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FROM - **La Paz**

SUBJECT - **Non-Capital Project Paper (PROP)  
Fiscal Reform**

REFERENCE - **M.O. 1025.1**

Country: **BOLIVIA** Project No. **511-11-720-082.1**

Submission Date: **May 18, 1970** Original **X**

Project Title: **FISCAL REFORM**

U.S. Obligation Span: **FY 1956 through FY 1975**

Physical Implementation Span: **FY 1967 through FY 1976**

Gross life-of-project financial requirements:

U.S. dollars **\$ 1,772,000**

U.S. owned local currency **----**

Cooperating country cash contribution **520,400**

Other donor **180,000**

**Total** **\$ 2,472,400**

OTHER AGENCY

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DATED BY *5/19/70*  
**HBoggs/Johnson/aem**

OFFICE **PAD**

PHONE NO. DATE **5/19/70**

APPROVED BY: **L. V. Pérez, Acting Director**

AID AND OTHER CLEARANCES

ADP: **HBirnbaum**

ECON: **MGDaniels**

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## A. SUMMARY DESCRIPTION

In 1963 Dr. Anthony Solomon (later Assistant Secretary of State for Economic Affairs) submitted a summary report on his several missions to Bolivia in which he set forth a general strategy for financial and administrative reform of the Bolivian public sector. This strategy was evaluated by the GOB during the years 1963, 64 and 65. In the latter two years some effort was made to improve fiscal practices with the assistance of a USAID provided advisor in the Ministry of Finance. This, however, met with very limited results and at the GOB's request, the USAID financed several reconnaissance missions which outlined specific suggestions for a project by project approach to the solution of problems identified initially in the Solomon Report. Based on the reports of these missions and the Solomon recommendations, the GOB requested USAID technical assistance to undertake a broad reform of its overall public administration and finance. The key project within this assistance package was the Fiscal Reform Project.

This project was designed to modernize the GOB's central organizations for budgeting, accounting, auditing and treasury management. The objective was to achieve firm control over the process of allocating scarce resources, more current and complete information on the fiscal situation for timely and more accurate executive decision making, and greater public agency fiscal responsibility. In April 1965, the GOB signed a contract with the Public Administration Service of Chicago to provide the advisory team required to assist the GOB in carrying out the reform and USAID guaranteed grant financing of the assistance.

Due to recruiting delays the actual team came on-board over a rather drawn-out period from September 1966 through November 1967. Subsequent problems resulted in a 75% turnover of team members with the project not being fully staffed again until May of 1970.

Partly due to this problem of advisor staffing and, very significantly, due to continuing changes in key Bolivian executives (e.g. 8 ministers of Finance from project start to this submission) progress on the reform of GOB fiscal institutions has been sporadic and substantially behind the original targets for project accomplishments. In spite of these delays highly productive advances have been made -- as noted in detail following -- and major implementations are well underway. By early CY 72 trained Bolivian technicians should be operating, on a fully coordinated basis, reformed systems for centralized accounting, integrated public sector budgeting, efficient treasury management, all in the Ministry of Finance, as well as an effective program of post auditing for all public agencies in the Office of the Controller General.

### 1. Need and Justification of the Program

In the years 1952-54 Bolivia went through a profound social and economic revolution involving, among others, a nationwide land reform, establishment

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of rural education for the peasant population, and nationalization of the major private mining enterprises. The cost of implementing this revolution in the decade following (1954-63) was reflected in the runaway inflation of the mid-50's. The inflation was brought under control through the stabilization program adopted in 1956-58, and through continuing public sector deficits that ranged from 50 to 25% of total revenues throughout the period. A large portion of these deficits was covered by U.S. budget support. As Dr. Solomon pointed out, this chronic situation could only be treated by profound institutional reforms aimed at establishing responsible fiscal and administrative management throughout the public sector. He further pointed out that real development in Bolivia could only take place when the dissavings of the public enterprises ceased under a common public sector fiscal discipline that could produce a sufficient current account surplus to make recapitalization and new investment possible.

