>FX</u>            | <u>L/C</u>    | <u>L/C</u>    | <u>L/C(1)</u>  |                  |               |
| I. Agricultural Credit Financing | -                    | 19,900        | 67,019        | 10,400         | -                | 97,319        |
| II. Evaluation/Audits            | 40                   | 40            | -             | -              | 40               | 40            |
| III. Contingencies               | 10                   | 10            | -             | -              | 10               | 10            |
|                                  | <u>50</u>            | <u>19,950</u> | <u>67,019</u> | <u>10,400</u>  | <u>50</u>        | <u>97,369</u> |
|                                  |                      |               | \$77,419      |                | 97,419           |               |

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(1) Includes ICIs and other credit-extending private organizations.

C. Disbursement Schedule

A. A.I.D. Grant

|                              | <u>Y E A R 1</u> |            | <u>Y E A R 2</u> |            | <u>T O T A L</u> |            |
|------------------------------|------------------|------------|------------------|------------|------------------|------------|
|                              | <u>FX</u>        | <u>L/C</u> | <u>FX</u>        | <u>L/C</u> | <u>FX</u>        | <u>L/C</u> |
| Agriculture Credit Financing | -                | 15,000     | -                | 4,900      | -                | 19,900     |
| Evaluation/Audits            | -                | -          | 40               | 40         | 40               | 40         |
| Contingencies                | -                | 5          | 10               | 5          | 10               | 10         |
| SUB-TOTAL AID GRANT          | -                | 15,005     | 50               | 4,945      | 50               | 19,950     |

B. Host Country

|                          |   |        |   |        |   |        |
|--------------------------|---|--------|---|--------|---|--------|
| <u>PL-480</u>            |   |        |   |        |   |        |
| -Agriculture Credit      | - | 3,760  | - | 959    | - | 4,719  |
| <u>Central Bank</u>      |   |        |   |        |   |        |
| -Agriculture Credit      | - | 44,000 | - | 11,000 | - | 55,000 |
| <u>Agricultural Bank</u> |   |        |   |        |   |        |
| -Agriculture Credit      | - | 5,840  | - | 1,460  | - | 7,300  |
| SUB-TOTAL HOST COUNTRY   | - | 53,600 | - | 13,419 | - | 67,019 |

C. Bolivian Private Sector (ICIs and other organizations)

|                      |   |        |    |        |    |        |
|----------------------|---|--------|----|--------|----|--------|
| - Agriculture Credit | - | 8,320  | -  | 2,080  | -  | 10,400 |
| GRANT TOTALS-        | - | 76,925 | 50 | 20,444 | 50 | 97,369 |
|                      |   |        |    |        |    | 97,419 |
|                      |   |        |    |        |    | =====  |

D. Disbursement Procedures (A.I.D. funds)

| <u>MAJOR ELEMENTS</u> | <u>METHOD OF IMPLEMENTATION</u>    | <u>METHOD OF FINANCING</u> | <u>ESTIMATED AMOUNT</u> |
|-----------------------|------------------------------------|----------------------------|-------------------------|
| I. Agriculture Credit | 100% Loan Refinancing<br>thru ICIs | Direct Pay                 | \$19,900,000            |
| II: Evaluation/Audits | Direct AID Contracts               | Direct Pay                 | 80,000                  |
|                       |                                    | Sub-Total                  | \$19,980,000            |
| III. Contingencies    |                                    |                            | 20,000                  |
|                       |                                    |                            | \$20,000,000            |
|                       |                                    |                            | =====                   |

V. IMPLEMENTATION PLAN

A. Responsibilities

1. PL-480 Secretariat

The Secretariat will administer, in concert with participating ICIs, the Project's agricultural credit funds through an existing Trust Fund Program. To assure that the Trust Fund Program is managed efficiently and that there is a common understanding about the correct procedures to be used under this specific program, the Secretariat will sign Letters of Understanding with each of the participating ICIs. In addition, the Secretariat will monitor closely and evaluate regularly the ICIs performance through monthly reports on the number of credits extended to target farmers by ICIs and the current status of their portfolios. The Secretariat will request A.I.D. disbursements under the Project, based on monthly consolidated ICI requirements for credit financing.

In addition to the above PL-480 responsibilities, the Secretariat will play a key role in assisting auditors to carry out the two audits and in carrying out the program evaluation.

2. Intermediate Credit Institutions

ICIs will be responsible for making credit decisions, specifically confirming the information provided by loan applicants concerning the actual use for the credit resources requested (i.e. the type of crops and hectares involved and what is to be purchased with the loan). Each ICI will determine its own collateral requirements as well as bear full risk of repayment to the Title III Secretariat. In addition, ICIs will closely monitor, through spot checks, the end use of loans made, as necessary. Furthermore, ICIs will cooperate with the Secretariat by providing timely reporting, as required, and by facilitating information required by PL-480 personnel and auditors/evaluators.

B. SCHEDULE OF ACTIVITIES

| Event                                | 1 9 8 6 |   |   |   |   |   |   | 1 9 8 7 |   |   |   |   |   |   |   |   |   |   |   |  |
|--------------------------------------|---------|---|---|---|---|---|---|---------|---|---|---|---|---|---|---|---|---|---|---|--|
|                                      | S       | O | N | D | J | F | M | A       | M | J | J | A | S | O | N | D | J | F | M |  |
| 1. Project Approval by USAID/Bolivia | •       |   |   |   |   |   |   |         |   |   |   |   |   |   |   |   |   |   |   |  |
| 2. Signing of Project Agreement      | •       |   |   |   |   |   |   |         |   |   |   |   |   |   |   |   |   |   |   |  |
| 3. Conditions Precedent met          |         |   |   |   |   |   |   |         |   |   |   |   |   |   |   |   |   |   |   |  |
| 4. Credit Program Preparation        |         |   |   |   |   |   |   |         |   |   |   |   |   |   |   |   |   |   |   |  |
| 5. First Disbursements               |         |   |   |   |   |   |   |         |   |   |   |   |   |   |   |   |   |   |   |  |
| 6. First Audit                       |         |   |   |   |   |   |   |         |   |   |   |   |   |   |   |   |   |   |   |  |
| 7. Program Evaluation                |         |   |   |   |   |   |   |         |   |   |   |   |   |   |   |   |   |   |   |  |
| 8. Final Audit                       |         |   |   |   |   |   |   |         |   |   |   |   |   |   |   |   |   |   |   |  |
|                                      |         |   |   |   |   |   |   |         |   |   |   |   |   |   |   |   |   |   |   |  |
|                                      |         |   |   |   |   |   |   |         |   |   |   |   |   |   |   |   |   |   |   |  |
|                                      |         |   |   |   |   |   |   |         |   |   |   |   |   |   |   |   |   |   |   |  |
|                                      |         |   |   |   |   |   |   |         |   |   |   |   |   |   |   |   |   |   |   |  |
|                                      |         |   |   |   |   |   |   |         |   |   |   |   |   |   |   |   |   |   |   |  |
|                                      |         |   |   |   |   |   |   |         |   |   |   |   |   |   |   |   |   |   |   |  |
|                                      |         |   |   |   |   |   |   |         |   |   |   |   |   |   |   |   |   |   |   |  |
|                                      |         |   |   |   |   |   |   |         |   |   |   |   |   |   |   |   |   |   |   |  |

C. A.I.D. Monitoring

The USAID/Bolivia direct-hire Project Manager will be assisted by a Project Coordinator/Agriculture Credit Specialist in monitoring project activities. The Project Manager will work closely with his counterparts at the PL-480 Secretariat to ensure compliance with the procedures of disbursements by the Secretariat to the ICIs, and help in the solution of implementation problems, as they arise.

The USAID/Bolivia Project Committee will periodically review the Project status to identify potential implementation bottlenecks and to provide technical guidance.

D. Evaluation and Audits

The program evaluation will review the administrative aspects of the PL-480, Title III's agricultural credit refinancing mechanisms and the success of the Project in attaining its purpose and targets, as detailed in the logical framework. The findings of the evaluation will be used in the design of similar future projects.

The two scheduled audits will be undertaken in December 1986 and August 1987 by auditors directly hired by USAID with Project funds. These audits will review whether ICIs are strictly following the regulations specified in the Letters of Understanding.

## VI. PROJECT ANALYSES

### A. Technical Analysis

This analysis estimates the requirements for credit for the 1986/87 year agricultural crop, estimates the amount of credit which will be available outside this project, and then estimates the amount of credit still needed. The analysis then describes two schemes for reaching large numbers of small and medium size farmers through private banks, provides criteria for allocating the project credit funds, and looks at the willingness of Bolivia's banks to participate.

#### 1. Credit Requirements

Summer is the principal growing season for annual rainfed crops in Bolivia. The planting period for this season runs from September through early December. Throughout the country, the rains are expected to begin in October. The main annual crops in terms of area planted are corn, potatoes, rice, wheat, soybeans, quinoa, yuca, cotton and vegetables. Cash outlays for these crops go mainly for land preparation, hand tools, seeds, agrochemicals, harvest and marketing costs. Potatoes and vegetables require fertilizers. Mechanized wheat, cotton and soybean operations require fuel.

The procedure used in estimating credit requirements for the planting period is explained below. The data and calculations are shown in Table VI.1.

Three levels of demand have been estimated, taking into consideration current circumstances in the agricultural sector and the feasibility of reaching those farmers who will be needing credit during the 1986/87 agricultural cycle. The three levels of demand are:

(a) \$280 million. The demand level of \$280 million assumes a campaign by the banks promoting the use of credit in collaboration with farmer organizations and agro-industry firms. Column 6 records the anticipated participation rates (% of area). It also assumes that 80% of the operating cost (column 8) of a farm will be financed. Column 10 summarizes the maximum amount of credit required: \$280 million. Given the fact that the Project credit will reach the ICIs in October and November, there is little time to mount a proper campaign, and therefore, the \$280 million demand estimate is high for the 1986/87 planting period.

(b) \$168 million. The demand level of \$168 million assumes no campaign by the banks. Rather banks are assumed to honor all eligible applications for credit which have been submitted by the end of September 1986. This estimate is based on documentation presented by agricultural chambers. Column 7 records the present eligible application rate (% of area). This level of demand also assumes that 80% of the operating costs will be financed.

