PD-ABD-195

UNCLASSIFIED

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

BOLIVIA

PROJECT PAPER

EXPORT PROMOTION
AMENDMENT NUMBER 1

AID/LAC/P-653
CR-532

PROJECT NUMBER: 511-0585

UNCLASSIFIED

PD-ABD-195
ISN 73536

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: C (A = Add, C = Change, D = Delete)
Amendment Number: 1
DOCUMENT CODE: 3

2. COUNTRY/ENTITY: BOLIVIA

3. PROJECT NUMBER: 511-0585

4. BUREAU/OFFICE: LATIN AMERICA & CARIBBEAN (LAC) 05

5. PROJECT TITLE (maximum 40 characters): EXPORT PROMOTION

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM DD YY 09 30 95

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)
A. Initial FY 89 B. Quarter [ ] C. Final FY 91

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

A. FUNDING SOURCE	FIRST FY B. FX	FIRST FY C. L/C	FIRST FY D. Total	LIFE OF PROJECT E. FX	LIFE OF PROJECT F. L/C	LIFE OF PROJECT G. Total
AID Appropriated Total	900	1,200	2,100	15,450	8,050	23,500
(Grant)	(900)	(1,200)	(2,100)	(15,450)	(8,050)	(23,500)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country						
Other Donor(s)		750	750		11,900	11,900
TOTALS	900	1,950	2,850	15,450	19,950	35,400

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. PRIMARY TECH. CODE 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. OBLIGATIONS TO DATE 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. AMOUNT APPROVED THIS ACTION 2. Loan	F. LIFE OF PROJECT 1. Grant	F. LIFE OF PROJECT 2. Loan
(1) ARDN	169	150		2,567		345		5,345	
(2) PSEE	734	830		2,039		(-3,500)		3,000	
(3) ESF	734	830		--		15,155		15,155	
(4)									
TOTALS				4,606		12,000		23,500	

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

11. SECONDARY PURPOSE CODE

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

A. Code	BU	BL	BR	BF			
B. Amount							

13. PROJECT PURPOSE (maximum 480 characters)

To increase the dollar volume of non-traditional exports and related employment by Bolivian and foreign companies that receive project assistance.

14. SCHEDULED EVALUATIONS
Interim MM YY 03 92, MM YY 03 93; Final MM YY 05 95

15. SOURCE/ORIGIN OF GOODS AND SERVICES
[X] 000 [ ] 941 [X] Local [ ] Other (Specify)

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

This amendment incorporates a major new foreign investment component and makes other small adjustments to the original project.

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

Thomas + Johnstone, Jr.
John R. Davisón
Controller

17. APPROVED BY
Signature: Garber A. Davidson
Title: Garber A. Davidson
Acting Director
Date Signed MM DD YY 06 27 91

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

AID 1330-4 (8-79)

PROJECT AUTHORIZATION
(Amendment No. 1)

Name of Country: Bolivia

Name of Project: Export Promotion

Number of Project: 511-0585

Pursuant to Sections 103 and 106 of the Foreign Assistance Act of 1961, as amended, the Export Promotion Project was authorized on November 15, 1988. That authorization is hereby amended as follows:

a. The first paragraph of the authorization is deleted and the following is inserted in lieu thereof:

"1. Pursuant to Sections 103, 106 and 531 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Export Promotion Project for Bolivia, involving planned obligations of not to exceed twenty three million five hundred thousand United States Dollars (US$23,500,000) over a seven year period from the date of original authorization, subject to the availability of funds in accordance with the AID OYB/allotment process, to help in financing foreign exchange and certain local currency costs for the Project. The planned life of project is approximately seven years from the date of initial obligation, or to September 30, 1995.

b. The revised goal of the Project is to increase the contribution of the legal export sector to Bolivia's economic recovery and growth. The revised purpose is to increase the dollar volume of non-traditional exports and related employment by Bolivian and foreign companies that receive project assistance. A major new component, Foreign Investment Promotion, is incorporated into the Project through this Amendment. This program will identify firms interested in investing in Bolivia and assist them in this process.

c. Waiver Permitting Local Cost Financing

Based on the financial plan and justification included in the Amended Project Paper, Section VI, and the description of project activities and implementation arrangements in Sections IV and V of the Project Paper Amendment, local cost financing with appropriated funds is hereby authorized for procurement transactions for the four components of the Amended Project, as necessary to fulfill program objectives and to best promote the objectives of the Foreign Assistance Program. A waiver permitting local cost financing of the cost of local project staff of Bolivian nationality is hereby granted in the aggregate amount of $300,000, for the reasons stated in Section VI.F. of the Project Paper Amendment.

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Except as expressly modified or amended hereby, the authorization remains in full force and effect.

Garber A. Davidson
Acting Mission Director

Date: 6/27/91

RLA:SAllen
6118n

Clearances:
TI:JHarrison-Burns
TI:LValenzuela
TI:RRosenberg
PDI:MBarash
ECON:CJoel
DP:SSmith
EXO:JLiebner
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A/DD:EKadunc 6/28
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LIST OF ACRONYMS

ANAPO	Asociación Nacional de Productores de Oleoginosas
CAF	Corporación Andina de Fomento
COMIBOL	Corporación Minera de Bolivia
CRA	Certificado de Reintegro Arancelario
DICOMEX	Dirección General de Comercio Exterior del MICT
FEBOPI	Federación Boliviana de la Pequeña Industria
FTZ	Free Trade Zone
GDP	Gross Domestic Product
GOB	Government of Bolivia
IBCE	Instituto Boliviano de Comercio Exterior - Santa Cruz
IBRD	International Bank for Reconstruction and Development (World Bank)
INBOPIA	Instituto Boliviano de Pequeña Industria y Artesanía del MICT
INPEX	Instituto Nacional de Promoción de Exportaciones
JUNAC	Junta del Acuerdo de Cartagena
MICT	Ministerio de Industria, Comercio y Turismo
MPC	Ministerio de Planeamiento y Coordinación
OPIC	Overseas Private Investment Corporation
PACD	Project Assistance Completion Date
PPI	Programa de Promocion de Inversiones
PROA	Programa Piloto de Desarrollo Urbano de El Alto
PROAG	Project Agreement
PRODEM	Fundacion para la Promocion y Desarrollo de la Microempresa
UDAPE	Unidad de Análisis de Politicas Economicas
UNDP	United Nations Development Programme
UNFDAC	United Nations Fund for Drug Abuse Control

GLOSSARY

Maquila:	Offshore assembly of components for export. Export may be to the country of origen or to a third country.
Export Capacity:	Productive capacity installed but not yet utilized.

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TABLES

I. EXECUTIVE SUMMARY

A. Recommendation

USAID/Bolivia recommends that a new PACD for the Export Promotion Project be established, extending the project for one year and ten months from November 16, 1993 to September 30, 1995, and that $12 million of ESF funds be added to the project. Counterpart funds (GOB) will be increased from $2.4 million to $5.9 million. This amendment will add a new component to the project, Foreign Investment Promotion, and expand the Technical Assistance to Exporters component.

An additional $5 million in ESF funds, currently expected to be used for credit, will be the subject of a subsequent Project Paper Amendment and Authorization Amendment.

B. Summary

The Export Promotion project (511-0585) was authorized on November 15, 1988 by the USAID/Bolivia Mission Director for a life-of-project funding level of $11.5 million. The project was designed to provide technical assistance and training to Bolivian producers and exporters in developing and marketing exportable products. The project was also to establish a pre- and post-embarkation credit program and support pilot investment promotion activities.

The project is now being amended in order to incorporate a major new Foreign Investment Promotion component, to increase funding for technical assistance, and to make other minor adjustments in the original project design. Numerous USAID-funded studies over the last year as well as experience under a small investment promotion pilot suggest that Bolivia has sufficient comparative advantages to be attractive to foreign investors. The Foreign Investment Promotion program will market Bolivia to potential investors and guide those who are serious through the execution of the investment.

The goal and purpose have been revised slightly. The revised goal of the project is to increase the contribution of the legal export sector to Bolivia's economic recovery and growth. The revised purpose is to increase the dollar volume of non-traditional exports and related employment by Bolivian and foreign companies that receive project assistance.

The main components of the project have also been redefined. The new components will be Technical Assistance to Exporters, Foreign Investment Promotion, and Export Financing. The Technical Assistance to Exporters component will be expanded, based on successful results thus far. The small pilot effort in investment promotion, initiated under the original project design, will be expanded into a major new Foreign Investment Promotion program. The Export Financing component, which has failed to move loan funds through the Central Bank, will be removed from the Central Bank and restructured. A subsequent Project Paper Amendment will describe this new structure. Contingent upon technical and demand studies to be completed, up to $5 million in credit will be added to the component at that time.

It is expected that by the end of the project, the following targets will have been attained: $100 million in export sales generated; 10,000 jobs created; and, $50 million in export capacity generated. These targets may be increased in the subsequent PP Amendment on the credit component.

The contract with CARANA Corporation, an 8(a) firm will continue through May 1992. The remaining work under the project, from June 1992 to August of 1995, will be competed among Gray Amendment firms.

The Mission has received authorization from the LAC Bureau to extend the PACD to September 30, 1995 (State 110911) and to approve and authorize the Project Paper Amendment in the field (State 198883). Concerns expressed in the NPD guidance cable and a subsequent "think piece" from LAC TI have been incorporated into this PP Amendment. Detailed responses to AI: 'W cables are found in Annexes 2 and 3.

C. Life-of-Project Funding Summary

An additional $12 million in ESF funds will increase the A.I.D. life-of-project funding level from $11.5 million to $23.5 million.