Although improvements have been made, particularly in the performance of the state enterprises such as the mining corporation (COMIBOL) and the state airline (LAB), with central government deficits in the 1964-69 period running at all time lows of 5% to 15% of revenues, the need for carrying this project to full term is clear. The continuing deficits of the Government reflect the lack of fully implemented management systems as well as the lack of a sufficient number of technically competent personnel to man them. Although well past the initial design stage, systems for current revenue accounting, centralized expenditure accounting, and related systems of control through allotments and obligation or encumbrance accounts have not been made operational. The key to accomplishing this in CY's 70 and 71 is in the preparation of qualified Bolivian personnel who, with the assistance of the advisory team, can put into effect a coordinated program of fiscal management. The initial thrust of the Fiscal Reform Project was the design of reformed systems for the GOB. These included: the reallocation of overall responsibilities for financial management (adopted by Supreme Decree as the Fiscal Reform Law of April 1968), the restructuring of the audit function in the Controller General's office, the formation of a central accounting directorate, a general reorganization of the Ministry of Finance and a totally reordered procedure for budget preparation and execution. Although some design work remains to be done, the current and future concentration is<sup>on</sup> development of qualified personnel to make the systems work. Classroom and on-job training is programmed to produce the minimum number of qualified auditors, accountants, financial and administrative analysts as well as capital projects analysts necessary to implement effectively the reformed systems. The systems themselves need to be operationally tested, improved, translated into operations manuals for all elements of the public sector, and made continuously responsive to the politico-economic policies of the Government.

This work -- refining the reformed systems, training personnel to fully implement and further refine the systems, developing operating manuals to

guide all agencies on the modernized procedures -- all must be accomplished before close-out of the project in FY 75 if the work to date is to have lasting value. When it is done then the human and institutional tools will all be present for Bolivia to realize the overall project objective: the installation of an efficient, integrated system of public financial management by which GOB resources can be rationally allocated against the nation's economic priorities, expenditures controlled accordingly, and Government decisions can be made based upon current and complete information on financial performance.

### 3. Project Goals

The overall objective of the project is stated in the preceding paragraph. Specific objectives are to assist the GOB in achieving the following:

- a) Establish a central accounting system within the Ministry of Finance which will be capable of handling current accounts for both revenues and expenditures and will facilitate a common control (including pre-audit) over the collection, allotment, obligation, encumbrance and expenditure of public funds.
- b) Implement a consolidated public sector budget discipline based on systematized agency expenditure and revenue submissions, clearly identified program objectives, responsible analysis through a strong Central Budget Office (including development and application of program/project performance standards and unit cost performance yardsticks), and a fixed budget calendar against which the Supreme Government can make timely approval of the budget as a definitive annual statement of its public economic policy.
- c) Implement a comprehensive post audit system in the Office of the Controller General of the Republic with emphasis on performance against set objectives as a measure of cost effectiveness. As part of this system, audit reports will recommend remedial action rather than simply summarize deficiencies and/or irregularities observed.
- d) Develop systems for central revenue and expenditure administration in a modern National Treasury within the Ministry of Finance which will be capable of effective debt management, continuous control over public credit, administration of the Government's monetary and banking policies, as well as reporting on current and projected fiscal performance.
- e) Design and implement, as part of the overall budget and accounting system: (1) basic common procurement standards for equipment and supplies, (2) common position nomenclature based on continuous position classification as part of the annual budget reviews, (3) universal application of the common organization structure as provided in the Administrative Reform Law of April 30, 1970 and (4) a continuous program of financial and administrative analysis to develop and refine performance standards, performance yardsticks,

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and overall cost effectiveness.

- f) Develop and install within each of the public agencies financial and administrative management staff units which will reflect expertise in the aforementioned systems and will advise and assist the agency head on all phases of his budget preparation and execution. These units will also assist in a continuous program of financial and administrative analysis to improve program performance and project effectiveness.