TABLE NUMBER VI-1  
ESTIMATED CREDIT REQUIREMENTS

| 1      | 2         | 3               | 4         | 5         | 6             | 7         | 8         | 9              | 10                                   | 11          | 12         |
|--------|-----------|-----------------|-----------|-----------|---------------|-----------|-----------|----------------|--------------------------------------|-------------|------------|
|        |           | AREAS HARVESTED |           | AREA      | PARTICIPATION |           | OPERATION | MINIMUM        | (10=5*6*8*.9)(11=5*7*8*.8)(12=5*7*9) |             |            |
| No.    | CROP      | 1985/HAS        | 1986/HAS  | TO PLANT  | WITH          | WITHOUT   | COST      | COST TO BE     | --REQUIEREMENT-----LEVEL-- IN \$     |             |            |
|        |           |                 |           | 1987/HAS  | PROMOTION     | PROMOTION | \$/HA     | FINANCED \$/HA | LEVEL I                              | LEVEL II    | LEVEL III  |
| 1      | MAIZE     | 384,929         | 296,100   | 429,000   | 25%           | 15%       | 450       | 200            | 38,610,000                           | 23,166,000  | 12,870,000 |
| 2      | POTATO    | 198,268         | 187,500   | 220,000   | 20%           | 10%       | 1211      | 800            | 42,627,200                           | 21,315,600  | 17,600,000 |
| 3      | RICE      | 119,000         | 86,500    | 132,000   | 60%           | 40%       | 428       | 155            | 27,118,080                           | 18,078,720  | 8,184,000  |
| 4      | WHEAT     | 92,200          | 82,000    | 99,000    | 40%           | 10%       | 354       | 225            | 11,214,720                           | 2,803,680   | 2,227,500  |
| 5      | SOY       | 65,800          | 66,158    | 73,700    | 85%           | 85%       | 316       | 120            | 15,836,656                           | 15,836,656  | 7,517,400  |
| 6      | SUGAR CAN | 63,326          | 63,500    | 69,850    | 50%           | 50%       | 1200      | 250            | 33,528,000                           | 33,528,000  | 8,731,250  |
| 7      | QUINUA    | 47,939          | 45,250    | 51,700    | 35%           | 10%       | 272       | 150            | 3,937,472                            | 1,124,992   | 775,500    |
| 8      | COTTON    | 3,796           | 11,646    | 11,550    | 85%           | 85%       | 824       | 250            | 6,471,696                            | 6,471,696   | 2,454,375  |
| 9      | BARLEY    | 94,307          | 95,000    | 104,500   | 35%           | 10%       | 311       | 250            | 9,099,860                            | 2,599,960   | 2,612,500  |
| 10     | TOMATO    | 4,263           | 4,500     | 4,950     | 60%           | 40%       | 1452      | 650            | 3,449,952                            | 2,299,968   | 1,287,000  |
| 11     | VEGETABLE | 86,000          | 86,000    | 94,600    | 40%           | 10%       | 1000      | 650            | 30,272,000                           | 7,568,000   | 6,149,000  |
| 12     | CASSAVA   | 42,000          | 41,000    | 46,200    | 15%           | 5%        | 684       | 250            | 3,792,096                            | 1,264,032   | 577,500    |
| 13     | COFFEE    | 35,729          | 36,000    | 39,600    | 25%           | 10%       | 534       | 250            | 4,229,280                            | 1,691,712   | 990,000    |
| 14     | COCOA     | 2,500           | 2,500     | 2,750     | 40%           | 20%       | 414       | 250            | 364,320                              | 182,160     | 137,500    |
| 15     | GRAPES    | 4,428           | 4,400     | 4,950     | 40%           | 20%       | 960       | 250            | 1,520,640                            | 760,320     | 247,500    |
| 16     | LIVESTOCK |                 |           |           |               |           |           |                | 48,000,000                           | 29,000,000  | 14,000,000 |
| TOTALS |           | 1,244,485       | 1,098,054 | 1,384,350 |               |           |           |                | 280,071,972                          | 167,689,496 | 86,361,025 |

## DATA SOURCES BY COLUMNS:

- 3 & 4 MISSION HARVEST SURVEY, HERNAN MUNOZ
- 5 & 6 MISSION ESTIMATES
- 7 DISCUSSION WITH AGRICULTURAL CHAMBERS
- 9 AGRICULTURAL BANK CALCULATIONS

(c) \$86 million. The demand of \$86 million is based on the same assumptions as the demand level of \$168 million, except that financing at the demand level of \$86 million is limited to certain crops (corn, potatoes, rice, wheat, soy beans, quinoa, tomatoes, and other vegetables) and to certain production costs (seed, fertilizer and other agrochemicals). At this demand level, it is assumed that there is a serious credit shortage and that allocations are limited on the basis of crops. The reduced amounts of operating costs per hectare financed are shown in column 9.

In summary, given the time available before the 1986/87 agricultural production cycle, a total of \$168 million in agricultural credit is estimated to be required during the 1986/87 agricultural season.

## 2. Anticipated Credit Supply

The funds available for the 1986/87 summer and winter planting seasons are extremely limited. A summary is provided in Table VI-2. Private ICI funds are at a record low due to the recent economic crisis. In 1985, the ICIs lent about \$6.5 million of their own funds on deposit during the entire season. For the 1986/87 cycle, this total is expected to rise only slightly to \$8 million for both the summer and winter planting seasons.

The PL 480 Secretariat lent \$911,000 to private banks for on-lending to small and medium farmers in 1985/86, and \$942,100 to FENACRE for on-lending to cooperatives of small farmers. In 1986, \$1.7 million of PL 480 funds are available to be disbursed to private banks for on-lending, and \$3.0 million is scheduled to be disbursed by PL 480 to FENACRE for on-lending to cooperatives.

The agricultural credit refinancing lines of the Central Bank were decapitalized between 1983 and 1985. The only active agricultural lines at present are 1) the Emergency Agricultural Fund (EAF) set up in late 1985 with \$10 million each from AID and CAF and 2) the IDB seed financing fund set up for \$5 million in late 1983 but increased to \$13 million for 1985-1986 harvest. From these two sources, only \$9.6 million of reflows will be available for the 1986/87 summer planting season, and about \$19.4 million for the 1987 winter crop season. In addition, the BCB plans to finance \$26 million in credit with GOB treasury funds most of which will eventually be reimbursed by the IDB.

The Agricultural Bank, although it is the principal lender to small and medium farmers, has only \$900,000 of its own resources available for this planting season. The Japanese Government is donating agricultural inputs to the BAB for in-kind lending. The value of these commodities amounts to \$435,000. The International Fund for Agricultural Development (IFAD) is financing a small area program with the BAB in Chuquisaca with \$2.6 million of credit available for this season. The UNDP and IDB are also providing \$2.2 million and \$800,000 for credit in the Yungas area, respectively.

TABLE NUMBER VI-2  
SOURCE OF CREDITS\YEARS

|                             | 85/86  | SUMMER<br>86/87 | WINTER<br>'87 |
|-----------------------------|--------|-----------------|---------------|
| 1.-ICI OWN FUNDS            | 6,538  | 6,000           | 2,000         |
| 2.-PL-480                   |        |                 |               |
| a.-TRUST FUND               | 911    | 1,715           | 0             |
| b.-COOPERATIVES             | 942    | 2,000           | 1,000         |
| 3.-BCB REDISCOUNT LINES     |        |                 |               |
| a.-EAF                      | 20,000 | 9,600           | 6,400         |
| b.-IDB SEED                 | 13,000 | 0               | 13,000        |
| c.-TREASURY                 | 0      | 26,000          | 0             |
| 4.-BAB                      |        |                 |               |
| a.-BAB OWN FUNDS            | n/a    | 0               | 900           |
| b.-GOB COUNTERPART FOR IFAD | n/a    | 150             | 160           |
| c.-JAPANESE DONATION        | n/a    | 435             | 0             |
| d.-IFAD- CHUQUISACA         | n/a    | 1,239           | 1,400         |
| e.-UNDP. YUNGAS             | n/a    | 1,020           | 1,200         |
| f.-IDB ALTO YUNGAS          | 0      | 0               | 800           |
| 5.-OTHER ORGANIZATIONS      | 1,600  | 1,600           | 800           |
| TOTALS                      | 42,991 | 49,759          | 27,660        |

NOTE: FIGURES IN THOUSAND OF DOLLARS

Various private organizations and small bilateral programs make limited credit available to the clients of their programs. It is estimated that these sources will finance about \$2.4 million.

### 3. Anticipated Credit Short Fall

Of the \$168 million required for the 1986/87 agricultural planting season, only slightly over \$77 million is estimated to be available. The \$20 million to be provided under the Project (plus up to \$3.5 million to be reprogrammed for agricultural credit under the Disaster Recovery Project) will only partially alleviate the shortfall of over \$90 million.

### 4. Agro-industry based scheme for lending

The USAID has received proposals to finance small/medium farmer operational costs through agro-industrial firms which purchase their produce. In Bolivia, several agro-industrial firms work very closely with farmers to assure the timelines and quality of the produce to be purchased for processing. The firms employ extension agents and provide financing of seeds and other inputs, when possible. Under this project, the firms will assist the farmers to fill out loan applications and present them to the ICIs in the farmer's behalf, at the same time offering a guarantee for each farmer's loan. The loans will be disbursed directly to each farmer by the ICI. Part of the loan agreement will be consent by the farmer to allow the firm to deduct loan repayments from product payments. This arrangement will allow access to credit for farmers who otherwise would have little access. The Mission knows of at least 5 firms and 3 banks which are interested in this scheme. This scheme will be recommended to the other banks for their consideration.

### 5. Agricultural Chamber based scheme for lending.

USAID/Bolivia has also received proposals to finance small/medium farmers operational costs through agricultural chambers and their member organizations. Few banks are equipped to maintain a presence in farming areas or to provide technical assistance in support of agricultural credit. A scheme for collaboration between farmer organizations and ICIs provides for the organizations to act as agents and guarantors for their members. The organization will assist their members to fill out applications and obtain individual loans. At the same time, they will provide a number of certifications to banks, including:

- a. That the applications are limited to reliable farmers
- b. That the requested amounts of credit are actually needed
- c. That the loan funds will be spent on the specified inputs
- d. That applications are properly filled out and are accurate
- e. That the farmer will receive technical assistance

- f. That the organization will participate in collecting the repayment, and
- g. That the organization will repay member loans which are in arrears.

To cover the costs of the farmer organization activities and fees, an additional 3 per cent spread will be offered. This will not be added to the planned 13% cost to the borrower, but rather subtracted from the 9 per cent margin accruing to the Secretariat. The spread will be adjusted, as necessary, to reflect market rates and to provide the necessary incentives for private sector ICIs to serve small farmers' groups (associations, cooperatives, etc.)