A summary of the sources and uses of A.I.D. funds follows:

TABLE A (000s)

	Original, as amended and modified*	This Amendment	Project Total LOP
Technical Assistance To Exporters	3,008	5,242	8,250
Investment Promotion	955	6,945	7,900
Export Financing	7,045	(1,045)	6,000
Project Support (Including audits/ evaluations)	492	858	1,350
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TOTAL	11,500	12,000	23,500

* amounts have been reorganized into new project components for presentation purposes.

The GOB local currency contribution will be increased by $3,500, from $2,400 to $5,900. The additional funds will be used as follows: $500,000 to cover the T.A. for Exporters; $2 million for Foreign Investment Promotion; and $1 million for Export Financing. The Private Sector is expected to invest at least $6 million.

II. PROJECT BACKGROUND

A. The Environment for Exports (1)

After a period of hyper-inflation, in which the average rate of inflation reached 11,750 percent in 1985, the government of Victor Paz Estenssoro implemented a New Economic Policy which stabilized and liberalized the economy. Supreme Decrees 21660 of July 1987, and 22407 of January 1990, adopted additional measures to consolidate the economic stability of the country, and improve its competitiveness with the rest of the world.

At present, Bolivia's macro-economic environment is one of the more favorable in Latin America. During 1990, the country's inflation rate was 8% (the lowest in South America); the exchange rate is estimated to have depreciated, in real terms, by about 3%; and official estimates indicate a 2.6% rate of economic growth.

Bolivia's economy at present is very stable and is also one of the most liberal in Latin America. The official exchange rate is determined by the Central Bank (the gap between the official and the parallel exchange rates has been less than 1% for the last five years); there are no foreign exchange controls; the import tariff for capital goods and equipment is 5%, with a three-year payment period, and for all other merchandise goods 10%; and, there are no export taxes, except some royalties to be paid to the State on the production of minerals, hydrocarbons and wood. Until March 1991, all exporters obtained a reimbursement of 6% of the total value of their exports (the Certificado de Reintegro Arancelario-CRA). This incentive, now terminated, will be substituted by a draw-back system in the near future. Salaries are freely negotiated and determined between the employer and labor, and social benefits are estimated to be about 40% of the basic salary.

Additionally, the GOB has promulgated decrees authorizing Free Trade Zone regimes, which provide exemptions on property taxes, the value added tax, the transactions tax, import tariffs for all capital equipment and industrial inputs, and any other municipal taxes.

Finally, the Bolivian Congress has recently appproved a new Hydrocarbons Law and an Investment Code which authorizes an unrestricted repatriation of capital, permits joint-ventures between domestic and foreign companies, and grants the same tax treatment to foreigners and domestic investors. Similarly, Congressional approval of a mining law is imminent.

The set of policy measures adopted since August, 1985 and the additional structural reforms implemented since then, have resulted in increases in total exports, particularly of non-traditional exports. Official estimates (2) show an increase in total merchandise exports from $623 million in 1985, to approximately

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(1) For a discussion of the relation between this export-focused project and Bolivia's broader trade and investment strategy, see Section III.C. below.

(2) Bolivia's official export data is based on invoices which are often grossly inflated. Thus, caution is in order when using this data.

$805 million in 1990, or a 29% increase; and a larger increase in non-traditional exports from $38 million, in 1985, to an estimated $290 million in 1990, or 7.6 times more. Because this increase was due, in part, to factors such as price fluctuations and neighboring countries' economies, the increase in subsequent years is expected to somewhat more modest.

The amended Export Promotion project seeks to capitalize on Bolivia's favorable economic environment and, as such, to make a substantial contribution to the increase in Bolivian non-traditional exports.

B. Project Progress to Date

The original Export Promotion project was designed to improve the capacity of Bolivians to export non-traditional products. Eight million of the total LOP funding of $11.5 million was to be provided for pre- and post-embarkation credit, something which was considered to be a great constraint to exports at the time. The project was also to provide technical assistance to exporters and to strengthen some of the key public and private export promotion organizations.

Project sub-agreements were signed with four implementing institutions: the Instituto Nacional de Promoción de Exportaciones (INPEX), the Instituto Boliviano de Comercio Exterior (IBCE), the Federación de Empresarios Privados de Cochabamba, and the Cámara Nacional de Exportadores in La Paz. These agreements committed funds to establish a computerized information system for gathering, storing and disseminating information on export markets. The ongoing operational costs of each of these institutions were to be derived from non-A.I.D. sources. In the cases of INPEX and IBCE, operational expenses were to be covered by funds generated through the Certificado de Reintegro Arancelario (CRA), which was recently phased out because of its distortionary risk and because it represented a substantial drain on the GOB budget.

CARANA Corporation, an 8 (a) firm, was selected as the principal implementing entity on the basis of its extensive experience in export promotion. A contract was signed on October 30, 1989, for a period of three years. CARANA began operations in Bolivia in December 1989.

Project progress to date has been mixed. Although the original Project Paper envisioned having the institutional contractor work closely with the four local export organizations, CARANA has for various reasons focused most of its energies on providing direct technical assistance to existing and potential Bolivian exporters in the areas of quality control, production expansion, product design, and markets.

From January 1990 through December 1990, CARANA provided varying levels of technical assistance to 35 exporters, of which 20 increased their export production. CARANA estimates that the value of export sales directly attributable to its assistance was $2.0 million in 1990, an encouraging result for a start-up year. Projections for subsequent years are much higher. Under the amended project, technical assistance will continue to be provided directly to exporters.

Progress on the information network and library has been slow. USAID has purchased, delivered and installed computer hardware and software at INPEX, the Federación in Cochabamba, the Cámara de Exportadores, and IBCE. The Federación in Cochabamba, which received a WANG system at its own request, is currently in the process of exchanging their equipment for IBM-compatible hardware. INPEX has also hired a librarian with project funds. In all cases, however, the computerized information systems have not as yet provided a meaningful service to exporters. Experience in other countries with sophisticated electronic databases demonstrates that these systems are overly complex for the needs of new exporters, and moreover, since they are under-utilized, they tend not to be cost-effective.

As of May 31, 1991, the export credit component had failed to disburse a single loan, although funds had been available at the Central Bank since July of 1990. The following are the primary reasons for this delay:

- the negotiation between USAID and the Central Bank to facilitate credit line disbursements was lengthy and difficult. In part, this was due to a lack of agreement on disbursement procedures;

- market conditions have changed considerably since 1988, when the project was designed. The Bolivian banking system is now awash in short-term liquidity, bringing into question the need for the short-term export credit line specified in the original project paper; and

- at the behest of the World Bank and the IDB, the Central Bank has adopted an auction system to distribute donor credit funds among the commercial banks. The result of this system is a substantial increase in the interest rates on all credit lines funded by international donor organizations through the Central Bank. The price advantage of a donor credit line is no longer a factor for exporters.

These circumstances, and further analytic work on export credit requirements, have convinced the Mission that the credit component should be refocussed. The Mission plans to remove the funds from the Central Bank and to redirect the credit to serve a clientele that falls slightly below the level of security required by current policies of the commercial banks. These adjustments, including the infusion of approximately $5 million in additional credit funds, will be described and justified in a subsequent PP Amendment.

The original Project Paper devoted only limited attention to foreign investment promotion. But realizing that this could be a potentially important A.I.D. contribution, the Project Paper left open the possibility of pilot investment programs. The contract with CARANA Corporation specifically included the development of an "investment promotion strategy," with the idea that this could provide guidance for a future USAID activity. In January of 1990, two CARANA employees prepared an "Investment Promotion Strategy for Bolivia." The document recommended that Bolivia undertake a number of small, pilot investment activities in order to "test" different approaches. A few months later, CARANA contracted a third individual to take the "investment strategy" one step further. This consultant proposed the establishment of a longer-term, foreign investment promotion program, based, in part, on the Costa Rican experience. The new strategy was accepted by the Mission, and led to the initiation of a small investment promotion pilot program in January 1991.

The pilot program, although still in its initial stages, promises to be successful. Ongoing analyses confirm the impression that the conditions for a longer-term investment promotion program in Bolivia are present, including the availability of qualified promotion personnel, the probability of establishing an industrial Free Trade Zone (FTZ), and most important, the comparative advantages for attracting certain types of foreign investors to Bolivia.

The new Foreign Investment Promotion component, to be added as a result of this Project Paper Amendment, draws from the successful experience of Central American, European and other countries in attracting foreign investors.

III. PROJECT AMENDMENT RATIONALE

A. Amendment Justification

The are two key reasons for this amendment:

1. The technical assistance component is showing promising results. In 1990, the start-up year, $2.0 million in export sales were generated and 150 jobs were created. Based on these preliminary results and the addition of a Foreign Investment Promotion component, the institutional contractor expects that by 1995 $100 million in export sales can be generated and 10,000 jobs created. These indicators are encouraging enough to lead the Mission to increase the term and intensity of the technical assistance effort.

2. As detailed later in this paper, Bolivia appears to be in a favorable position to compete for foreign export-oriented investments. Bolivia's comparative advantages, coupled with the availability of a proven model to market the country to foreign investors, suggests that the time is ripe to add a full-blown investment promotion component to the project.

B. Project Adjustments

The most substantive change in the project is the addition of a key new component, Foreign Investment Promotion. Studies financed by USAID/Bolivia during 1990 suggest that Bolivia could greatly benefit from a program of this nature. This component is described further in the Revised Project Description section.