### 3. Minimum Levels of Achievement

The GOB has, over the life of this project, evidenced continuing (even if not always at the same level of commitment) support of the above stated objectives. Based on recommendations of the advisory team and its Bolivian counterparts the following achievements are noteworthy:

- a) Adoption in April 1968 of the general Fiscal Reform Law which laid the basis for reorganizing the Ministry of Finance and the Controller General's Office to provide for centralized accounting, a strong national budget office and an efficient national Treasury in the former and a greatly expanded post-audit function in the latter.
- b) Provision by the GOB of over \$130,000 for local scholarships to train a cadre of highly qualified accountant/auditors to staff the new organizations. One hundred and fifty professionals have completed or are now enrolled in these courses which represent six months of full-time classroom training with subsequent on-job training with the team advisors.
- c) Adoption of a public-sector budget preparation calendar for CY 70 which provided a coordinated cycle for all submissions including investment budgets. (Unfortunately the revolution of September 26, 1969 threw this exercise off the adopted time table).
- d) Approval of budget training courses in the interior of the Republic which reached some 250 previously untrained employees of GOB agencies.
- e) Adoption of key aspects of the Fiscal Reform strategy in separate decrees from 1968 to 1970 and culminating in the Administrative Reform law of April 30, 1970. These included centralizing revenue control and disbursement authority in the National Treasury, freezing new hirings and halting capricious dismissals of public employees, eliminating pre-audit in the Controller General's office, including position classification authority within the National Budget Office and a number of lesser but valuable measures. These achievements have laid the basis for further progress. This can be made, and the project objectives achieved, if the GOB:

- (1) Continues to give top priority to staff training-providing scholarships for vestibule training in new professional areas such as systems analysis and programming plus requiring current employees to attend in service training courses to up-grade their skill as part of their regular jobs and within the normal work week.
- (2) Continues to implement the program against a reasonable time schedule (see planned targets following).
- (3) Provides reasonable job stability and adequate compensation to trained personnel. This implies the establishment of a basic career program for key professional, technical and administrative positions.
- (4) Continues to maintain a collegial working environment between advisors and counterparts so that transfer of technical skills can be maximized as the reformed systems are implemented, tested and improved on an operational basis.

#### 4. General Approach

Since September 1966 the USAID has financed a GOB contracted advisory team to help the Government carry out its Fiscal reform objectives. The GOB has requested that USAID continue the financing of this advisory group. Currently the Mission plans to begin to phase-down the present five-man group in FY 72 and to phase-out the project by FY 75. As indicated earlier, the initial emphasis was the design of reformed systems and the development or legislation to make their implementation possible. Current and future emphasis is on:

- a) Systems implementation through classroom and on-job training of GOB personnel. (This is being done in cooperation with the Superior Institute of Public Administration. See separate PROP).
- b) Systems formalization through the development of operating manuals as the implementation proceeds and in full collaboration between advisors and counterparts.
- c) Systems improvement (de-bugging) during actual operations of the integrated program for financial management at both the central agency (Ministry of Finance and Controller General) levels and at the operating agency level.

The GOB has indicated full agreement with this approach and is providing adequate support for its successful realization.

## NONCAPITAL PROJECT FUNDING (OBLIGATIONS IN \$600)

Table 1  
Page 1 of 2

PROP DATE: 5/ /70

Original \_\_\_\_\_

RLV. NO. \_\_\_\_\_

Project No. 511-11-720-002.1

Fiscal Years	AP	L/G	Total	1/ Cont	Personnel Serv.		Participants		Communities		Other Costs	
					AID	PASA	CONT	U.S. Agencies	CONT	Dir U.S. Ag	CONT	Dir & U.S. Ag
Prior through Act. FY69	AG	C	728	587	115		587	24				2
Oper. FY70	AG	G	184	61	60		61	3		60		
BUDG. FY71	AG	G	245	160	60		160			25		
B + 1 FY72	AG	G	245	160	60		160			25		
B + 2 FY73	AG	G	160	100	60		100					
B + 3 FY74	AG	C	125	90	35		90					
All Subs.	AG	G	85	50	35		50					
Total Life	AG	G	1,772	1,208	425		1,208	27		110		2