#### 6. Credit Allocation Criteria

The Secretariat will ask the private sector ICIs to prepare applications for the use of the Project funds. The applications will include the following information addressing the allocation criteria:

a. Organization of the beneficiaries (working with groups is preferred because it can be more cost effective and large number of small farmers can be reached).

b. Number of beneficiaries (proposals to reach larger numbers of beneficiaries will be favored).

c. Profitability of the crops to be financed (the more profitable crops will be favored).

d. Possibility of coverage by other financial institutions (the Secretariat will coordinate with the Agricultural Bank and other banks to assure that beneficiaries do not receive project funds from two sources).

e. Assurances of the timely delivery of credit.

f. Models for working with producer associations and agroindustries.

#### 7. Willingness of ICIs to participate in the Project

Prior Secretariat experience in channelling funds through private sector ICIs provides evidence of ICIs willingness to participate in this Program. Past participation in similar lending activities directed to small and medium farmers since the 1985 summer planting period has been limited by the lack of funds. Indeed, the Secretariat has had frequently to ask that the banks discontinue submitting requests due to the lack of funds. The Secretariat presently has proposals or indications of interest for planting financing amounting to \$10.1

million. These proposals will be considered, along with the other requests for credit, that will be generated as soon as the availability of funds is known.

While a four per cent spread received by the ICIs has in the past proved to be adequate to cause the ICIs to move all the fund available. Additional incentives in the form of greater spreads (6 - 8%) may be required to incentivate banks to target funds to the project's beneficiary population. The ICIs do tend to minimize their risks by offering loans principally to parties able to offer substantial guarantees. If the loans are to reach farmers without these guarantees, alternative-type guarantees such as those proposed in Section I.A.4&5 will be required. The on-going evaluation of the Trust Fund Program is reviewing this question, and adjustments will be made to assure a predominant participation in the project by small and medium size farmers in the target areas.

#### B. Financial/Economic Analysis

A separate benefit-cost analysis would be required for each crop for which the proposed agricultural credit is to be used to assess the Project's financial and economic viability fully. The credit will be used to grow a variety of crops including potatoes, tomatoes, chile peppers, barley, quinoa, soybeans, sorghum, corn. We are presenting here illustrative benefit-cost calculations for four crops - tomatoes, potatoes, onions and corn.

Our major source of data included studies undertaken by the Planning Department of the Agricultural Bank of Bolivia entitled "Costos Variables de Producción", and the "Programa de Aseguramiento" by the Aseguradora Boliviana Agropecuaria in 1982. The first was designed to ascertain the economic feasibility of agricultural loans, the second of crop insurance. All costs were converted into dollars at the then prevailing exchange rate of \$b 25 to US\$1, a rate that remained reasonably stable through 1981.

The benefit-cost calculations presented in Tables 1 to 8 compare the increased value of output estimated to result from the provision of an adequate amount of credit with the sum of all cost increases associated with the use of this credit, including the cost of administration and technical assistance, additional inputs required through more intensive cultivation (e.g. fertilizer, insecticides, fungicides and seeds), additional labor (if any), <sup>1/</sup> transport costs, and losses resulting from default or repayment delays. It was assumed that the average maturity of the sub-loans granted under this Project would be for one year, and that the money would be used over and over

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<sup>1/</sup> Additional labor costs were considered only when opportunity costs were involved, i.e. the additional labor required could not be supplied by the farmer or his family.

again during our eight-year projection period. 2/ The principal was projected to remain intact on the assumption that the interest paid by borrowers would be more than sufficient to cover losses resulting from defaults and arrears. The disbursement period for the AID loan was estimated at two years, even though it is hoped that all disbursements will occur during CY 1986.3/ The AID loan was counted as a cost only once (since the analysis focuses on social costs and benefits) even though it must be repaid annually by end-users. The benefit-cost analysis assumes that \$2 million will be loaned for the production of tomatoes; \$6 million for potatoes; \$1.1 million for onions; and \$3.0 million for corn. The fact that funds to be made available are likely to be much less does not affect the validity of the benefit-cost calculation.

To be conservatives, it was also assumed that only half of the potential increase in output will occur during the first year (1987). The full increase will be obtained starting with the second year (1988), and in each of the following years.

The analysis is in real terms, i.e. in constant dollars. For that reason, the 8% discount rate used (reflecting the opportunity cost of capital) must be understood to be over and above the annual rate of inflation. An alternative projection was made using a 12% discount rate. In fact, it was found that the higher discount rate had only minimal impact on the benefit-cost ratio because both costs and benefits are spread out fairly evenly over the period of analysis and are discounted at the same rate. The annual cash flow is never negative since the value of the additional output must exceed all incremental costs every single year, including the first two. 4/ The fact that the annual cash flow is always positive makes it difficult to calculate the internal rate of return for this project. An IRR could only be calculated if the analysis focused on periods of less than one year. 5/

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2/ In fact, in theory, the credit funds could be recycled ad infinitum.

3/ Funds may not be available for obligation under the Project in time to allow all disbursements to be made in one year.

4/ Otherwise, the borrowing farmers would have to default on their loans, or at least run behind in meeting their repayment commitments.

5/ The IRR is the rate that equalizes the discounted future benefits with the total cost of the project. Such equalizing can only occur if the net cash flow is negative in the first period or periods of the project. Otherwise, the Net Present Worth would always be a positive figure. To obtain a negative cash flow during the first period or periods, the analysis would have to be in terms of quarters or semesters. It was not thought necessary to carry the analysis to that point since a B/C ratio substantially above one with 8% to 12% real annual discount rates is a sufficient indicator of profitability.

The analysis for tomatoes is presented in Tables 1 and 2, potatoes in Tables 3 and 4, onions in Tables 5 and 6, and corn in Tables 7 and 8. Note that the benefit-cost ratio for tomatoes is 2.54 with an 8% real discount rate, and that it declines only very slightly - to 2.47 - with a 12% discount rate. The benefit-cost ratio for potatoes is 1.79 with an 8% rate, and 1.75 with a 12% rate. The ratio for onions and corn at the 12% discount rate are 1.87 and 1.84, respectively.

Modifying this analysis to reflect the economic benefits and costs accruing to society as a whole would not involve substantial changes or produce a significantly different result because (a) there are no significant taxes or subsidies involved in this financial analysis, (b) wages and prices in Bolivia are now essentially market-determined <sup>6/</sup>, and (c) while the current exchange rate of \$b 1.9 million to US\$ 1 may be overvalued, it is believed that it is not likely to be overvalued by more than 20 to 30%. Moreover, such overvaluation would affect directly only a relatively small proportion of total costs, viz. the cost of acquiring additional imported inputs required by the project, such as the purchase of fertilizer and insecticides.

To make allowance for the possible overvaluation of the exchange rate, we have made alternative projections (for tomatoes and potatoes only) that take into account the increase in the cost of additional imported inputs that would result if it is assumed that the "equilibrium" exchange rate should be \$b2.4 million to US\$1 instead of the present \$b1.9 million to \$1. The result would be to lower the benefit-cost ratio for tomatoes from 2.54 to 2.24 (using the 8% real annual discount rate), and to lower the benefit-cost ratio for potatoes from 1.79 to 1.40 (also at the 8% real discount rate). These are still very high ratios.

In conclusion: Since four of the crops we have examined suggest a very high rate of return under Bolivia's internal price-cost structure <sup>7/</sup>, we may conclude that there are a number of crops for which the use of agricultural credit and the associated application of improved technology would yield a rate of return substantially above the opportunity cost of capital, and that the Project, as a whole, will be economically beneficial to Bolivia. Furthermore, the Project should be financially viable from the point of view of farmers since, as is clear from the analysis, farmers should be able to cover the additional costs associated with the use of credit from the revenue accruing from the additional production generated in every single year over the life time of the project.

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<sup>6/</sup> While there is a legal minimum wage, that wage is currently so low (about US\$ 20.5 per month), that it is generally at or below the market-determined level.

<sup>7/</sup> We have not analyzed the feasibility of producing for export.

TABLE No 1

Value of Potential Additional Tomato Production with Adequate Credit

| <u>Year</u> | <u>(1)</u><br>Output<br>w/o credit<br>(In M.Tons) | <u>(2)</u><br>Output<br>with credit<br>(In M. Tons) | <u>(3)</u><br>Increase<br>in<br>Production<br>(2) - (1) | <u>(4)</u><br>Value of<br>Increased<br>Output<br>(In Thsnds.<br>of US\$) | <u>(5)</u><br>Column (3)<br>Discounted<br>at<br>8% a year | <u>(6)</u><br>Column (3)<br>Discounted<br>at<br>12% a year |
|-------------|---|---|---|--|---|--|
| 1987        | 12,300 <u>1/</u>                                  | 18,450 <u>2/</u>                                    | 6,150   | 1,604 <u>3/</u>  | 1,485   | 1,432  |
| 1988        | 24,600 <u>4/</u>                                  | 36,900 <u>4/</u>                                    | 12,300  | 3,208 <u>4/</u>  | 2,750   | 2,557  |
| 1989        | 24,600  | 36,900  | 12,300  | 3,208  | 2,547   | 2,283  |
| 1990        |   |   |   |  | 2,358   | 2,039  |
| 1991        |   |   |   |  | 2,183   | 1,820  |
| 1992        | constant  | constant  | constant  | constant   | 2,022   | 1,625  |
| 1993        |   |   |   |  | 1,872   | 1,451  |
| 1994        |   |   |   |  | <u>1,733</u>  | <u>1,296</u>   |
|             |   |   |   |  | 16,950  | 14,503   |

1/ 9.2 Tons/Ha x 1,337 Has. = 12,300 Tons. Double in subsequent years.

2/ 13.8 Tons/Ha x 1,337 Has. = 18,450 Tons. Double in subsequent years.

3/ 6,150 Tons x \$ 260.87 = \$1,604,000.

4/ Column 1 multiplied by 2.