Other adjustments to the original design are less fundamental. The nature of the information system within INPEX, IBCE and the Federación in Cochabamba will be modified as a result of a December 1990 report by a specialist in export information systems. After a review of the project's information system design and based on his personal experience with such systems, the consultant concluded that a computerized information system in Bolivia would not justify its cost. Instead, he recommended a library with reference books (such as The Directory of United States Exporters, or simply the Yellow Pages of key cities in the United States, Europe and Latin America), trade magazines and periodicals, and perhaps the services of a research librarian. He argued that a reference libraries did not entail major expenditures: the initial costs of library materials could run approximately $4,000 and the yearly maintenance costs another $2,000. As a result of these recommendations, USAID/Bolivia has decided to limit continued support for an electronic data base network and assist in the establishment of reference libraries in La Paz, Cochabamba and Santa Cruz. (See consultant's report in Annex 7.)

Technical assistance to the export institutions selected at the onset of the project will be limited to support of their reference libraries and other activities such as trade fairs. The Mission may also provide a small grant to DICOMEX so that it may collect export data to track key indicators under this project. Rather than dedicate a great deal of time and money to equip export organizations to provide assistance to exporters at some point in the future, USAID/Bolivia has asked CARANA to provide technical assistance directly to exporters. As discussed earlier, Bolivia is at a juncture where an export promotion push can have immediate and substantial results, in addition to a lasting effect on the economy. The Mission considers that it would be unwise to wait for three or four years until private or public sector organizations are in a position to make a substantial contribution to export promotion. There is, in addition, some concern as to the ability of public sector entities to be effective trade promoters, given the dearth of successful models worldwide (3)

As a result of these adjustments and in order to better represent the emphases of the amended project, the original components, Institutional Development and Strengthening, Product and Market Development, and Export Credit Financing, have been renamed. The revised components are Technical Assistance to Exporters, Foreign Investment Promotion, and Export Financing.

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(3) Recent studies have shown that public sector trade promotion organizations are generally not very effective in generating increased exports. Most notable is a World Bank report by Donald B. Keesing and Andrew Singer, entitled, "What Goes Wrong in Official Promotion and Marketing Assistance for Manufactured Exports from Developing Countries," which reviews trade promotion organizations in thirty-five countries.

C Relationship to Mission and Host Country Strategy and Objectives

1. Trade Policy Issues

The challenge now facing Bolivia is to increase and diversify its trade and investment. Export promotion is only one piece of this picture. An "export at all costs" strategy would run the risk of repeating the expensive errors which resulted from Latin America's infatuation with import-substitution in decades past. A heavily subsidized export sector could easily become an inefficient sector which drains resources away from better economic prospects and which generates political resistance to the eventual elimination of those subsidies. Therefore, as discussed in the recent Bolivia Action Plan review the Mission is reformulating its strategic objectives to better reflect an overall trade and investment focus and the role of export promotion activities as one part of that focus.

Fortunately, the Bolivian government is fully committed to an approach based on free and efficient trade, rather than on subsidizing export production. Braving considerable political opposition, the GOB has recently eliminated the "CRA," its 10% non-traditional export subsidy. Moreover, exporters in Bolivia no longer have access to below-market interest rates on Central Bank credit lines: the GOB has instituted an auction system in which all borrowers bid for these funds on an equal basis, and at (very high) market rates. The export credit activities under this project will be consistent with this policy.

Bolivia's reduction of its tariffs to the lowest level in Latin America, and its entry into GATT in August of 1990 are further indications of its commitment to a free trade approach, and its determination not to distort producers' choices by heavy subsidies to one sector or another.

Given Bolivia's exceptionally strong performance in this area, the Mission does not believe that trade policy issues are a major constraint to its trade and investment efforts at present.

Nevertheless, USAID is not ignoring the policy arena. It is continuing to support UDAPE, the GOB's economic think tank, which has been a significant player in the evolution of the government's trade policy. In addition, it will be supporting the Analisis Unit for Trade (UDACEX), a new unit in the Ministry of Industry, Commerce and Tourism (MICT) which will provide analysis and assistance on trade policy generally, but which will focus particularly on back-up for bilateral and multilateral trade negotiations -- including, of course, Bolivia's eventual participation in the Enterprise for the Americas Initiative. The UDACEX proposal came out of the first meeting of the US-Bolivian Trade and Investment Council in Washington last year. Its financing will probably be provided under this Export Promotion project.

2. Regional Trade and Integration Issues

The project will continue to pay close attention to regional trade and investment opportunities. A large portion of the new export projects already receiving technical assistance are focussed on markets in neighboring countries. The current investment promotion pilot program is actively considering the best ways to reach potential South American investors, since it is clear that Bolivia could present various important advantages to them.

As noted above, it is expected that support to the UDACEX unit in the MICT will provide material assistance to the GOB in its negotiations toward regional integration. The Confederation of Private Entrepreneurs (CEPB), which the Mission supports through other projects, has been active and effective in pushing for greater Andean regional integration. In fact, negotiations are well advanced. The five Andean Pact members have committed themselves to establish intra-regional free trade by next year, and to adopt a common external tariff by 1995. Obviously, any advances in regional integration will be an important step along the way to the hemisphere-wide free trade regime which is the ultimate goal of the Enterprise for the Americas Initiative.

3. Financial Sector Issues (4)

In addition to the trade policy environment, another area of strategic focus which relates to this project is financial sector reform.(4) Financial intermediation in Bolivia is characterized by high costs and weak institutional structures. The Mission is attempting to address this systemic problem, not through this project's export credit infusion, but through other avenues, especially its Strengthening Financial Markets project. This project's components include technical assistance to the bankers' association, a bankers' training institute (which is expected to be self-supporting after a few initial years), and assistance in the establishment of a Bolivian securities market.

UDAPE, the government think-tank funded by USAID, works on financial sector issues. The Mission has just completed a massive financial sector assessment to guide its future efforts in this area. Financial sector reform is one of the two pillars of the forthcoming IBRD/IDB Structural Adjustment Credit, and the Mission is in regular contact with the World Bank team to coordinate efforts.

The Mission's Micro and Small Enterprise Development project is working with the country's decrepit credit union system. This project is doing much more than dumping credit and technical assistance: working closely with the Superintendency of Banks, it is making important progress in the structural reform of the credit union system.

On the microenterprise front, the Foundation for the Promotion of Microenterprises (PRODEM) has introduced a successful new microlending technology to the country. The most exciting outgrowth of USAID support to PRODEM is the forthcoming establishment of the region's first fully private, for-profit microenterprise bank.

4. Alternative Development Issues

Elimination of illegal coca and coca processing in Bolivia entails the

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(4) The financial sector situation will be discussed at greater length in the forthcoming amendment of the export credit component.

loss of tens of thousands of jobs and hundreds of millions of dollars in foreign exchange receipts. Therefore, the political, economic, and social viability of the GOB's eradication campaign depends on a major effort to develop alternative, legal sources of employment and hard currency. The Export Promotion project directly supports this key GOB and USAID objective.

D. Relationship to Other Donor Programs

The USAID Export Promotion project complements the efforts of other donor agencies. The major donor agencies and projects are:

1. Interamerican Development Bank (IDB)

a. Development of the Productive Sector and Export Promotion. This is a grant of US$ 1.5 million over 27 months. The estimated start date is June of 1991.

The objectives of this program are to strengthen the institutional capacity of three organizations involved in planning and technical assistance activities in support of increased exports: Ministry of Planning (MPC), Ministry of Industry, Commerce and Tourism (MICT) and the National Institute for Export Promotion (INPEX.)

The MPC will receive about $247,000 to strengthen its capacity to analyze and evaluate monetary, financial and exchange rate policies in support of increased production in Bolivia, evaluate policies and proposals for export promotion, and provide technical assistance to other government agencies (including the MICT) in these areas. More specifically, the grant will help the MPC improve its ability to negotiate at the Paris Club, and study international commercial policies, drawback schemes, production financing, and methods to control contraband.

The MICT will receive approximately $200,000 to create an Economic Analysis Unit which will develop an information system on Bolivian productive capacity and exports. The system should also track the impact of policies adopted. Another office within the Ministry will coordinate technical assistance in the area of industrial reconversion.

INPEX will receive approximately $780,000 in order to increase its capacity to provide technical assistance to the exporter of non-traditional products, support participation in international fairs, and training of commercial attachés of Bolivian Consulates. USAID/Bolivia is coordinating with the IDB to ensure that there is no duplication of efforts and to ensure that both projects share contacts, expertise and information. The IDB is investing in institutional strengthening as USAID is withdrawing resources from that area to concentrate on direct export promotion and investment.

2. World Bank

The World Bank has five projects directly and indirectly related to the export sector with a total investment of approximately $90 million:

a. The Technical Assistance to Small Industry Project, expected to start in 1991, consists of $14.0 million in credit for small industry channeled through the Central Bank. Another $2.1 million will support technical assistance through INPEX to develop trading companies, and strengthen the Bolivian Federation of Small Industrialists (FEBOPI) and the Bolivian Institute for Small Industry and Artisanry (INBOPIA).

The World Bank credit line for small industry is not necessarily export oriented although it does not exclude the exporter.

b. The Eastern Lowlands Project will invest $18 million in soya production and another $17 million in agricultural research, roads, environmental protection, and institutional strengthening of the National Association of Oleaginous Producers (ANAPO), all in the Santa Cruz area.

c. The Export Corridors Project will invest $37 million in road construction and maintenance as well as in transport and storage facilities along the Antofagasta-Tambo Quemado and Puerto Quijarro-Santa Cruz routes.

The Eastern Lowlands and Export Corridors Projects are far outside the scope of the USAID project but the infrastrucure and technical assistance provided could be valuable to the exporters and foreign investors that the project will be assisting.

d. A fourth project is funded but has not taken off because of low market prices in the mining sector. The project will work with the Bolivian Mining Corporation (COMIBOL) to promote private investment in mining. The Export and Investment Promotion project is currently working with selected mining concerns.

e. Not yet approved but considered posible by year's end is a Bolivian Development Foundation, similar in nature to Fundación Chile. The Foundation would generate and sell export businesses in the following product areas: cochineal, Brazil nuts, flowers, and quinoa.