1/ Memorandum (nonadd) column

2/ Contract costs based on average of \$17,000 per FY + 55% overhead and miscellaneous costs; FY inputs listed section E and are revised from PIP submitted 11/18/69

3/ All Public Administration Sector Participants after FY70 will be budgeted in Institute of Public Administration, Project 511-11-720-002.6

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Table I  
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Exchg. rate \$1 = \$B12.00

Project No. 511-11-720-082.1

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Fiscal Years	AID-Controlled Local Currency		Other Cash Contribution Cooperating Country (\$000) <u>1/</u>	Other Donor Funds (\$ Equiv.) (\$000) <u>2/</u>	Food for Freedom Commodities		
	U.S.-owned	Country-owned			Metric Tons (000)	CCC Value & Freight	World Market Price
Prior Through Act. FY69			68.0				
Oper. FY70			76.4	30			
Buds. FY71			78.8	30			
B + 1 FY72			78.8	30			
B + 2 FY73			78.8	30			
B + 3 FY74			78.8	30			
All Subs.			76.8	30			
Total Life			520.4	150.0			

1/ Includes CCC budget funds devoted to project, i.e., office space, administrative salaries of staff assigned to project; salaries and support costs for vestibule training, etc.

2/ Assumes assignment of one full time advisor from IET, CAS, IDCB, or BID to project

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**B. SETTING OR ENVIRONMENT**

In its 145 years of independence, Bolivia has had 184 different governments. Its administrative and fiscal behavior has been characterized by improvisation and discontinuity. Until recently, the Executive branch of the Government owed its legal basis to a law of 1888 and its operational reality to improvisations made by subsequent Governments. Its fiscal institutions were, by and large, operating on the outdated model adopted in 1928 following the ~~Kemmerer Mission to Bolivia~~ Kemmerer Mission to Bolivia.

When the fiscal reform advisory team arrived in September 1966 (see also 1963 Solomon Report mentioned above), it found that Government accounts were not available for 18 to 24 months following fiscal periods; accounting was divided between the Budget office, the Treasury, the Controller's Office, the operating agencies, and the Central Bank; the Controller was not only involved in accounting but had pre-audit, post-audit (not really functioning), the Government's only central personnel registry, and also counter-signed all disbursements of the Treasury; no central agency had an ongoing allotment system, registries for obligations and encumbrances, or authority over the revenues collected directly by the operating agencies; there was no staff qualified to conduct administrative and financial analysis of GOB programs and correspondingly there were no performance standards; the budget was prepared centrally but executed by the agencies under the sole restraint of its global annual appropriation; a floating debt to the private sector haunted the treasury with prior obligations fighting against the current program for scarce current resources; the quality of technical personnel -- auditors, accountants, financial and administrative analysts, etc. -- was far below minimum requirements; the annual budget was being issued not before nine months into the year; in general, the environment was ripe for reform. In spite of this, change was slow in coming. It took the initial ten months of the advisory team's time to hammer out a proposed structural reform (A.3.a. above) and an additional ten months to motivate the Government to enact it into law in April of 1968. At the time of this submission in May 1970, effective implementation is now really beginning.

This frustrating, disappointing slow rate of progress is understandable in terms of the Bolivian environment:

1. Change from disorder to order is not welcome where the improvised way of doing things has become a system with its own vested interests in not being altered.
2. Political instability breaks the continuity of the reform program with every new Government requiring education on project rationale, methodology and justification.
3. Political changes bring frequent changes in operating personnel, since Bolivia has no career system for public employees, and reorientation, retraining, new relationships must be effected by the advisory group.