TABLE No. 2

| Year  | Tomato Production<br>Cost of Increased Output<br>(In thousands of US Dollars) |   |  |   |  |  |   |  |
|-------|---|---|--|---|--|--|---|--|
|       | (1)<br>Loan<br>Initial<br>Amount  | (2)<br>Admin. Costs<br>(T.A., Staff,<br>Supervision,<br>Interest)<br>(13% of Col.1) | (3)<br>Losses<br>on Arrears<br>and Default<br>(5% of<br>Loan Amount) | (4)<br>Cost of<br>Additio-<br>nal<br>Inputs | (5)<br>Additional<br>Labor and<br>Transport-<br>ation<br>Costs | (6)<br>Total<br>Additional<br>Costs<br>Sum of<br>(1)thru (5) | (7)<br>Col (6)<br>Discounted<br>at<br>8% a year | (8)<br>Col (6)<br>Discounted<br>at<br>12% a year |
| 1987  | 1,000   | 130   | 50   | 209 <sup>1/</sup>                           | 74 <sup>2/</sup>   | 1,463  | 1,355   | 1,306  |
| 1988  | 1,000   | 260   | 100  | 418   | 148  | 1,926  | 1,651   | 1,535  |
| 1989  | 0   | 260   | 100  | 418   | 148  | 926  | 735   | 659  |
| 1990  | 0   |   |  |   |  |  |   | 681  |
| 1991  | 0   | constant  | constant   | constant                                    | constant   | constant   | 630   | 525  |
| 1992  | 0   |   |  |   |  |  | 584   | 469  |
| 1993  | 0   |   |  |   |  |  | 540   | 419  |
| 1994  | 0   |   |  |   |  |  | <u>500</u>                                      | <u>374</u>                                       |
| TOTAL | 2,000   |   |  |   |  |  | 6,768   | 5,876  |

1/ Additional cost per hectare are as follows: Rent of equipment \$104; fertilizer \$24; bags \$50; seeds minus 22 (fewer seeds needed with credit). Total \$ 156/Ha. x 1,337 Ha = \$208,572  
The amount is double for subsequent years.

2/ Additional cost per hectare: Labor \$34; transportation \$21. Total 55/Ha x 1,337 Has. = \$ 73,535; and double for subsequent years

Benefit Cost Ratios

|  |                               |
|--|-------------------------------|
| Benefit/Cost ratio at 8% real annual discount rate:                                  | $\frac{16,950}{6,676} = 2.54$ |
| B/C ratio with 26% increase and cost of additional inputs<br>(with 8% discount rate) | $\frac{16,950}{7,578} = 2.24$ |
| B/C ratio at 12% real annual discount rate:  | $\frac{14,503}{5,876} = 2.47$ |

Source: Banco Agrícola. Costos Variables de Producción, 1981 (estimates converted into dollar at 25 Bolivian pesos per US\$1. The data is still considered valid.

TABLE No. 3

Value of Potential Additional Potato Production with Adequate Credit

| <u>Year</u> | (1)<br>Output<br>w/o credit<br>(Metric tons) | (2)<br>Output<br>w/credit<br>(Metric tons) | (3)<br>Increase<br>in<br>Production<br>(2) - (1) | (4)<br>Value of<br>Increased<br>Output<br>(In thsnds.US\$) | (5)<br>Discounted<br>at 8%<br>a year | (6)<br>Discounted<br>at 12%<br>a year |
|-------------|--|--|--|--|--------------------------------------|---------------------------------------|
| 1987        | 28,504 <u>1/</u>                             | 50,301 <u>2/</u>                           | 21,797   | 5,449 <u>3/</u>  | 5,045                                | 4,865                                 |
| 1988        | 57,008 <u>4/</u>                             | 100,602 <u>4/</u>                          | 43,594   | 10,898 <u>4/</u>   | 9,543                                | 8,688                                 |
| 1989        | 57,008                                       | 100,602                                    | 43,594   | 10,898   | 8,651                                | 7,757                                 |
| 1990        | 57,008                                       | 100,602                                    | 43,594   | 10,898   | 8,010                                | 6,926                                 |
| 1991        |  |  |  |  | 7,417                                | 6,184                                 |
| 1992        |  |  |  |  | 6,868                                | 5,521                                 |
| 1993        | constant                                     |  | constant   | constant   | 6,359                                | 4,930                                 |
| 1994        |  |  |  |  | <u>5,888</u>                         | <u>4,402</u>                          |
| TOTAL       |  |  |  |  | 57,781                               | 49,273                                |

1/ 7.82 tons/has. x 3,645 ha. = 28,504 tons. Double in subsequent years.

2/ 13.80 tons/has. x 3,645 ha. = 50,301 tons. Double in subsequent years.

3/ 21,797 tons x \$250/ton = \$ 5,449,250. Double in subsequent years.

4/ Column 1 multiplied by 2.

TABLE No. 4

## POTATO PRODUCTION: COSTS OF INCREASED OUTPUT

(in thousands of dollars)

| Year  | (1)<br>Loan<br>Initial<br>Amount | (2)<br>Admin. Costs<br>(T.A., Staff,<br>Supervision,<br>Interest)<br>(13% of Col.1) | (3)<br>Losses<br>on<br>Arrears<br>(5% of Loan<br>Amount) | (4)<br>Cost of<br>Addition-<br>al<br>Inputs | (5)<br>Addition-<br>al Labor<br>Costs<br>& Transp. | (6)<br>Total<br>Additional<br>Costs | (7)<br>Discounted<br>at 8%<br>a year | (8)<br>Discounted<br>at 12%<br>a year |
|-------|----------------------------------|---|--|---|--|-------------------------------------|--------------------------------------|---------------------------------------|
| 1987  | 3,000                            | 390   | 150  | 1,494 <sup>1/</sup>                         | 510 <sup>2/</sup>                                  | 5,544                               | 5,133                                | 4,950                                 |
| 1988  | 3,000                            | 780   | 300  | 2,988                                       | 1,020  | 8,088                               | 6,934                                | 6,448                                 |
| 1989  | 0                                | 780   | 300  | 2,988                                       | 1,020  | 5,088                               | 4,039                                | 3,622                                 |
| 1990  | 0                                | 780   | 300  | 2,988                                       | 1,020  | 5,088                               | 3,740                                | 3,234                                 |
| 1991  | 0                                |   |  |   |  |                                     | 3,463                                | 2,887                                 |
| 1992  | 0                                | constant  |  | constant                                    |  |                                     | 3,206                                | 2,578                                 |
| 1993  | 0                                |   |  |   |  |                                     | 2,969                                | 2,302                                 |
| 1994  | 0                                |   |  |   |  |                                     | <u>2,749</u>                         | <u>2,055</u>                          |
| TOTAL | 6,000                            |   |  |   |  |                                     | 32,233                               | 28,076                                |

<sup>1/</sup> Additional cost per hectare as follows: seed \$152; pesticides \$84; fertilizer \$174.  
Total: \$410/ha. x 3,645 ha. = \$1,494,450 - Double for subsequent years

<sup>2/</sup> Additional cost per hectare: Labor: \$100; transportation \$40.  
Total: \$140/ha. x 3,645 ha. = \$510,300 - Double for subsequent years.

Benefit-Cost Ratio

Benefit/cost ratio at 8% real annual discount rate:  $\frac{57,781}{32,233} = 1.79$

Benefit/cost ratio at 8% real annual discount rate with 26% increase in foreign exchange rate:  
 $\frac{57,781}{41,127} = 1.40$

Benefit /cost ratio with 12% real annual discount rate:  
 $\frac{49,273}{28,076} = 1.75$

Source: For low technology (without credit) same sources as for tomatoes.  
For high technology (with credit) Aseguradora Boliviana Agropecuaria, Programa de Aseguramiento, 1981, (information also considered to be still valid).

TABLE No. 5

Value of Potential Additional Onion Production with Adequate Credit

| <u>Year</u> | (1)<br>Output<br>Without<br>Credit<br>(In M.Tons) | (2)<br>Output<br>With<br>Credit<br>(In M.Tons) | (3)<br>Increase<br>In<br>Production<br>(2) - (1) | (4)<br>Value of<br>Increased<br>Output<br>(In thousands<br>of U.S. dollars) | (5)<br>Col.(4)<br>discounted<br>at<br>8% a year | (6)<br>Col. (4)<br>discounted<br>at 12%<br>per<br>year |
|-------------|---|--|--|---|---|--|
| 1987        | 10,350 <u>1/</u>                                  | 19,875 <u>2/</u>                               | 9,525  | 954 <u>3/</u>   | 863   | 852  |
| 1988        | 20,700 <u>4/</u>                                  | 39,750 <u>4/</u>                               | 19,050   | 1,905 <u>4/</u>   | 1,633   | 1,519  |
| 1989        | 20,700  | 39,750   | 19,050   | 1,905   | 1,512   | 1,356  |
| 1990        | constant  |  | constant   |   | 1,400   | 1,211  |
| 1991        |   |  |  |   | 1,297   | 1,081  |
| 1992        |   |  |  |   | 1,200   | 905  |
| 1993        |   |  |  |   | 1,112   | 862  |
| 1994        |   |  |  |   | 1,029   | 769  |
|             |   |  |  |   | <hr/> 10,066                                    | <hr/> 8,615  |

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- 1/ 13.8 tons per ha. x 750 has. = 10,350 tons  
2/ 26.5 tons per ha. x 750 has. = 19,875 tons  
3/ 9.525 tons x \$100/ha. = \$954,000  
4/ Double of line 1 (for 1500 hectares)

TABLE No. 6

ONIONS: COST OF INCREASED OUTPUT  
(In thousands of dollars)

| <u>Year</u> | (1)<br><u>Initial Amount</u> | (2)<br>Administrative Costs (T.A., Staff, Supervision) (13% of loan amount) | (3)<br>Losses Through Default or Arrearages (5% of loan amount) | (4)<br>Cost of Additional Inputs | (5)<br>Additional Labor and Transport. Costs | (6)<br>Total Additional Costs | (7)<br>Col.(6) Dis-counted at 8% a year | (8)<br>Col.(8) Dis-counted at 12% a year |
|-------------|------------------------------|---|---|----------------------------------|--|-------------------------------|---|--|
| 1987        | 540                          | 70  | 27  | 236 <u>1/</u>                    | 75 <u>2/</u>                                 | 948                           | 878                                     | 846                                      |
| 1988        | 540                          | 140   | 54  | 472 <u>3/</u>                    | 150 <u>3/</u>                                | 1,356                         | 1,163                                   | 1,081                                    |
| 1989        | 0                            | 140   | 54  | 472                              | 150  | 816                           | 648                                     | 581                                      |
| 1990        | 0                            | constant  |   | constant                         | constant                                     | 600                           | 600                                     | 519                                      |
| 1991        | 0                            |   |   |                                  |  |                               | 555                                     | 463                                      |
| 1992        | 0                            |   |   |                                  |  |                               | 514                                     | 413                                      |
| 1993        | 0                            |   |   |                                  |  |                               | 476                                     | 369                                      |
| 1994        | 0                            |   |   |                                  |  |                               | 441                                     | 330                                      |
|             | <u>1,080</u>                 |   |   |                                  |  |                               | <u>5,275</u>                            | <u>4,602</u>                             |

1/ Additional cost per ha.: Pesticides 123, fertilizer 211, seeds - 19 (fewer needed with technification) = \$315 x 750 has. = \$236,250. The number of hectares benefiting from the credit program was doubled in subsequent years.