The Development Foundation's venture-capital like strategy will not duplicate the technical assistance, credit, or investment promotion services provided under USAID's project.

3. Junta de Cartagena (JUNAC)

The Andean Program for Export Promotion provides technical assistance in developing project profiles and feasibility studies to promote investment in Bolivia and/or foreign markets for Bolivian products. It works very closely with the U.N. Development Program (UNDP) Investment Promotion Project (PPI)

JUNAC and PPI cooperated with DICOMEX, INPEX, Chambers of Industry and Exporters, and UN Fund for Drug Abuse Control (UNFDAC) in developing some 45 project profiles and 5 feasibility studies. They are planning to develop 15 more profiles and 3 more feasibility studies with the CAF. The project profiles were marketed by JUNAC/UNDP/PPI representatives in 9 different countries.

The USAID investment promotion strategy is entirely different in that it is designed to identify a foreign manufacturer and sell him or her on the idea of setting up at least a part of their existing operation in Bolivia, rather than selling a new product or joint venture idea developed in Boliva. The two projects deal with different clients.

4. Corporación Andina de Fomento (CAF)

The SAFICO credit line provides short-term credit for financing non-traditional exports. It had an outstanding portfolio of $35 million at the close of 1990. The CAF expects to move $40 million in 1991. The minimum credit is $10,000, with no maximum and the term is one year. The SAFICO credit line reaches borrowers who qualify under existing commercial bank criteria. The credit component of the USAID project will be aimed at borrowers who need more flexibility than those criteria allow.

The CAF also has a small Special Projects division that provides technical assistance for studies, such as the feasibility of privatizing Lloyd Aereo Boliviano, and a fund for pre-investment studies in the public sector.

5. Overseas Private Investment Corporation (OPIC)

OPIC is a U.S. agency that provides industrial loans and guarantees and investment insurance to companies investing overseas. The average loans range from $2 to $10 million, but OPIC has made loans as large as $50 million. OPIC is very interested in increasing business in Bolivia. OPIC represents a potential service to investors identified through the foreign investment promotion program. The USAID Project Coordinator will remain current with OPIC activities through monthly meetings with the Economics Section of the U.S. Embassy.

IV. REVISED PROJECT DESCRIPTION

A. Project Goal and Purpose

The original goal of the project was to promote Bolivia's economic recovery and growth by assisting the development of the export sector. The amended goal is slightly modified to read: to increase the contribution of the legal export sector to Bolivia's economic recovery and growth. This modification responds to the Mission's growing emphasis on developing alternative economic solutions to the production of illegal coca.

The purpose has also been modified. The original purpose was to support private and public sector efforts to expand and diversify Bolivia's exports of non-traditional products. The amended purpose is to increase the dollar volume of non-traditional exports and related employment by Bolivian and foreign companies that receive project assistance.

B. Revised Project Description

The amended Project will have three main components: Technical Assistance to Exporters; Export Financing, and Foreign Investment Promotion. A description of each follows, although most of the discussion centers on the new component:

1. Technical Assistance to Exporters

Under the amended project, the institutional contractor will continue to provide technical assistance to exporters. This assistance will include product development, market research, joint venture formation, quality control, pooling of exporters to meet large orders, and identification of financing needs and sources. This type of assistance has proven to be effective during the project's initial year, leading to the generation of $2.0 million in export sales in 1990. The institutional contractor expects that this component along with the new Foreign Investment Promotion component will generate approximately $100 million in total cumunulative export sales by the 1995 PACD.

There will be a few modifications under this component. The export promotion and foreign investment promotion activities will share offices in La Paz, Cochabamba and Santa Cruz. In addition, the contractor will assist INPEX, IBCE and the Federación in Cochabamba (or their successor organizations) to establish reference libraries. The bulk of the activity, however, will lie in providing technical assistance to exporters.

In the course of implementing the technical assistance component, it has been necessary to decide on a case-by-case basis when it is best to deliver assistance on a sector-wide basis and when it is better to work with a single business. In a substantial number of the cases, the assistance provided is spread across a sector. For example, in the case of furniture manufacturing and woodworking, the institutional contractor worked with about half a dozen companies which showed some promise. For a brief period, the work narrowed down to a single company which was closest to being able to handle an order. This company got an order which was so large that it is now -- with project help -- subcontracting out a significant part of it to other local firms. As another example, the contractor's cochinilla consultants are working with a hundred or so potential producers.

There are also cases where efforts are best limited to a single company in a sector, based on practical considerations. For instance, the project assisted a single trout-farmer to place shipments with Atlanta restaurants, and to acquire smoking equipment. There were two reasons for this approach. The beneficiary was the only company in the sector with credible export prospects at present; and there were reasonable hopes that its success could incentivate others to get into the business. The history of non-traditional export development is full of cases where a large national industry has been developed in response to the initial success of a single entrepreneur -- the case of cut flowers in Costa Rica is one example among many.

Finally, there are cases where assistance is provided to a single company even without any expectation that others will emulate its success. A recent multi-million-dollar sulphur export is a case in point. The decision to assist this firm was based simply on the magnitude of the opportunity, rather than on any expectation of replication by others.

2. Foreign Investment Promotion

The bulk of the new funds under this amendment will finance the establishment of a program in Foreign Investment Promotion. This component will expand and strengthen the investment promotion pilot program conducted in early 1991 under the original project. The new component is expected to generate substantial foreign exchange earnings and employment--key objectives of the Mission's country development strategy.

a) Home Office:

At the core of the investment program will be a central office in La Paz, which will manage regional offices in Cochabamba and Santa Cruz. The La Paz office will be located within the existing offices of the institutional contractor, at least in the beginning when the investment program's viability is tested. The Bolivia offices will generate timely and accurate information to assist in marketing efforts abroad, and will manage itineraries of interested investors. More specifically, the home office will be engaged in the following:

Research and the Development of a Data Base:

- create and maintain a data base with general information on key country statistics and costs which are of vital interest to the foreign investor;

- create and maintain a roster of the products of Bolivian companies, including information on product quality, quantity and installed capacity;

- undertake sector-specific studies, such as in the areas of mining, light assembly, agroindustry, maquila, and vertically integrated textiles;

Promotional Materials:

- produce promotional materials, such as a country brochure, a country video and sector-specific brochures; and

Investor Visits to Bolivia:

- organize the visits of foreign investors and accompany these investors, on their in-country visits.

b) <u>Overseas Promotion Offices</u>:

The project will establish two or possibly three offices in the United States, Europe, and/or Latin America. Market studies will define the best location for each office. Overseas promoters will be responsible for contacting companies that have an interest and the ability to establish direct investments or co-investments in Bolivia. The promoters will also engage in intense "networking" with key trade associations and industrial sector groups, participate in seminars and conferences, as well as speaking engagements at forums where potential investment decision-makers gather. The Overseas Promoters will use a firm targetting methodology which has proven highly successful in Ireland, Costa Rica, and Honduras.

c) <u>Free Trade Zone</u>

The amended project will support the development of an industrial Free Trade Zone (FTZ) in El Alto to assist the foreign investment program in Bolivia. Though foreign investors may chose to locate outside of a FTZ once familiar with Bolivia, the possibility of locating within one is often a marketing tool to get investors to make their first visit to the country of interest.

In Bolivia, unlike many other countries, a FTZ will not be an island of economic liberalization surrounded by a sea of artifically restrained trade. The trade regime available within a free trade zone in Bolivia will not differ substantially from what is available to exporters outside the zone (5) Thus, the main attraction of the FTZ to potential investors will be that it offers the infrastructure and support services of a good industrial park.

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(5) Unrestricted convertibility of foreign exchange is available to all Bolivian businesses. A free zone tenant is exempt from the country's low import duties. But as to non-capital goods (10% duty), the non-free-zone exporter can obtain equivalent exemption under the temporary admissions regime. As to capital goods (5% duty), the GOB is in the process of developing a draw-back regime, under which a non-free-zone exporter will have access to compensation for actual duties paid, including duties on capital goods. There is some discussion (as yet unresolved) about exempting free zone exporters from the 3% net worth tax which applies outside the zone. The Mission is taking no position in this argument. On the one hand, differential tax treatment of similar businesses does raise issues in principle. On the other hand, however, the net worth tax does not seem to be an efficient tax: it discourages capital formation, and pressures owners to over-leverage their businesses by financing with debt rather than equity. This is one of the issues being addressed at present by a USAID-financed team looking at tax policy under the UDAPE project. Another complicating factor is the international competitive environment: most free zone tenants will be foreign investors who are being offered equivalent tax exemptions by the majority of the other countries who are courting their investment.

The project will offer three kinds of support to assist Bolivian private investors in the development of the industrial park: 1) a relatively small participation in the capital costs of the industrial park; 2) technical assistance with the planning and construction of the park; and, 3) promotion of the industrial park. The Pilot Program for the Development El Alto (PROA), a non-governmental organization dedicated to improving social and economic conditions in the city of El Alto (adjacent to La Paz) will invest in the FTZ. The earnings that result will become the patrimony of PROA. (For a further discussion of PROA, see Section V.B.1.)

d) Advisory Board

A local Advisory Board will provide guidance on implementation of the Foreign Investment Promotion program, and will assume responsibility for lobbying to correct policy and institutional obstacles to investment which are encountered during program implementation. Several Bolivians from the highest levels of the public and private sectors have already indicated their willingness to serve on the program's Advisory Board.

e) Investment Promotion Program Staffing

The program is expected to have, by the second year, the following professional staff: one general manager, one senior adviser, two overseas promoters, three regional promoters, three investment promotion officials, and three assistants.