4. Training technically qualified personnel has required, first convincing top Government authorities of the urgency of technical qualification in a Jacksonian environment that assumes that all government jobs are alike and that any semi-literate citizen can qualify, and, second persuading the employees themselves that in-service training is valuable to them personally and professionally. ●

5. Often times support of the program has been only nominal and the project has floundered on the common Latin American syndrome "Obedezco pero no cumpla (I obey but I don't do it)".

Although these environmental realities have presented obstacles, more than anything else, they have forced a lengthened time frame for achieving the stated goals.

Under the Bolivian Revolutionary Government which took power September 26, 1969, there is a sense of urgency "to get on with the job", of fiscal and administrative reform. Although many of the factors noted above are still to be coped with, the new attitude and the progress achieved to date suggests that a very positive environment will face the project for the balance of its life.

## C. SUMMARY

### 1. General

It is the intention of the USAID Mission to provide grant financing to support this project to completion as long as the GOB provides continuing commitment to the project objectives and adequately utilizes the GOB contracted advisory team in achieving these objectives. To supplement the advisory effort, the Mission will provide grant funded commodity support to help expedite the installation of the machine oriented accounting system (FY's 70 and 71), and to adapt this system to electronic data processing, if this seems appropriate (FY's 71 and 72). In addition to training locally, supported by the advisory team and instructors provided through the ISAP Project (see separate PROP), the USAID will provide supplementary out-of-country training --- U.S. and Third Countries -- either under a participant program funded under the ISAP Project or through invitational travel.

To the extent possible, the Mission will encourage other donors to assist the GOB in its overall fiscal Reform. In 1968, we were successful in convincing the IMF to provide one full-time advisor in current expenditure controls. Other donors, such as the IDB and the IBRD, have supported the fiscal reform, (although not with direct advisory support) with continuous reaffirmation by their representatives and short term survey teams of the top priority they give to this effort as providing the basis for their future lending efforts.

In accord with the Ministers of Finance and Planning, the Mission has indicated its strong desire that advisory assistance in this program should be directed primarily to assist in resolving technical -- organizational, systems and procedures -- type issues. The USAID and the GOB have agreed that it is more appropriate that multinational donors provide advisory assistance on policy issues in the fiscal and monetary fields.

## 2. Operational

The operational strategy of the USAID supported advisory team is essentially to follow the program outlined in the following section "Planned Targets". In nearly every aspect of the program the reform effort moves through the following phases -- but not in a precise linear manner:

- a) Advisors work with Bolivian counterparts to research problems in a given aspect of financial management systems and develop alternative approaches for local solution.
- b) Systems design with counterparts and final agreement on basic substance.
- c) Legal action to permit system installation.
- d) Selection and training Bolivian technicians to install and operate system.
- e) System installation by Bolivian technicians with advisory assistance.
- f) De-bugging system on operational basis.
- g) Preparing operating manual on system operation, feed-back, and continuous revision.

When the basic systems reach stage g) above the USAID will phase out the advisory program. The phase-down stage should begin in FY 75 and phase-out should be completed by the close of FY 75.

## D. PLANNED TARGETS

The following chart presents a simplified summary of project targets. The 11 categories of systems work are actually broken down in working papers (including the PIP already submitted) into over 75 sub-items for detailed project planning and control.