2/ Additional cost per ha: labor 43 + transport 57 = \$100 x 750 has. = \$75,000

3/ It is assumed that twice the number of hectares are technified in subsequent years.

BENEFIT COST RATIO

Benefit/cost Ratio at 8% real annual discount rate:  $\frac{10,066}{5,275} = 1.91$

Benefit/cost Ratio at 12% real annual discount rate:  $\frac{8,615}{4,602} = 1.87$

Source: Same as for Potatoes. Estimates for the "high technology" case was made in 1982.

TABLE No. 7

Value of Potential Additional Corn Production with Adequate Credit

| <u>Year</u>   | (1)<br>Output<br>Without<br>Credit<br>(In M.Tons) | (2)<br>Output<br>With<br>Credit<br>(In M.Tons) | (3)<br>Increase<br>In<br>Production<br>(2) - (1) | (4)<br>Value of<br>Increased<br>Output<br>(In thousands<br>of U.S. dollars) | (5)<br>Col.(4)<br>discounted<br>at 12%<br>a year |
|---------------|---|--|--|---|--|
| 1987          | 6,900 <u>1/</u>                                   | 15,000 <u>2/</u>                               | 8,100  | 3,362 <u>3/</u>   | 3,002  |
| 1988          | 13,800  | 30,000   | 16,200   | 6,724   | 5,360  |
| 1989          | 13,800  | 30,000   | 16,200   | 6,724   | 4,786  |
| 1990          |   |  |  |   | 4,273  |
| 1991          | constant  |  | constant   |   | 3,815  |
| 1992          |   |  |  |   | 3,407  |
| 1993          |   |  |  |   | 3,042  |
| 1994          |   |  |  |   | 2,716  |
| <b>TOTAL.</b> |   |  |  |   | <u>30,401</u>                                    |

1/ 1.38 tons per ha. x 5,000 has. = 6,900 metric tons

2/ 3.00 tons per ha. x 5,000 has. = 15,000 metric tons

3/ 8,100 tons x \$415/ton = \$3,361,500

4/ Double line 1 (for 10,000 has.)

TABLE No. 8

Corn: Cost of Increased Output  
(In thousands of US Dollars)

| <u>Year</u> | (1)<br><u>Initial Amount</u> | (2)<br>Admin. Costs<br>(T.A., Staff,<br>Supervision,<br>Interest) | (3)<br>Losses<br>Through<br>Default<br>Arrearages | (4)<br>Cost of<br>Additio-<br>nal<br>Inputs | (5)<br>Additional<br>Labor<br>Costs | (6)<br>Total<br>Additional<br>Costs | (7)<br>Col (6)<br>Discounted<br>at<br>12% a year |
|-------------|------------------------------|---|---|---|-------------------------------------|-------------------------------------|--|
| 1987        | 1,500                        | 195   | 75  | 1,430 <u>1/</u>                             | 0 <u>2/</u>                         | 3,200                               | 2,857  |
| 1988        | 1,500                        | 390   | 150   | 2,860                                       | 0                                   | 4,900                               | 2,551  |
| 1989        | 0                            | 390   | 150   | 2,860                                       | 0                                   | 3,400                               | 2,421  |
| 1990        |                              |   |   |   |                                     |                                     | 2,161  |
| 1991        | constant                     |   | constant  |   | constant                            |                                     | 1,929  |
| 1992        |                              |   |   |   |                                     |                                     | 1,723  |
| 1993        |                              |   |   |   |                                     |                                     | 1,538  |
| 1994        |                              |   |   |   |                                     |                                     | 1,373  |
| TOTAL       |                              |   |   |   |                                     |                                     | <u>16,553</u>                                    |

- 1/ Additional cost per ha.: Seed \$25, pesticide \$26, fertilizer \$223, bags \$12. Total \$286/ha. x 5,000 has. = \$1,430. Double in subsequent years (for 10,000 has.)
- 2/ There is no increase in additional labor costs because the work is performed by the farmers and their families (zero opportunity cost). The average size of land in corn production per family is 2 has.

Source: Information about corn production was obtained from the following sources:  
 The low technology case from: "Costos Variables de Producción", Banco Agrícola de Bolivia, 1981.  
 The high technology case from: "Programa de Aseguramiento 1982" - by the Aseguradora Boliviana Agropecuaria. We eliminated the cost of additional labor and equipment because the average size of the land parcels planted to corn (varieties for human consumption) is only about two hectares, so they can be attended by the farmer and his family, and can be worked without the use of farm machinery.

BENEFIT, COST RATIO

Benefit/cost ratio at a real annual discount rate of 12%:  $\frac{30,401}{16,553} = 1.84$

### C. Institutional Analysis

#### 1. Alternative Institutions

Three institutions were considered as the main channels for agricultural credit under this Project. USAID has worked with all three in the past. These three are the Bolivian Agricultural Bank (BAB), the Bolivian Central Bank (BCB), and the PL 480 Executive Secretariat. A brief summary of our past experiences with each institution and an analysis of its strengths and weaknesses is presented below.

a. Bolivian Agricultural Bank (BAB): USAID had agricultural credit programs with the BAB for about twenty years until 1983. The most recent of these was the \$21.6 million Small Farmer Credit Program (SFCP) which was established in 1977. With the technical assistance provided under Agriculture Sector Loans I and II, the SFCP became a very successful program, although the rest of the BAB still experienced serious difficulties. In 1982, a World Bank audit of the BAB revealed that it was bankrupt, even while the SFCP was growing and prospering. This audit called for a reorganization of the BAB, which required the BAB to transfer employees from the La Paz office to the interior of the country and to adopt, throughout the EAB, the procedures and loan approval manuals used by the SFCP. Unfortunately, these audit recommendations were not followed, and in 1983 the SFCP, in spite of vigorous protests by USAID, was incorporated into the BAB as one of its regular credit lines. As a result of this action, USAID declared the BAB to be ineligible for any further assistance, until such time as the BAB reestablished the SFCP as an independent credit entity. During the period 1983-85, due to the highly negative (in real terms) interest rate policies dictated by the GOB, the BAB's portfolio was almost fully decapitalized. BAB officials have met with USAID periodically during the past year to try and reestablish contacts, and a dialogue has begun. To date, however, the BAB has been unable to comply with the minimum conditions USAID requires and continues to be an ineligible channel for USAID credit funds.

b. Bolivian Central Bank (BCB): The BCB manages a series of credit refinancing lines to private banks and other intermediate credit institutions. These credit lines are administered by the Bank's Development Department, whose performance has always been mixed. The Development Department presided over the decapitalization of approximately \$50 million in various credit refinancing lines during the Siles Administration, including FRA 1 and FRA 2, which were important sources of agricultural credit. With the election of Victor Paz Estenssoro, the BCB has begun to improve its operations. It did an adequate job of disbursing \$10 million of agricultural credit that was provided to the BCB from USAID's Disaster Recovery Project for the 1985/86 crop season.

The Development Department is to be the primary channel for the new IDB agriculture sector loan which should begin by mid-1987. It is supposed to receive substantial amounts of technical assistance as part of the IDB project. With this technical assistance, the Development Department might be able to improve its management of the BCB's rediscount lines marginally; however, USAID feels the GOB must still make an important decision whether to try to strengthen the Development Department or establish a new development financing facility outside of the BCB before signing the IDB loan.

USAID will be reprogramming up to \$3.5 million under the Disaster Recovery Project to complement the funds made available under this Project. These funds will be managed by the Development Department because that is how the agricultural credit component of the Disaster Project was set up. The decision not to use the Development Department to manage the additional funds to be provided under this Project was made (1) based upon the successful experience during the past twelve months with the PL-480 Trust Fund Program, (2) the desire to reach the small farmer clients currently being served under the Trust Fund Program, and (3) USAID's policy decision not to support efforts to revitalize the Development Department so as to encourage the GOB to decide to set up a new facility to handle development banking transactions.

c. PL-480 Executive Secretariat: The PL 480 Executive Secretariat was established in 1979 to administer local currency resources generated by the sale of wheat imported to Bolivia under a 1978 Title III Agreement. The Secretariat is composed of a select group of Bolivian technicians who act as the official GOB representatives for implementation of the PL 480 Title I and Title III Programs which have received wheat valued at approximately \$132.5 million over the period 1979-1986. The Secretariat's performance has been assessed three times by external evaluators. It is also audited every two years. Evaluators and auditors alike have always been extremely impressed by the efficiency with which the Secretariat administers its subprojects, the accuracy and completeness of its records, and its honest administration of a very large portfolio of diverse development subprojects. The Title III Program administered by the Secretariat has been found by evaluators to be the best PL-480 program in the world, and Secretariat personnel have been invited to Costa Rica and Haiti to assist with the design of PL-480 programs in those countries.

In 1984, USAID and the Secretariat decided to experiment with a new type of credit program which would set up trust funds in selected ICIs. The trust funds are used to finance specific types of loans under pre-established conditions. Up until 1984, the Secretariat had financed many agricultural loans to individuals or groups which were submitted by private banks, but these loans had to be reviewed and approved individually by both USAID and the Secretariat. The agreements signed by the Secretariat with participating ICIs stipulate loan terms and conditions including interest rates, spreads, maximum credit

maturities allowable, maximum loan size, penalties, guarantee limits, use of reflows, application procedures, and the like. Banks which signed this Agreement were initially given a small trust fund of \$300,000 for a trial period of six months and were then evaluated to see if they had satisfactorily complied with all the conditions stipulated in the Agreement. Banks which passed this evaluation were then given additional funds, while banks which failed (two banks failed) were required to repay the initial trust funds immediately. Presently, the program has grown to include thirteen local banks, and the average Trust Fund is now approximately \$1.2 million. As a result of the experience with the Trust Fund Programs, it is clear that several of banks are interested in expanding their agricultural credit activities and can be relied upon to channel loan funds to small and medium size farmers.

## 2. Intermediate Credit Institutions

a. Banks: Most of the local banks in Bolivia have been experiencing hard times during the last two or three years as hyperinflation virtually destroyed their ability to attract and maintain deposits and shrunk their loan portfolios. Bank portfolios, which in 1980 averaged \$15-20 million per bank, are now closer to \$6 million. This portfolio reduction has reduced the profitability of banks and is a key reason why banks are now eagerly going after the agricultural credit market which heretofore was of little interest to them. Virtually all of the private banks have now formed development departments to channel refinanced loans from the BCB and trust funds from the PL-480 Secretariat. Technical assistance being provided to local banks by the Agribusiness and Artisanry Project has helped banks calculate their earnings from alternate credit lines and has also helped banks see the advantages of trying to target themselves toward certain geographical or sectorial credit markets in which they have the potential for a comparative advantage. Additional TA is now being contracted under the recent Amendment to the Agribusiness and Artisanry Project which will further help local banks improve their administrative procedures, measure and control their costs, and generally improve their lending operations.