The General Manager, based in La Paz, is the head of the program and supervises all overseas and local investment promotion activities carried out by promoters, officials, assistants, support personnel and external consultants. The Manager will have the following responsibilities: program design, strategy development, monitoring and project follow-up, budgetary considerations, long-term planning, personnel selection, and training. In addition, this individual will oversee the development of promotional materials, investor data bases, and other research. This individual will also make frequent public presentations and lectures regarding program activities and maintain public relations with political and private sector leaders.

The Senior Investment Advisor, also based in La Paz, will provide advise on overall program and personnel management. The Advisor will visit promoters quarterly in Bolivia and semi-annually in the U.S. and advise on personnel training and replacement. The Advisor will assist the General Manager in contacts with the Advisory Board, GOB officials, potential investors, Bolivian Consulates, and export promotion agencies, as well as in the management of promotional events, the FTZs, and the information system. The Senior Advisor will report to the General Manager.

The Overseas Promoters will agressively promote business opportunities in Bolivia, mainly in direct investment, but also in joint-ventures, contracting, and sourcing. Promoters will carry out investigations and surveys to identify potential target companies. These individuals will be responsible for generating a specific amount of investor visits to Bolivia utilizing "cold calls," referrals, and networking. They will also be responsible for administering the overseas office budget and resources, providing information and reports as required, and representing Bolivian interests in varied investor forums, conventions, exhibits, and trade shows. The Overseas Promoters will report to the General Manager.

The Regional Promoters in Cochabamba and Santa Cruz will agressively promote business opportunities in the specific regions to which they are assigned. They will carry out research and surveys to identify potential priority sectors and opportunities. They will coordinate all visits to their region by foreign investors and implement the necessary follow-up of regional contacts. They will also be responsible for administering the regional office budgets and resources, providing information and reports, as required, and representing the program's interests in various investor forums, chambers, and regional conventions. The Regional Promoters will report to the General Manager.

The Investment Promotion Officials, located in the three principal cities of Bolivia, will carry out research for the Overseas Promoters related to specific client requests or areas of interest. Once a client decides to visit Bolivia, the Investment Officials will organize the visit and accompany the investor to the various meetings. The Officials will also undertake the necessary local follow-up after the investor visits. They will maintain a good working knowledge of the Bolivian productive sector, the basic costs of doing business in Bolivia, as well as general information on the legal environment and economic and political issues. At all times, they will be familiar with the investment projects the overseas promoter is managing. The Investment Promotion Officials will report to the General Manager; they will supervise an Assistant.

The Investment Promotion Assistants will assist the Investment Promotion Officials in carrying out research projects for the Overseas Promoters, in organizing investor visits, and handling the visits in the Official's absence. The Assistants report to the Investment Promotion Officials.

3. Export Financing

In the next few months, another Project Paper Amendment will restructure the project's credit component. Approximately $5 million of projectized ESF funds will be added to the project for medium- to long-term credit.

Currently, approximately $9.1 million is authorized for credit purposes and the Bolivian Private Sector is expected to invest at least one dollar for every dollar borrowed for increasing production (estimated at $6.0 million.)

C. Project Outputs

The revised outputs are:

- 250 companies will be assisted in developing their export capacity;
- 220 investors will visit Bolivia;
- $9.1 million in credit will be provided to exporters.(6)
- the dollar volume of foreign investment generated by the project will reach $50 million;
- an industrial Free Trade Zone will be estr ed;
- two investment promotion offices wi : established in foreign countries;
- export reference libraries will be established in three cities of Bolivia.

D. End-of-Project Status

As a result of project efforts, the following EOPS indicators are expected:

- $100 million of cumulative export sales generated;
- 10,000 new jobs created; and
- $50 million in new cumulative export capacity generated.

V. PROJECT IMPLEMENTATION, MONITORING AND EVALUATION

A. General Implementation Arrangements

1. USAID/BOLIVIA Management

The Project Agreement (PROAG) with the GOB will be amended to reflect the changes in life-of-project funding, project duration, and components.

The Project will continue to be managed by a Project Coordinator under the supervision of the Director of the Trade and Investment Office. The Project Coordinator and the Office Director will be responsible for monitoring project progress, reviewing project results with the Mission, and making recommendations to the Mission Director as to project modifications or adjustments.

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(6) This output will be modified in the following PP Amendment on credit.

Letters of Understanding, Cooperative Agreements, or other such documents may be signed (in addition to the existing ones) at any time during project implementation. For example, if during the course of the project a new institution is identified which could substantially contribute to the development of non-traditional exports, an agreement could be signed with that entity following the customary institutional reviews. Likewise, if an institution has an agreement under the project, but is not satisfactorily carrying out its functions or meeting its objectives, the Mission may identify a more effective use of project resources and terminate the agreement with this institution. USAID/Bolivia wishes to maintain flexibility on this front given that the current export institutions within the project are generally weak and marginally effective.

Line items under each of the four main budget elements (Technical Assistance to Exporters, Foreign Investment Promotion, Export Financing, and Project Support) may be modified with the approval of the USAID/Bolivia Project Coordinator and concurrence of the Office Director, the Project Committee and the Controller. Adjustments in the principal four budget elements will be modified by PIL, or as established by the Project Agreement with the GOB.

2. Institutional Contractor

The current contract with CARANA Corporation covers the Technical Assistance to Exporters component through November of 1992 and a pilot investment promotion program through July of 1991. In order to compete the additional level of effort discussed in this amendment and to avoid having work on the different components end at different times, the contract with CARANA will be amended to expire on May 15, 1992. This will provide sufficient time for USAID to compete a new contract for the continuation of the export and investment promotion program from May of 1992 through August of 1995.

Following authorization of this Project Paper Amendment and the signing of the Project Agreement Amendment with the GOB, the Mission will proceed with the following two contract actions:

a. an amendment of the current CARANA contract to extend and expand the pilot investment promotion program, expand the Technical Assistance to Exporters component, and establish a new expiration date of May 15, 1992.

b. the preparation of a Request for Proposals to be competed among Gray Amendment firms for the continuation of export and investment promotion work through August of 1995 (use of this mechanism has been confirmed through State 189268. See Annex 9.)

B. Implementation Arrangements and Issues: Foreign Investment Promotion Program

1. PROA's Role in Support of an Industrial FTZ

The Pilot Program for the Urban Development of El Alto (PROA) began in June of 1988 in response to a plea to USAID from the Mayor's Office for help in managing public services for El Alto's expanding population of more than 300,000. Since that time PROA has developed programs to respond to four major objectives: Institutional Development, Employment and Income Generation, Primary Health Care, and Housing. Under the Employment and Income Generation objective, PROA developed three programs: a credit program to channel loans to micro businesses, an outreach program for creating cottage industries in the home, and a series of training courses for small businesses and participants in the cottage industry project. In 1990 PROA became interested in yet another activity to further the employment objective and began to facilitate dialogue among various groups interested in the establishment of a Free Trade Zone (FTZ) in El Alto.

Late in 1990 USAID's Trade and Investment Office also became interested in promoting a FTZ industrial park in El Alto to complement its Foreign Investment Promotion program. In other countries, the existence of Free Trade Zones have proven to be instrumental in interesting foreign investors to visit. The TI Office joined forces with PROA and has been leading the dialogue with local investors interested in establishing an industrial FTZ. Under this amendment, counterpart funds will be assigned to PROA for investment in the FTZ industrial park.

2. Institutional Issues

The initial interest of the Bolivian private and public sectors in this foreign investment promotion model was sparked by their exposure to the experience of CINDE in Costa Rica. There was considerable pressure on the Mission to support replication of the CINDE institutional structure here in Bolivia. At considerable political cost, the Mission firmly resisted this pressure. The investment component of the project is focussed on mounting a program, not building an institution. After reviewing experience in Costa Rica and elsewhere, the Mission judges that questions of institutionalization are better addressed after experience with a specific promotional program has shown whether it is successful or not. Furthermore, USAID is making it clear to all concerned that it is assuming no commitment to continue long-term funding of the investment promotion effort even if it is successful. To assume an implied commitment past that point would be irresponsible, in view of uncertainty about the Mission's future funding levels (among other factors).

Thus, the economic analysis in this amendment does not assume continuation of the Foreign Investment Promotion program when its four-year funding runs out. That analysis demonstrates that achievement of the targets set for those four years will amply justify the expenditure involved, based on the jobs and foreign exchange produced by the companies which are attracted during that period.

This posture is not inconsistent with the rationale behind A.I.D.'s long-standing concern with institutionalizing project results. Even if promotional efforts terminate in four years, the "institution-building" effect of this program will lie in the dozens of companies who will continue generating jobs and foreign exchange into the indefinite future, without additional external assistance.

3. Cost Recovery Issues

Experience throughout the world demonstrates that, as a general rule, a country's foreign investment promotion program cannot be financed from user fees. The immediate targets of this promotion are foreign investors, who are not willing to pay the salespersons who are trying to sell them on a particular country. Over the longer haul, the entire private sector of the host country benefits from successful investment promotion, but these benefits are so diffuse that the local private sector will not pay the costs of the promotion: in fact, over the near term, new foreign investment can raise costs for the local private sector by increasing competition for labor and other inputs.

There is one important opportunity to charge user fees in a foreign investment program: such a program can attract clients for local free trade zones, and it is reasonable and feasible to charge the owners of such zones a fee for clients attracted. An agreement has been negotiated in principle with the developers of the new free trade zone providing that they will pay the investment promotion program a substantial commission on all investors attracted to their zones by the program. It should be relatively easy to negotiate similar arrangements with developers of any later free trade zones.

C. Implementation Schedule

The implementation schedule for the new component of the amended project, Foreign Investment Promotion, follows as Table B.