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	Advisor Research on System	Complete System Design	Legal Approval GOB	Basic Staff Training	System Installation	De-bugging Complete	Operating Manual	Comments on Quantitative Aspects of Target
1. Budget Preparation	NA	12/71	12/72	6/71	6/71	12/72	12/72	<u>Budget:</u> At least 50 central staff and 500 operating agency technicians will complete training by 12/72.
2. Budget Execution	NA	12/71	12/72	6/71	12/71	6/73	12/72	
3. Expenditure Accounting	9/70	10/70	12/70	9/70	1/71	12/71	2/72	<u>Accounting:</u> Although the central staff of 70 will complete basic training by 9/70 some 250 operating agency accountants must be trained by 6/73.
4. Revenue Accounting	9/70	10/70	12/70	9/70	1/71	12/72	6/72	
5. General Ledger Accounting	3/71	4/71	6/71	9/70	12/71	12/72	6/72	
6. Treasury Management	8/71	11/71	1/72	12/71	12/71	5/72	9/72	<u>Treasury:</u> 25 central staff technicians will complete basic training by 12/71 but continued operations of sub-treasuries require training 50 more by 12/72.
7. Purchasing	6/71	12/71	1/72	9/71	3/72	6/72	6/72	<u>Purchasing:</u> Central staff will be developed by 9/71 (12 staff) operating technicians (200) will be trained by end of project.
8. Financial and Administrative Analysis	NA	12/71	1/72	6/71	6/72	12/72	12/72	<u>Admin. Analysts:</u> This target is part of the ISAP project but requires an effective input from Fiscal Reform advisors. Object is to train 400 top staff technicians as key technician/administrators in all GOB agencies.
9. Consolidated Financial Reports	4/71	11/71	1/72	11/71	2/72	5/72	5/72	
10. Post-Audit	NA	1/71	3/71	10/71	12/71	3/72	4/72	<u>Post-Audit:</u> By 10/71 200 post-auditors will have been trained in intensive 6 month course.
1. Internal Audit	2/71	6/71	8/71	12/71	1/72	6/72	3/72	<u>Internal-Audit:</u> To provide most fiscal institutions with internal auditors, some 200 must be trained by 6/73.

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Comments on foregoing chart:

1. Training: The target for basic training refers to the completion of training of central staff units. The training beyond this level is the primary responsibility of the Superior Institute of Public Administration. It is noteworthy that the total GOB staff training objective for this project is 1,750 technicians. (Courses are largely full-time for from 3 to 6 months duration.) The five man advisory team within this project will cooperate with ISAP in forming Bolivian instructors and the basic curriculum for each aspect of the training. But ISAP will carry it out. Additional USAID support to this activity is discussed in the ISAP PROP.
2. The installation target for the Expenditure and Revenue accounting systems refers to the initial manual operations. Machine applications will be installed, if equipment procurement is on schedule, by 12/71.
3. Where the "advisor research on system" column has been marked NA, it is because this phase of work was completed well before submission of this PROP.
4. It should be clear that the targets set for de-bugging and for completing operating manuals represent the first phase of these activities relative to each system. In the period following, through the end of the project, advisor and counterpart follow-up will be required to continuously improve operations and to reflect these improvements in the prevailing manuals.

L. COURSE OF ACTION

The Government of Bolivia with assistance from the advisory team will carry out the project as shown in C.2 "Strategy-Operational" and against the general calendar indicated in b. "Planned Targets" above.

Through the Mission's Public Administration Officer, the USAID will continuously monitor project progress and will plan all required funding to support the advisory, participant and selected commodity inputs to the program. Other donor's will be regularly consulted as to their possible participation in furthering project goals. Should advisory inputs beyond our programmed level appear to be required, the Mission will encourage the GOB to seek this assistance from multilateral agencies.

The following represents a summary of on-board project staff for the life of the project (one man means on board at least 3 mos. of FY).

Fiscal Years (on-board staff)

<u>Advisors</u>	<u>67</u>	<u>68</u>	<u>69</u>	<u>70</u>	<u>71</u>	<u>72</u>	<u>73</u>	<u>74</u>	<u>75</u>
Chief of Party	1	1	1	1	1	1	1	1	1
Budget	1	2	1	1	1	1	-	-	-
Accounting	1	1	-	-	1	1	1	-	-
Auditing	1	1	1	1	1	1	-	-	-
O & M	1	1	-	-	1	1	1	1	-
TDY man mos	1MM	3MM	6MM	2MM	6MM	6MM	6MM	12MM	6MM

NOTE: In FY. 73 and following years the "Chief of Party" position will be filled, as nearly as possible, by a Public Finance generalist who can provide follow-up on systems installed earlier with assistance from the specialized advisors.

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