The extent to which a given bank has successfully installed a development department, hired staff with agricultural experience, and strengthened its capability to identify viable groups of farmers who are good credit risks, varies from bank to bank. It is expected that the current extreme shortage of agricultural credit financing available to the banks will motivate them to intensify their lending efforts, and that the banks will have no difficulty in placing all of the credit made available under this Project. This will happen, in part because the banks have been moving aggressively into the agricultural credit market over the last two years to try and expand their very limited portfolios, and partly because the national demand for credit during the next four months will vastly exceed the available supply.

b. Other ICIs: At the present time, trust funds have only been set up in private banks. Other ICIs, such as the National Federation of Savings and Loan Cooperatives (FENACRE), have received funds from the Secretariat under other mechanisms. Should non-bank ICIs present applications to be included in the Trust Fund Program, they will be evaluated by the Secretariat and USAID at that time.

#### D. Social Analysis

Bolivian small and medium size farmers in all geographic regions, except the Chapare, will have access to the agricultural credit to be financed by the Project. A brief description of the target areas and the potential beneficiaries in those areas follows.

##### 1. Profile of Target Areas

Bolivia's has two major distinct agricultural systems. The first is the densely populated area of the altiplano (with poor soils and climatic conditions for agriculture) and the intermediate valley's in the mountains where 75% of the rural population lives. Agricultural production in the highlands is to a large degree a small holder subsistence operation. The majority of the small holder farmers use traditional production practices, based on animal draft and manual power, and a minimum level of production inputs. These highland small holder farmers produce most of the potatoes consumed in the country and supply and important part of the meat and vegetables for the urban centers of the highlands. <sup>1/</sup>

The second economic sub-system consists mainly of medium and large scale commercial farmers operating in the lower valleys and lowland plains with good soils and climatic conditions for rainfed agricultural production. The lowland farmers use a high level of tractor mechanization technology and improved agronomic practices. The Department of Santa Cruz produces a major portion of the nation's food, fiber and oilseed crops, 100% of the rice, sorghum, soybeans and cotton; and over 70% of the cassava, platano/banana, peanuts and beans. Seventy-five percent of the country's cattle population is in the Departments of Beni and Santa Cruz. <sup>1/</sup> Only small and medium size farmers in this sub-system will have access to the project's credit resources.

##### 2. Basic Characteristics of Farm Households in Main Agricultural Areas

According to an A.I.D.-sponsored study completed in August 1983 entitled "Analysis of Bolivia's National Socio-economic Farm Survey, 1983", the largest number of farm households are located in La Paz (141,105), Potosí (72,602), and Cochabamba (70,238). Santa Cruz and Tarija have the smallest numbers of farm households with 21,899 and 14,430, respectively. The same study indicates that:

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<sup>1/</sup> Excerpts from World Bank Document "Reconstruction Credit Project", April 25, 1986

- Mean farm size appears to be inversely related to the number of farms in a department,
- La Paz, Potosí, and Cochabamba all have relatively small farms, whereas Santa Cruz and Tarija have relatively large farms.
- With the exception of Tarija, mean farm size is inversely related to percentage of land in crops, and by the extension, is directly related to number of farms.
- The mean value of crop production is highest in Santa Cruz and Tarija, the two departments with the largest mean farm sizes.
- Cochabamba, with relatively small farms, evidences a relatively high mean value of crop production.
- Oruro, with relatively large farms, evidences the lowest mean value of crop production of all departments.
- A large percentage, 86 percent, of Bolivia's farm households own a maximum of ten hectares of land; 95 percent own a maximum of 20 hectares; and only 4 percent of the farm households own 20 hectares or more. In the Bolivian context, about 95 percent of farm households are small or medium size.

Net farm incomes are highest in Santa Cruz and Tarija, but Cochabamba has the highest mean net farm income per hectare. Santa Cruz, which ranks second among departments in mean net farm income, ranks sixth in mean net farm income per hectare. This is likely explained by the fact that Santa Cruz has the largest mean farm size. Tarija, which also has relatively large farms, nevertheless evidences a high mean net farm income per hectare.

### 3. Size of the Target Beneficiary Areas Population

According to the above study, which is based on a 1976 population census, Bolivia's estimated farm population is 2,490,115 persons, whose members belong to some 556,673 farm households. By ecological size, this population is distributed as shown in the following table:

T A B L E  
Bolivia's Farm Population

| Ecological Zone -<br>Department | Number of<br>Cantons | Estimated<br>1979 Farm<br>Population | Average<br>Size of<br>Farm<br>Households | Estimated<br>Number of<br>1975 Farm<br>Households |
|---------------------------------|----------------------|--------------------------------------|--|---|
| 1- La Paz                       | 39                   | 277,497                              | 4.574                                    | 60,668  |
| 2- La Paz                       | 54                   | 133,878                              | 4.136                                    | 32,369  |
| 2- Oruro                        | 131                  | 153,183                              | 2.660                                    | 57,588  |
| 3- Potosí                       | 31                   | 25,954                               | 2.975                                    | 8,724   |
| 4- La Paz                       | 78                   | 235,214                              | 4.196                                    | 56,057  |
| 4- Cochabamba                   | 3                    | 43,958                               | 5.000                                    | 8,792   |
| 5- Cochabamba                   | 77                   | 379,130                              | 4.487                                    | 84,493  |
| 5- Santa Cruz                   | 30                   | 58,499                               | 4.752                                    | 12,310  |
| 6- Potosí                       | 124                  | 354,553                              | 4.752                                    | 74,611  |
| 6- Chuquisaca                   | 47                   | 161,793                              | 5.332                                    | 30,344  |
| 7- Potosí                       | 61                   | 75,537                               | 4.243                                    | 17,803  |
| 7- Chuquisaca                   | 49                   | 81,210                               | 4.994                                    | 16,262  |
| 7- Tarija                       | 135                  | 91,840                               | 5.421                                    | 16,942  |
| 8- La Paz                       | 55                   | 106,455                              | 3.975                                    | 26,781  |
| 9- Cochabamba                   | 3                    | 39,927                               | 4.087                                    | 9,770   |
| 10- Santa Cruz                  | 27                   | 171,211                              | 6.301                                    | 27,172  |
| 11- Santa Cruz                  | 22                   | 32,674                               | 5.453                                    | 5,992   |
| 11- Chuquisaca                  | 21                   | 43,986                               | 6.583                                    | 6,682   |
| 11- Tarija                      | 38                   | 23,616                               | 7.128                                    | 3,313   |
| <b>TOTAL</b>                    | <b>1,025</b>         | <b>2,490,115</b>                     | <b>4.473</b>                             | <b>556,673</b>                                    |

Source: Bolivian Farm Policy Study, Analysis of Bolivia's National Socioeconomic Farm Survey, 1978; (proposed under A.I.D. contract No. AID/SOD/PDC-C-0389), August 1983.

The project will benefit up to 5,000 farmers and their families in the above areas. Based on the average number in each farm household of 4.5 per persons, the project's beneficiary population will be approximately 22,500 people.

Among the special measures being taken to ensure that project funds go to small and medium size farmers are:

- 1) providing for increased spreads to ICIs which lend to small farmers in innovative ways;

2) allowing the BCB to direct a high proportion of its funds to the BAB which is well placed to lend to small farmers (by directing A.I.D. funds to private ICIs); and

3) developing new lending mechanisms (see Technical Analysis) to reach greater numbers of small farmers.

4) Giving preference to lending schemes presented by farmers cooperatives and associations, which are predominantly composed of small farmers.

## VII. CONDITIONS, COVENANTS AND NEGOTIATING STATUS

The GOB has requested the assistance to be provided under the Project on an urgent basis to help meet the credit needs of Bolivian farmers for the 1986/87 agricultural season. The 1986 season starts in September, and project funds should be made available as early as possible in the season. Given this urgency, the GOB, through the PL-480 Secretariat, which has been designated as the implementing agency, has agreed to comply with the conditions precedent to disbursement within few weeks after the Project Agreement is signed. The conditions precedent to disbursement are as follows:

Prior to the first disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursements will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

- 1) a statement of the name of the person(s) holding or acting in the office of the Grantee, and of any additional representatives, together with a specimen signature of each person specified in such statements;
- 2) a copy of the model loan agreement to be signed by the PL-480 Secretariat and participating Intermediate Credit Institutions (ICIs); and
- 3) an implementation plan for the credit program which includes a list of the Bolivian Intermediate Credit Institutions through which the A.I.D. funds provided under the Project will be channelled.

The Project Agreement will also contain four covenants. The GOB will covenant to:

- 1) Provide USAID/Bolivia, through the PL-480 Secretariat, a detailed evaluation plan which it will use to assess the impact and the progress made in attaining the purpose and the targets of the Project, within 90 days of the signing of the Project Grant Agreement;

- 2) Make the necessary arrangements to review on a quarterly basis the performance of each participating private sector ICI. It further covenants that any ICI which fails to comply with the program requirements agreed to between USAID/Bolivia and the Grantee, will be suspended from further participation in the Project;

- 3) Make the necessary arrangements with participating private sector ICIs to direct sub-loans to small and medium size farmers and that the average amount per sub-loan under this project, on a nationwide basis, will be approximately \$4,000; and

- 4) Establish lending rates to private sector ICIs and to sub-borrowers which are positive in real terms.