INVESTMENT PROMOTION PROGRAM CHRONOGRAM

1991-1995

TABLE D

ACTIVITY QUARTER																				
PILOT PROGRAM	IIII	IIII																		
EXTEND CONTRACT OVERS. PROMOT. #1 & #2									IIII											
TRAIN OVERSEAS PROMOTERS #1 & #2																				
PROMOTIONAL MATERIALS			II						III											
DEVELOPMENT OF INFORMATION "OUTLINES"			IIII																	
DATA BASES SECTOR ANALYSIS			II						II											
FOREIGN OFFICE #1 & #2 SELECTION																				
FOREIGN OFFICE #1 & #2 ASSET PURCHASES																				
OVERSEAS OFFICE #1 & #2 START-UP			II																	
ADVERTISING PUBLIC RELATIONS			IIII	IIII	IIII	IIII	IIII	IIII	IIII	IIII	IIII	IIII	II	III	III	II	II	II	II	
STAND FOR FAIRS AND SHOWS																				
REGIONAL PERSONNEL HIRED																				
TRAINING REGIONAL PERSONNEL			II																	
REGIONAL OFFICE #1 & #2 ASSET PURCHASES			II																	
REGIONAL OFFICE #1 & #2 START-UP			II																	
INVESTOR ITINERARIES				II	II	II	II	II	II	II	II	II	II	II	II	III	II	IIII	III	
PROGRAM EVOLUTION/CONTINUITY DECISIONS									I											
FOREIGN OFFICE #3 SELECTION									II											
EVALUATION									II										IIII	

[illegible]

D. Monitoring and Evaluation

Each of the principal components of this project will require separate arrangements for monitoring and evaluation. Each requires a different kind of skill in the evaluator, and the appropriate timing for a "mid-term evaluation" of each of them is different.

1. Technical Assistance to Exporters

Monitoring. The reporting system for this project component was readjusted at the beginning of 1991, after about a year of implementation experience. Every month, the contractor reports to the USAID Project Coordinator on the use of short-term consultants (who they were, what they did, and how many person-days were used). Review of financial data takes place through the monthly voucher process.

Formal reporting on more substantive outputs occurs every six months, in conjunction with the Semi-Annual Review process. For each of the companies to whom substantial services were provided, the SAR gives the following information:

-- company name;

-- project location (city);

-- exporter size (S, M, L);

-- product whose exports have been (or will be) increased; a notation is made if this is a new export product for Bolivia;

-- markets to where incremental exports have actually been shipped;

-- net value added factor (estimated): that is, what percentage of total export sales represent domestic inputs;

-- "attributability" estimate: even though every company in the report received significant services from the project, it does not follow that the increase in its exports would not have occurred without the Project's assistance. In this section of the report, the contractor indicates and justifies its estimate of how crucial the assistance was to the exporter; and,

-- Incremental exports (gross and net) and jobs (full-time-equivalent) are reported for each company, broken out by time period:
  - Actual last year;
  - Actual this year to date;
  - Projected rest of this year; and,
  - Projected next year.

As subsequent iterations of the report come in, actual figures will be compared with previous periods' projections, in order to test the trustworthiness of the projections.

Evaluation. Approximately once a year, USAID will hire a local consultant to conduct an independent review of a sample of the companies receiving project assistance; this review will focus mainly on the accuracy of the data being reported by the contractor, and the reasonableness of the contractor's "attributability" estimates.

A fuller evaluation of the technical assistance component will be conducted in mid 1992 (after about two years of operating experience), and again at the conclusion of the project in 1995. Each evaluation team should include:

(a) an individual with extensive experience in implementating and evaluating technical assistance programs for developing country exporters (it may be necessary to hire a Third Country National); and

(b) an economist with suitable economic evaluation experience.

The entire design and implementation of the technical assistance component can be the scope for the evaluation team. However, if the annual reviews of the institutional contractor's reports have demonstrated sufficient accuracy, it should not be necessary to repeat this work. A principal focus of the evaluations will be the development of an economic model to measure the activity's return on investment, based on actual costs and benefits.

2. Foreign Investment Promotion

Monitoring. The USAID Project Coordinator will maintain close weekly contact with the implementation of this component. Financial aspects will be reviewed as part of the monthly voucher process.

It is not likely that real impacts will occur (i.e., investments attracted) much before early 1992. When such investments begin to occur, the promotion program will report their progress every quarter.

The format for this report will generally follow the format developed for a similar program in Costa Rica, a sample of which is attached as Annex 10. One addition to the Costa Rican format will be an "attributability" estimate, similar to the one described above.

A few elements of the reporting system deserve special mention. A company will show up on the report only after it has made a serious legal/financial commitment to an investment in Bolivia, including at least (a) execution of a lease or other significant contract, which the investor couldn't walk away from without substantial loss, and (b) establishment of a Bolivian corporation. Experience has shown that many interested investors fall out before this point is reached, but that relatively few fall out after this point.

The Foreign Investment Promotion program may provide follow-up assistance to some investors, but once the initial investment commitment has occurred, the principal job of the promoter is over.

Therefore, results are reported at that time, albeit on a "projected" basis at first. These projections include investment, jobs, and export capacity when the investment is up and running at full capacity (usually 2-3 years from the date of the initial commitment.) The projections are drawn from the investors' own estimates, but are discounted by the promotion program to reflect past experience of the extent to which (a) some few investors fall out even after a substantial commitment, as defined above; and (b) investors' projections tend to be over-optimistic.

As a check on the trustworthiness of the projections, subsequent reports will match original projections against actual results.

The quarterly report will include annual export capacity, rather than actual exports. Experience has shown that foreign investors attracted by such programs are very frequently unwilling to share their actual sales figures, for competitive and other reasons. However, reasonably meaningful estimates for each type of business can be derived from investment and employment figures, which the company is usually willing to share. (The Export Financing and Technical Assistance to Exporters components are different in this respect: there it is more practical to condition the assistance on the beneficiary's willingness to provide actual export data.)

Evaluation. Once the above reports begin flowing, USAID will conduct an independent review of a sample of companies about once a year to verify the accuracy of the reporting.

In the case of foreign investment promotion, testing the "attributability" of each investment presents a special issue. In order to find out what role the promotion program played in an investment decision, it is necessary to contact the decision makers, most of whom are overseas. Conducting such a study on an annual basis would be too expensive; therefore, this analysis will be part of the full-scale project evaluations.

The mid-term evaluation will be conducted in early 1993, by which time there should have been enough actual promotional experience to justify a conclusion as to whether or not to continue the program. Two key elements of this evaluation will be:

(a) an "attribution" analysis, to verify what role the promotion program played in investors' decisions (again, the methodology for this analysis will drawn from one developed for a similar study of the Costa Rican program in 1990;) and,

(b) an economic analysis, probably conducted "in-house," of the costs and benefits of the program. (This analysis will use the model developed by USAID's economists for this Project Paper Amendment, described in the Economic Analysis section. The analysis will have the advantage that actual rather than just projected results can be plugged into the model.)

Beyond these two elements, the evaluation team will review all other significant aspects of the program's design and implementation.

Despite the fact that present analysis has indicated that Bolivia presents good prospects for an investment promotion effort, the Mission continues to recognize that there is an element of uncertainty involved, which can be resolved only by concrete experience with the program. Thus, the mid-term evaluation will be particularly crucial. If experience by that point is not satisfactory, the program will be terminated. All agreements and contracts will leave the Mission full flexibility in this respect.

Another final evaluation will be conducted at the end of the project.

3. Export Financing

The monitoring and evaluation system for this component will be reviewed in the subsequent Project Project Amendment on credit.

E. The Role of Women

The project is expected to result in important benefits for women. Although USAID does not expect that there will be many women business owners assisted by the project, nor that there will be many foreign investors who are women, the Mission does expect that at least 55% of the jobs created will be assumed by women. If the project generates 10,000 jobs, as is hoped, then 5,500 of these jobs will be held by women.

Based on experience in other countries, most offshore manufacturing firms prefer women over male workers because of their manual dexterity and their proven track record of quality and efficiency. In sectors such as electronics and apparel, women conform 90% to 95% of plant personnel, and men are hired only when women are not readily available.

So far, experience under the project seems to support the fact that the majority of employees in non-mineral export industries in Bolivia are women. For example, the leather garment factories, the cotton diaper factory, and the cochineal businesses, with which the project has been working, employ mostly women. Other assisted firms employ women and men depending on the nature of the job. For example, the rainbow trout farm employs women in the packing house, while men work as fishermen.

Although it is not considered necessary to make special efforts to hire women (because it is something that will largely take care of itself,) the project will nevertheless encourage the employment of women by suggesting to the Free Trade Zone developers to incorporate day care centers in the zones. Day care centers in FTZs in other Latin American countries have been found to be an excellent means to reduce absenteeism and employee turn-over. A day care is in the interests of both employee and employer: working mothers benefit from having inexpensive and reliable child care, and, the owners of the factories benefit from having a stable and more efficient labor force.

As mentioned above, the project will track the number of jobs created by gender

VI. REVISED LIFE OF PROJECT COST ESTIMATES AND FINANCIAL PLAN

A. Funding by Major Activity

Of the total USAID contribution of $23.5 million, $8.345 will be drawn from Development Assistance (DA) funds (an estimated $5.345 million from ARDN and $3.0 million from PSEE) and $15.155 million from projectized ESF funds (NSD-18). These funds will be distributed as follows: $15.8 million will support the institutional contractor; $6 million the financing needs of exporters; and approximately $1.7 million will cover project support costs (including evaluations and audits), policy dialogue and institutional strengthening activities.

1. Technical Assistance to Exporters

The Technical Assistance to Exporters component includes two separate activities: institutional contractor support, and institutional strengthening, including limited support for an information system. The technical assistance level of effort provided by the contractor will be increased by two person years of short term consultants per year and the activity extended to August 1995. Total funding increases from its present level of $2.458 million to $8.0 million of USAID funds. Institutional strengthening is reduced to providing computer equipment to export promotion organizations (funded under Commodities in the Project Support Budget Element), limited support for information systems, and for travel to international trade fairs. Institutional strengthening includes support for activities of the GOB and private sector organizations involved in export promotion. The activity is reduced to $250,000 of USAID funds. An additional $800,000 of GOB LC funds are assigned for this purpose for a total of $1,050,000.

2. Foreign Investment Promotion

This component includes three activities: institutional contractor support, free trade zone development and policy dialogue. The institutional contractor will manage the investment promotion program at a cost of approximately $2.0 million per year for four and one-half years for a total of $8.8 million. Of that amount $7.8 million will be USAID funds and $1.0 million will be GOB LC funds. An additional $1.0 million of GOB LC funds are assigned to support an industrial FTZ in El Alto. The majority of those funds will pass to PROA as a grant and be invested by PROA in the FTZ. Income from the investment will support PROA activities. Funds in the amount of $100,000 are available to support research in conjunction with policy dialogue activities. Those activities will be largely conducted by the Advisory Board of the Foreign Investment Promotion Program.

3. Export Financing

The total amount of $9.1 million available for credit consists of $6.0 million from USAID funds and $3.1 million from GOB LC funds. Funds are to be used for short term financing of exports and long term financing of increased production capacity for exports. The Private Sector (PS) is expected to invest at least $6.0 million in increased production capacity.

4. Project Support Element

The Project Support element includes the cost of administration by the USPSC Project Coordinator, training, evaluation and auditing activities, and commodities for a total amount of $1.35 million. The evaluation and auditing activity has been increased from $150,000 to $345,000 to cover the additional costs of separate evaluations and audits for the export and investment promotion programs.

B. Funding by Year and Source

Table C on the following page illustrates the planned disbursements for the project by activity and funding source.

It should be noted that the GOB and private sector contribution to this project exceeds the required 25% counterpart. With this amendment, the funds contributed by the GOB of $5.9 million amount to 16.7% of the total project cost of $35.4 million. When one adds the private sector counterpart contribution, estimated at $1 for each $1 of USAID credit funds (or $6.0 million,) the percentage of Host Country counterpart contribution is 33.6%.

C. Life-of-Project Funding Estimates

Table D presents the Life-of-Project Funding Estimates for the entire project by component.

TABLE C

ILLUSTRATIVE
FUNDING BY FISCAL YEAR AND SOURCE

Project Activity	1990*	1991	1992	1993	1994**	Total
I. T.A for Exports						
DA	2,356	647	-	538	-	3,541
ESF		500	1,604	1,450	1,355	4,909
DIFAD	300	200	300			800
	2,656	1,347	1,904	1,988	1,355	9,250
II Invest. Promo.						
DA	955	1,511	-	-	-	2,466
ESF	-	-	1,834	1,900	1,700	5,434
DIFAD		1,000	200	400	400	2,000
	955	2,511	2,034	2,300	2,100	9,900
III. Export Finance						
DA	900	500	-	250	-	1,650
ESF		1,500	1,850	1,000	1,000	5,350
PL 480		1,000	600	250	250	2,100
PS	-	-	2,000	2,000	2,000	6,000
	900	3,000	4,450	3,500	3,250	15,100
IV. Project Support						
DA	395	120	-	173		688
ESF	-	-	462	-	-	462
	395	120	462	173		1,150
TOTAL AID	4,606	4,778	5,750	4,811	3,555	23,500
DA	4,606	2,778	-	961	-	8,345
ESF	-	2,000	5,750	3,850	3,555	15,155
TOTAL GOB/PS	300	2,500	3,400	2,950	2,750	11,900
PL 480	-	1,000	600	250	250	2,100
DIFAD	300	1,500	800	700	500	3,800
PS	-	-	2,000	2,000	2,000	6,000
TOTAL	4,906	7,278	9,150	7,761	6,305	35,400

* 1990 includes obigations of FY 1989, or total obligations as of FY 1990

** FY 1994 is the last year in which funds are obligated

LIFE OF PROJECT FUNDING SUMMARY
(US$000)

BUDGET	AUTH. EP PROJECT. AS AMENDED 2/1/91			THIS EP PROJECT AMENDMENT				EP PROJECT LOP TOTAL			
PROJECT INPUTS	AID $	GOB (PL480-ESF/LC)	TOTAL	ESF AID $	GOB (PL480-ESF/LC)	PRIVATE SECTOR	TOTAL	AID	GOB (PL480-ESF/LC)	PRIVATE SECTOR	TOTAL
I. T.A. FOR EXPORTS	3,008	300	3,308	5,242	500		5,742	8,250	800		9,050
A. Institutional Contractor	2,458		2,458	5,542			5,542	8,000	0		8,000
B. Institutional Strengthening	550	300	850	(300)	500		200	250	800		1,050
II. INVESTMENT PROMOTION	955	0	955	6,945	2,000		8,945	7,900	2,000		9,900
A. Institutional Contractor	955	0	955	6,845	1,000		7,845	7,800	1,000		8,800
B. Free Trade Zone	0	0	0	0	1,000		1,000	0	1,000		1,000
C. Policy Dialague	0		0	100			100	100	0		100
III. EXPORT FINANCING	7,045	2,100	9,145	(1,045)	1,000	6,000	5,955	6,000	3,100	6,000	15,100
A. Credit	7,045	2,100	9,145	(1,045)	1,000		(45)	6,000	3,100	0	9,100
B. Private Sector Equity						6,000	6,000			6,000	6,000
IV. PROJECT SUPPORT	492	0	492	858	0		858	1,350	0		1,350
A. Administration			0	800			800	800	0		800
D. Training	173		173	(168)			(168)	5	0		5
C. Audits/Evaluations/Financial Reviews	150		150	195			195	345	0		345
D. Commodities	169		169	31			31	200			200
TOTAL	11,500	2,400	13,900	12,000	3,500	6,000	21,500	23,500	5,900	6,000	35,400

LOPFS

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D. Method of Implementation

The method of implementation for disbursements under the amended Project is as follows:

TABLE E

METHOD OF IMPLEMENTATION AND FINANCING FOR AID RESOURCES

PROJECT ELEMENT	TYPE OF ASSISTANCE	METHOD OF IMPLEMENT.	METHOD OF FINANCING	ESTIMATED AMOUNT
Institutional Contracts	Direct AID Contract	Contract	Direct Pay	$15,800
Evaluations	Direct AID Contract	IQC	Direct Pay	$200
Audits	Direct AID	Local IQC	Direct Pay	$145
Project Coordinator	Direct AID	US-PSC	Direct Pay	$625
Commodities	Direct AID	Purchase Orders	Direct Pay	$38

E. Procurement Plan

Under the amended project, additional procurement will be necessary. Table F, which follows on the next pages, provides an idea of the type of procurements that may be required.

Procurement Plan

TABLE E

CONTRACT TYPE	ESTIMATED VALUE (000's)	CONTRACTUAL METHOD	AUTHORIZING AGENT	PROPOSED SOURCE	EXCEPTIONS/ WAIVERS
A. AMENDMENT	2,989	CR + Fixed Fee	RCO	U.S.	None
06-91 PIO/T Submitted 08-91 Contract amendment negotiation/award					
B. TECHNICAL ASSISTANCE CONTRACT	8,480	GAC OR FO	RCO	U.S.	None
07-91 PIO/T submitted 08-91 CBD Announcement 09-91 RFPs distributed 01-92 Proposals in 02-92 Negotiation conducted 04-92 Award made 05-92 Contract begins					
C. MIDTERM EVALUATION EXPORT PROMOTION	50	IQC	AID/W	U.S.	None
11-91 PIO/T submitted AID/W 02-92 IQC negotiated 03-92 Evaluation conducted					
D. MIDTERM EVALUATION INVESTMENT PROMOTION	50	IQC	AID/W	U.S.	None
11-92 PIO/T submitted AID/W 02-93 IQC negotiated 03-93 Evaluation conducted					
E. FINAL EVALUATION (EXPORT/INVESTMENT/CREDIT)	100	IQC	AID/W	U.S.	None
02-95 PIO/T submitted 04-95 IQC negotiated 05-95 Evaluation conducted					
F. MIDTERM AUDIT EXPORT PROMOTION	25	IQC	USAID/B	Local	None
11-91 PIO/T submitted 02-92 Delivery Order negotiated 03-92 Audit conducted					
G. MIDTERM AUDIT INVESTMENT PROMOTION	25	IQC	USAID/B	Local	None
8-92 PIO/T submitted 11-92 Delivery Order negotiated 01-93 Audit conducted					

Procurement Plan

TABLE Ea

CONTRACT TYPE	ESTIMATED VALUE (000's)	CONTRACTUAL METHOD	AUTHORIZING AGENT	PROPOSED SOURCE	EXCEPTIONS/ WAIVERS
H. FINAL AUDIT (EXPORT/INVESTMENT/CREDIT)	50	IQC	USAID/B	Local	None
02-95 PIO/T submitted 04-95 IQC negotiated 05-95 Audit conducted					
I. PSC CONTRACT AMENDMENT	80	PSC	USAID/B	U.S.	None
11-91 PIO/T submitted RCO 02-91 Amendment for incremental funding					
J. WANG PC	3	P.O.	USAID/B	Local	None
07-91 PIO/C submitted RCO 08-91 Equipment ordered					
K. PSC CONTRACT EXTENSION	350	PSC	USAID/B	U.S.	OTFOC waiver
07-91 PIO/T submitted RCO 08-92 Contract extension awarded					
L. FURNITURE PURCHASE	35	P.O.	USAID/b	U.S.	None
06-92 PIO/C submitted RCO 08-91 Commodities Purchased 09-91 Furniture delivered					

CODES: CR - Cost Reimbursement; IQC - Indefinite Quantity Contract (Pre-competed by AID/W; OTFO - Other Than Full and Open Competion, GAC - Gray Amendment Competition; FO - Full and Open Competition; PO - Purchase Order.