AID AMB DCM ECON

Rec'd 9/29

VZCZCLP0483  
 PP RUEHLP  
 DE RUEHC #4492 2692337  
 ZNR UUUUU ZZH  
 P 262149Z SEP 86  
 FM SECSTATE WASHDC  
 TO AMEMBASSY LA PAZ PRIORITY 7956  
 BT  
 UNCLAS STATE 304492

File: PD&amp;I

LOC: 318 655  
 27 SEP 86 2343  
 CN: 39287  
 CHRG: PROG  
 DIST: AIDE

Action: ~~PD&I~~  
 Info: A/D  
 EXO  
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AIDAC

E.O. 12356: N/A

Reply due 10/2

TAGS:

SUBJECT: EMERGENCY AGRICULTURAL CREDIT PROJECT, NO.  
 511-0591

Action tkn \_\_\_\_\_

REF: LA PAZ 7509

1. PER REQUEST IN REFTEL, THIS CABLE CONSTITUTES ACTION PLAN LEVEL APPROVAL OF THE PROPOSED PROJECT ON GRANT BASIS: PP APPROVAL AND PROJECT AUTHORIZATION AUTHORITY IS REDELEGATED TO THE MISSION DIRECTOR:

2. GIVEN THE NUMBER OF RECENT STUDIES WHICH HAVE BEEN CARRIED OUT ON THE DEMAND FOR AGRICULTURAL CREDIT AND FINANCIAL MARKETS IN BOLIVIA BY THE CENTRAL BANK, DALE ADAMS, ETC' AS WELL AS THE RECENT POSITIVE EXPERIENCE IN DISBURSING AGRICULTURAL CREDIT UNDER THE DISASTER RECOVERY PROJECT THROUGH PRIVATE SECTOR INTERMEDIATE CREDIT INSTITUTIONS (ICIS), THE MISSION IS AUTHORIZED TO PROCEED DIRECTLY WITH PP PREPARATION IN ORDER TO TO BE ABLE TO OBLIGATE FUNDS IN FY 86: THE FOLLOWING GUIDANCE IS PROVIDED FOR PP PREPARATION:

A: PROJECT ANALYSIS: THE PP SHOULD CLEARLY DEMONSTRATE HOW THIS PROJECT WILL BENEFIT SMALL AND MEDIUM PRODUCERS:

B. POLICY CONCERNS. REDELEGATION IS BASED ON UNDERSTANDING THAT LENDING IS TO PRIVATE SECTOR ICIS AND THAT LENDING TO ICIS AND ON-LENDING TO SUB-BORROWERS WILL BE AT MARKET RATES WHICH ARE SIGNIFICANTLY POSITIVE IN REAL TERMS.

C. LOANS TO SMALL PRODUCERS: TO ASSURE THAT SMALL PRODUCERS HAVE BROAD ACCESS TO LOANS, THE PROJECT SHOULD INCLUDE A MECHANISM TO MAINTAIN THE AVERAGE LOAN SIZE AT APPROXIMATELY DOLS' 4,000:

D. IEE: ON SEPTEMBER 16, 1986, BUREAU DEPUTY ENVIRONMENTAL OFFICER CONCURRED WITE MISSION RECOMMENDATION FOR A NEGATIVE DETERMINATION.

3. PLEASE BE ADVISED THAT AT THIS TIME THERE ARE ONLY ABOUT DOLS. 2:4 MILLION WHICH CAN BE MADE AVAILAPLE FOR THIS PROJECT IN FY 86. LAC WILL CONTINUE TO ATTEMPT TO

UNCLASSIFIED

STATE 304492

IDENTIFY ADDITIONAL FUNDS FROM END OF YEAR  
PROGRAMMING. SHULTZ

BT  
#4492

NNNN

UNCLASSIFIED

STATE 304492

ENVIRONMENTAL DETERMINATION

Project Location: Bolivia

Project Title and Number: Agricultural Credit (511-0591)

Funding: FY 1986: \$2,424,828; FY 1987: \$17,575,172

Project Description: The goal of the Project is to increase agricultural production thereby increasing farmers' incomes and promoting Bolivia's economic growth. The Project purpose is to provide agricultural credit to Bolivia's small and medium size farmers during the 1986-1987 planting and production cycle. The Project will finance, through private sector Intermediate Credit Institutions (ICIs): seeds, fertilizer, agricultural implements, labor, veterinary medicines, and related agricultural livestock inputs, (except pesticides), and harvesting and marketing costs.. USAID/Bolivia does not plan to review and approve the individual loans extended by ICIs to the participating farmers.

Statement of Categorical Exclusion: It is the opinion of USAID/Bolivia that the project does not require an Initial Environmental Examination, because its activities are within the class of actions described in Section 216.2, paragraph (C)(2) X of 22 CFR part 216 on "Categorical Exclusions" which reads as follows:

"Section 216.2(C)(2) X":

"(X) Support for intermediate credit institutions when the objective is to assist in the capitalization of the institution or part thereof and when such support does not involve reservation of the right to review and approve individual loans made by the institution,"

Concurrence of Mission Director

I have reviewed the above statement and concur in the determination that the Bolivia Emergency Agricultural Credit Project does not require an Initial Environmental Examination.

9/20/86  
Date:

  
George A. Wachtenheim  
Acting Director

0084L

5

AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D.C. 20523

LAC/DR-IEE-86-34

ENVIRONMENTAL THRESHOLD DECISION

Project Location : Bolivia

Project Title : Agricultural Credit  
and Number : 511-0591

Funding : \$20 million

Life of Project : Two Years FY'86-'87

IEE Prepared by : Angel M. Diaz, LAC/DR

Recommended Threshold Decision : Categorical Exclusion

Bureau Threshold Decision : Concur with Recommendation

Comments : Bureau decision based on condition that no funds will be used for procurement or use of pesticides and USAID's waiver of right to review and approve individual loans extended by the ICI's under the project.

Copy to : David Cohen, Director  
USAID/La Paz

Copy to : Angel Diaz, LAC/DR, USAID/

Copy to : Howard Clark, REMS

Copy to : IEE File

Marea E. Hatziolos Date September 16, 1986

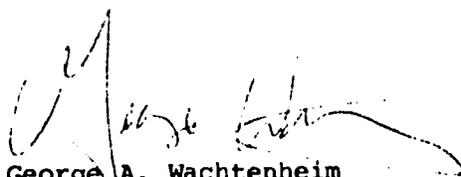
Marea E. Hatziolos  
Deputy Environmental Officer  
Bureau for Latin America  
and the Caribbean

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CERTIFICATION PURSUANT TO SECTION 611 (E) OF THE FOREIGN ASSISTANCE

ACT OF 1961, AS AMENDED

I, George A. Wachtenheim, as Acting Director of the Agency for International Development Mission to Bolivia, having taken into account, among other things, the maintenance and utilization of projects previously financed by USAID/Bolivia, do hereby certify that in my judgement The Government of Bolivia and the implementing agency have the financial capacity and human resources capability to effectively utilize and maintain the proposed Emergency Agricultural Credit Grant Project.

  
George A. Wachtenheim  
Acting Director  
USAID/Bolivia

Date: September 30, 1986

PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK

ANNEX 4

Life of Project:  
From FY 86 to FY 87  
Total U.S. Funding \$20,000,000  
Date Prepared: 9/23/86

(INSTRUCTION: THIS IS AN OPTIONAL FORM WHICH CAN BE USED AS AN AID TO ORGANIZING DATA FOR THE PAR REPORT. IT NEED NOT BE RETAINED OR SUBMITTED.)

Project Title & Number: EMERGENCY AGRICULTURAL CREDIT

| NARRATIVE SUMMARY   | OBJECTIVELY VERIFIABLE INDICATORS  | MEANS OF VERIFICATION   | IMPORTANT ASSUMPTIONS   |
|---|--|---|---|
| <p>Program or Sector Goal: The broader objective to which this project contributes:</p> <p>To increase agricultural production, thereby increasing Bolivia's small and medium size farmers' income and promoting Bolivia's economic growth.</p> | <p>Measures of Goal Achievement:</p> <p>Bolivian farmers' increased income as shown by a before and after comparison of their per capita income.</p> <p>Agricultural production of participating farmers increases by at least 3 percent during the 1986/87 agricultural season.</p> | <p>GOB reports (i.e. INE) on per capita income, and final project evaluation.</p> | <p>Assumptions for achieving goal targets:</p> <ul style="list-style-type: none"> <li>- Timely provision of agricultural credit by PL-480, and the GOB institutions (i.e. Central Bank and Agricultural Bank and other organizations)</li> <li>- Continued GOB policy support to agricultural production (i.e. no price controls, stimulation of exports).</li> </ul> |

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Project Title & Number: EMERGENCY AGRICULTURAL CREDIT

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| NARRATIVE SUMMARY   | OBJECTIVELY VERIFIABLE INDICATORS   | MEANS OF VERIFICATION  | IMPORTANT ASSUMPTIONS   |
|---|---|--|---|
| <p><b>Project Purpose:</b></p> <p>To contribute to agricultural sector recovery by providing agricultural production credit to Bolivia's small and medium size farmers during the 1986/1987 crop planting/livestock production cycle.</p> | <p>Conditions that will indicate purpose has been achieved: End of project status.</p> <ol style="list-style-type: none"> <li>1. The PL-480 Title III, Secretariat will have established a close working relationship with at least 10 private sector ICIs for channelling credit to small and medium size farmers in Bolivia's major agricultural areas.</li> <li>2. At least 10 Bolivian private sector ICIs will be providing timely credits to small and medium size farmers: and</li> <li>3. Agricultural production during the 1986/1987 period will have increased by at least 3 percent over the previous cycle.</li> </ol> | <ul style="list-style-type: none"> <li>- Project reports and final evaluation.</li> <li>- Before and after comparison of agricultural production levels.</li> <li>- USAID monitoring of ICIs participation.</li> </ul> | <p>Assumptions for achieving purpose:</p> <ul style="list-style-type: none"> <li>- Trust funds mechanism designed and implemented by project are financially and administratively efficient.</li> <li>- Broad information dissemination to farmers by ICIs/PL-480 on agricultural credit availability.</li> </ul> |

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| NARRATIVE SUMMARY   | OBJECTIVELY VERIFIABLE INDICATORS   | MEANS OF VERIFICATION   | IMPORTANT ASSUMPTIONS  |
|---|---|---|--|
| <p><b>Outputs:</b></p> <ol style="list-style-type: none"> <li>1. Trust fund established within the PL-480 Title III Secretariat, which will administer the disbursement of credits, through private sector ICIs, to farmers;</li> <li>2. Loans extended to farmers in the altiplano and farming areas in the lowlands.</li> <li>3. Additional land planted</li> </ol> | <p><b>Magnitude of Outputs:</b></p> <ol style="list-style-type: none"> <li>1. 1 in PL-480, and as many sub-trust funds in financial institutions, as the number of participant ICIs.</li> <li>2. Approximately 5,000 loans</li> <li>3. Approximately 40,000 hectares</li> </ol> | <ul style="list-style-type: none"> <li>- Monthly, quarterly and final implementation reports.</li> <li>- Two audits.</li> </ul> | <p><b>Assumptions for achieving outputs:</b></p> <ul style="list-style-type: none"> <li>- A.I.D., GOB, Bolivian private sector and other donors will provide agricultural credit resources in amounts planned and on timely basis for the 1986/87 agricultural cycle.</li> </ul> |

PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK

ANNEX 4

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EMERGENCY AGRICULTURAL CREDIT

Project Title & Number: \_\_\_\_\_

PAGE 4

| NARRATIVE SUMMARY   | OBJECTIVELY VERIFIABLE INDICATORS  | MEANS OF VERIFICATION                            | IMPORTANT ASSUMPTIONS   |
|---|--|--|---|
| Inputs:   | Implementation Target (Type and Quantity)  |  | Assumptions for providing inputs:   |
| A) <u>A.I.D.</u>  | A) <u>A.I.D.</u>   |  |   |
| 1. Agricultural production, harvesting and marketing credit | 1. \$19,900,000 (L/C only)   | USAID/Cont, PL-480 accounting records and audits |   |
| 2. Evaluation/audits  | 2. 80,000,000 (FX = \$40,000;<br>L/C = 40,000)   |  | - Effective agricultural credit demand by altiplano and lowland small farmers during the 1986/87 crop planting/livestock production cycles. |
| 3. Contingencies  | 3. \$20,000,000 (FX = \$10,000;<br>L/C = 10,000)<br><u>\$20,000,000</u> (FX = \$50,000;<br>L/C = \$19,950) |  | - Timely disbursement of project funds to PL-480 and ICIs.  |
| B) <u>GOB</u>   | B) <u>GOB</u>  |  |   |
| 1. PL-480<br>Agricultural Credit                            | 1. \$ 4,719,000 (only L/C)   |  |   |
| 2. Central Bank<br>Agricultural Credit                      | 2. \$55,000,000 ( " " )  |  |   |
| 3. Agricultural Bank<br>Agricultural Credit                 | 3. \$ 7,300,000 ( " " )  |  |   |
| C. <u>BOLIVIAN PRIVATE ORGANIZATIONS</u>                    | C. <u>BOLIVIAN PRIVATE SECTOR</u>  |  |   |
| 1. Agricultural Credit                                      | 1. \$10,400,000 (only L/C)   |  |   |

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AGRICULTURAL CREDIT PROJECT  
(511-0591)

ANNEX A  
STATUTORY CHECKLISTS

I. PROJECT CHECKLIST

A. General Criteria for Project

1. FY 1986 Continuing Resolution, Sec. 524 FAA Sec. 634A; Sec.653(b).  
(a) Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project?  
Committees notified using congressional notification procedures.
2. FAA Sec.611(a)(1). Prior to obligation in excess of \$100,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?  
Yes.
3. FAA Sec. 611(a) (2). If further legislative action is required within recipient country, what is basis for reasonable expectations that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?  
N/A
4. FAA Sec. 611(b); FY 1986 Continuing Resolution, Sec. 501. If for water or water-related land resource construction, has project met the principles standards and procedures established pursuant to the Resources Planning At (42 U.S.C. 1962, et.seq)? (See AID Handbook 3 for new guidelines.)  
N/A
5. FAA Sec. 611(e). If project is capital assistance (e.g. construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistance Administrator taken into consideration the country's capability effectively to maintain and utilize the project?  
N/A

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6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.
- No. Project is unique to Bolivian situation.
7. FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.
- The project will finance the inputs that Bolivian farmers need to increase agricultural production. All participating farmers will be private entrepreneurs. Thus, the project will have a positive effect on A-E.
8. FAA Sec. 601(h). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).
- N/A
9. FAA Sec. 612(b), 636(h); FY 1982 Appropriation Act, Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.
- The GOR, through the Central Bank, the Agricultural Bank and the PI-480 Secretariat, will provide counterpart contributions in local currency, as possible during the life-of-project, to attain the project purpose. This contribution will be at least 25% of the LOP Cost.
10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?
- No.

11. FAA Sec.601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?  
Yes.
12. FY 1986 Continuing Resolution, Sec.522. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?  
No. The expected increases in agricultural production will meet primarily local needs.
13. FAA 118(c) and (d). Does the project comply with the environmental procedures set forth in AID Regulation 16? Does the project or program take into consideration the problem of the destruction of tropical forests?  
Yes. It has been determined that the project will not have adverse effects on the environment. The project falls within the provisions of Section 216.2(C)(2)
14. FAA 121 (d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditures of project funds (dollars or local currency generated therefrom)?  
N/A
15. FY 1986 Continuing Resolution Sec.533. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution?  
No.
16. ISDCA of 1985 Sec. 310. For development assistance projects, how much of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, and private and  
None.

voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

B. Funding Criteria for Project

1. Development Assistance Project Criteria

a. FAA Sec.102(b), 11, 113, 281(a).

Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

(a) A large percentage of the project beneficiaries will be small farmers, who fall within Bolivia's lower income groups.

(b) Although many of the participating farmers belong to cooperatives, the major focus of the project is on individual farming units.

(c) Bolivian self-help efforts are significant. The A.I.D. assistance only complements local efforts and resources.

(d) Women will have access to the credit lines.

(e) N/A.

b. FAA Sec.103, 103A, 104, 105, 106.

Does the project fit the criteria for the type of funds (functional account) being used?

Yes

- c. FAA Sec.107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? N/A.
- d. FAA Sec.110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)? Yes. The GOB and private ICIs will provide funds to cover the majority of the unfinanced agricultural credit demand for the 1986-1987 agricultural production cycles.
- e. FAA Sec.122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth? Yes.
- f. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority? N/A.
- g. FAA Sec.281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country, utilizes the country's intellectual resources to encourage institutional development, and supports civil education and training in skills required for effective participation in governmental processes essential to self-government. N/A.

2. Development Assistance Project Criteria  
(Loans Only)

a. FAA Sec.122 (b). Information and conclusions on capacity of the country to repay the loan, at a reasonable rate of interest. N/A

b. FAA Sec.620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan? N/A

3. Economic Support Fund Project Criteria

a. FAA Sec.531(a). Will this assistance promote economic or political stability? To the extent possible, does it reflect the policy directions of FAA Section 102? N/A

b. FAA Sec.531(c). Will assistance under this Chapter be used for military, or paramilitary activities? N/A

c. ISDCA of 1985 Sec. 207. Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such country is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons in Latin America (the "Treaty of Tlatelolco"), cooperates fully with the IAEA, and pursues nonproliferation policies consistent with those of the United States? N/A

- d. FAA Sec.609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made N/A

II. Standard Item Checklist

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small businesses to participate equitably in the furnishing of commodities and services financed? Yes.
2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him? Yes. U.S. and Bolivia
3. FAA Sec. 604 (d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? Bolivia does not so discriminate.
4. FAA Sec. 604 (e); ISDCA of 1980 Sec. 705 (a). If offshore procurement of agricultural commodity or product is to be financed, is there a provision against such procurement, when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) N/A.
5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of countries which receive direct economic assistance under the FAA and which are otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one of these areas? Do these countries permit United States firms to compete for construction or engineering services financed from assistance programs of these countries? No.

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6. FAA Sec. 603. Is the shipping excluded from compliance with requirement in Section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates. No.
7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other Federal Agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? Yes.  
N/A
8. International Air Transport. Fair Competitive Practices. Act. 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? Yes.
9. FY 1986 Continuing Resolution Sec.504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? Yes.

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B. Construction

1. FAA Sec. 601(d). If capital (e.g. construction) project, will U.S. engineering and professional services be used? N/A.
2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? N/A.
3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the CP)? N/A.

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? N/A.
2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A.
3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of Communist-bloc countries? Yes.

4. Will arrangements preclude use of financing?
- a. FAA Sec. 104(f), FY 1986 Continuing Resolution Sec.526: (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for involuntary sterilization as method of family planning, or coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or in part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion? Yes.
  - b. FAA Sec.488. To reimburse persons, in the form of cash payments, whose illicit drug crops are eradicated? Yes.
  - c. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? Yes.
  - d. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes.
  - e. FAA Sec. 662. For CIA activities? Yes.
  - f. FAA Sec. 636(i). For purchases, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes.
  - g. FY 1986 Continuing Resolution, Sec.503. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel? Yes.

- h. FY 1986 Continuing Resolution, Sec.505  
To pay U.S. assessments, arrearages  
or dues? Yes.
- i. FY 1986 Continuing Resolution, Sec. 506  
To carry out provisions of FAA Sec-  
tion 209(d) (Transfer of FAA funds  
to multilateral organizations for  
lending? Yes.
- j. FY 1986 Continuing Resolution, Sec.510.  
To finance the export of nuclear  
equipment, fuel, or technology? Yes.
- k. FY 1986 Continuing Resolution, Sec.511.  
For the purpose of aiding the efforts  
of the government of such country to  
repress the legitimate rights of the  
population of such country contrary  
to the United States Declaration of  
Human Rights? Yes.
- l. FY 1986 Continuing Resolution, Sec. 516.  
To be used for publicity or propa-  
ganda purposes within U.S. not  
authorized by Congress? Yes.

0116L

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Septiembre 30, 1986

Señor  
George A. Wachtenheim  
Director a.i.  
USAID/Bolivia  
Presente

Señor Director:

Como es de su conocimiento, el Supremo Gobierno dentro su nueva política económica ha visto que es imprescindible que el sector agropecuario privado participe en mayor grado en el proceso de recuperación del país. Sin embargo, tanto el pequeño como el mediano agricultor no está en condiciones de tener una participación efectiva. Si bien existen diferentes niveles y clases de productores agrícolas, en la mayoría de los casos estos productores no tienen la capacidad y/o, carecen de los recursos para financiar los insumos necesarios para aumentar su producción.

Por lo anteriormente expuesto, el Supremo Gobierno, mediante mi persona, solicita a usted, vea la manera que la Misión de USAID/Bolivia a través de sus canales establecidos facilite una línea de financiamiento dirigida a los pequeños y medianos productores en el campo agropecuario, de manera que estos puedan financiar los insumos que necesitan para la campaña agrícola 1986-1987. El Supremo Gobierno considera que este tipo de proyecto deberá tener una vida útil inicial de 18 meses. Una vez transcurrido este período y en base a una evaluación se podrá determinar si se continúa o no con el proyecto.

Para este fin el Supremo Gobierno solicitaría una donación de hasta US\$20,000,000 en moneda extranjera, provisto por USAID/Bolivia. El Gobierno de Bolivia aportaría por lo menos el 25% del costo del proyecto en moneda local proveniente de fondos de la PL-480 del Banco Central y del Banco Agrícola. Los fondos en moneda extranjera serían utilizados para financiar créditos agrícolas a pequeños y medianos agricultores. Los fondos de contraparte de la PL-480 serían utilizados para créditos a los productores a ser beneficiados con el proyecto.

Con este motivo, saludo a Ud. muy atentamente,

  
Gonzalo Sánchez de Lozada  
Ministro de Planeamiento  
y Coordinación