* Audits to be paid with local currency.

C:\EPPPLAN

F Justification for Local Cost Financing

Local source procurement in Bolivia with appropriated funds will be necessary under the project in order to successfully implement all three project components. Since two of the target groups of this project are Bolivian exporters and producers of exports, technical assistance and credit will be provided in a Bolivian conte t, which will require expenditures in Bolivian local currency

Within the Technical Assistance for Exports and Foreign Investment Promotion Components, the Project will continue to support Bolivian institutions (INPEX, IBCE, and the Federation in Cochabamba) to establish and maintain reference libraries and to assist local exporters.

In the Export Financing Component, local currency will be required for financing increased exports.

Under the Project Support budget element costs of local staff and audits will be financed in local currency.

Under the Administrator's Buy America Policy ("ABAP"), as last restated in the final implementation guidance cable, 90 State 410442, paragraph 8, a waiver authorizing local cost financing ("LCF") by categories of procurement transactions must be included in project authorization documentation, for non-exempt categories of transactions. An analysis of the project budget and justification for the waiver included in the project authorization for such non-exempt categories of procurement transactions follows an explanation of the exemptions.

According to the final implementation guidance cable, 90 State 410442, paragraphs 9-22, the following types of transactions are exempt from the ABAP, and no waiver is required to authorize or finance the following types of local costs:

1. Professional Service Contracts $250,000 or less in value;
2. Construction Service Contracts $5 million or less in value;
3. locally available (local source), U.S. Origin goods, up to $100,000 per transaction;
4. any transaction below $5,000 in value;
5. Handbook 13 Grants and Cooperative Agreements, including Grants to PVOs: no special waivers are required because the Standard Provisions state source and origin rules;
6. Fixed Amount Reimbursement (FAR) disbursements;
7. Intermediate Credit Institutions (ICIs);
8. commodities and services available only locally. No specific local source procurement waiver is required for the following items available only in the local economy:
   a) utilities, including fuel for heating and cooking, water disposal and trash collection;
   b) communications: telephone, telex, fax, postal and courier services;
   c) rental costs for housing and office space;

d) petroleum, oils and lubricants for operating vehicles and equipment;
e) newspapers, periodicals and books published in the cooperating country; and
f) other commodities and services (and related expenses) that, by their nature or as a practical matter, can only be acquired, performed, or incurred in the cooperating country.

9. Participant Training
10. Host Country Counterpart Contribution

TABLE G
BUY AMERICA BUDGET ANALYSIS

	Component and Activity	Type of Transaction	AID Dollar Contribution (000)	Total LCF	Exempt	To Be Waived
I.	Technical Assistance for Exports					
	A. Institutional Contractor	Direct Contract	8,000	0	0	0
	B. Institutional Strengthening	Local Coop. Agr. -books, periodicals -local staff (HB 13)	250	300	300	0
II.	Investment Promotion					
	A. Institutional Contractor	Direct Contract	7,800	0	0	0
	B. Free Trade Zone		0	0	0	0
	C. Policy Dialogue	Small Studies	100	100	100 (prof.serv. contracts under $250,000)	0
III.	Export Financing	ICI Loans in Local Currency	6,000	6,000	6,000 (ICIs)	0
IV.	Project Support					
	A. Administration	PSCs	800	300	0	300*
	B. Training	Int. Travel	5	0	0	0
	C. Audits/Eval.Fin. Rev.	Direct Contracts	345	200	200**	0
	D. Commodities	Direct Purchase (US) -computers (U.S.) instruments) -household furniture (U.S.)	200	0	0	0
	TOTALS		23,500	6,900	6,600	300

* local PSCs
** service contracts below $250,000.

Because procurement of these non-exempt local services in Bolivia would best promote the objectives of the Foreign Assistance Program, (HB 1B, Section 5D10a(1)(d)), a waiver permitting procurement of the services of local staff with nationality in Bolivia is included in the Project Authorization.

The total amount of this waiver is $300,000, well within the $5.0 million limit per transaction of the waiver authority delegated to the USAID/Bolivia Director under DOA 452. By signing the Facesheet and Project Authorization or this Project, the authorizing official approves this authorization and waiver to permit local cost financing for the categories of transactions described above and determines that the prices of indigenous and locally available imported goods and services are reasonable (HB 1B, Section 18A.1.6 (1).

G. Audits

The three major components of the Export Promotion Project will be audited separately. The Technical Assistance for Exporters component involves institutional contractor costs for direct delivery of services in Bolivia since November of 1989. The Foreign Investment Promotion component involves direct contractor services in Bolivia and in foreign countries, starting with a pilot program in January of 1991. As discussed earlier, the credit component of the program has been delayed and will be restructured. As such, it is estimated to begin by late 1991 or early 1992.

Given the different timeframes for each of the main components, the Mission proposes to audit them separately and locally. The Technical Assistance to Exporters component will be audited about March of 1992 with a final audit in May of 1995. The Foreign Investment Promotion component will be audited at mid-term about January of 1993 and, subject to the decision whether to continue this component, again at the project's end in May of 1995. Audits of these two components will review financial procedures and contract compliance. The credit component will have periodic audits as described in the subsequent PP Amendment with a final audit also in May of 1995.

The institutional contractor will be audited by federal auditors

VII. PROJECT AMENDMENT ANALYSES

A Technical Analysis Summary

The Technical Analysis in this document refers only to the new Foreign Investment Promotion program. Analyses conducted for the Mission indicate that Bolivia has substantial and unexplored comparative advantages, which could be attractive to foreign investors. Bolivia also has advantages in different sectoral areas, such as in textile production, light manufacturing, and mining. A plentiful (and unskilled) labor supply makes Bolivia an excellent candidate for maquila type operations, which although not considered a source for the best of jobs, does provide employment and generally higher than average salaries.

In considering an investment promotion program, USAID/Bolivia looked at three principal possibilities: a program similar to the United Nations Industrial Development Program (ONUDI), which prepares feasibility studies of potentially attractive investments; a program of ad hoc pilot efforts, suggested under a consultancy with CARANA; and a four year program in foreign investment promotion. USAID/Bolivia selected the third option, based on an analysis of successful experiences in Ireland, Costa Rica and Honduras.

The Technical Analysis in Annex 8 of this Project Paper Amendment reviews Bolivia's comparative advantages.

B. Economic Analysis: Summary

This analysis, prepared by the Mission's Economist, provides a quantitative justification for the Foreign Investment Promotion component of the Export Promotion Project. It establishes a relationship between expenditures on investment promotion, total foreign investment that may be expected to result from this project, and the benefits accruing to the economy as measured by gross and net exports (or value added) and employment generation. Studies and A.I.D. project papers in a large number of countries in which investment promotion projects were put into effect were reviewed. Only one project evaluation was found which provided some data to permit establishment of a quantitative relationship between the cost of an investment promotion project and the benefits that could be attributed to it, including its impact on exports and employment. This was the study undertaken for CINDE in Costa Rica by Corrales, Céspedes and Vega, entitled "Evaluación Económica del Programa de Inversiones y Exportaciones," PIE/CINDE, June 1990. No other study provided, or attempted to utilize, empirical data to establish quantitative relationships between the cost of investment promotion programs and their impact on the economy.

Studies other than the one cited above which provided some useful data include one by CINDE's Marketing Division, entitled "Second and Third Quarters Report, 1990"; AID's "Overview of Investment Promotion (Networking) Projects", and the Instituto Nacional de Estadística's (INE) input-output table for Bolivia.

A note of caution should be sounded with respect to the reliability of the results yielded by the models developed for the following reasons: (1) there is some question with respect to the applicability of one country's experience to another. In the case of the Costa Rican data, it can be argued that the overall investment climate is much more favorable in Costa Rica than in Bolivia owing to factors such as the length of the democratic tradition, closeness to the United States market, more developed infrastructure, etc. To compensate at least partially for such differences, we have adopted much more conservative assumptions with respect to the relationship between investment and benefits than the Costa Rican evaluation indicated; (2) data on the experience of other countries are extremely scarce, which forced us to rely very heavily on the CINDE evaluation; and (3) even in case of the CINDE evaluation, the data permitted no more than the establishment of estimates that could be used to establish ratios relating the cost of an investment promotion project to the final country benefits that may be expected to result therefrom.

Two alternative projection models were developed to deal with the problem of the project's impact on net employment, viz.: should we assume that the employment generated by the additional foreign investment represents a net increase in total employment (i.e., that the labor employed would have been remained unemployed in the absence of the investment?) Or does a significant proportion of the employment generated represent a diversion of labor from employment in other sectors? The assumption made with respect to this issue is crucial for both the employment and value added projections.

Two models were developed to deal with this issue: Model I assumes that all labor employed as a result of the direct foreign investment resulting from the project represents a net addition to the employed labor force (i.e., which implies that these workers would be drawn from Bolivia's large tool of unemployed and under-employed); while Model II assumes that half of the labor employed as a result of the investment is diverted from other sectors. Quite possibly, the actual outcome would fall somewhere between these two cases. In fact, we believe that Model I is more realistic in the Bolivian situation owing to (1) the high level of unemployment and underemployment that prevails in this country, and (2) the likelihood that the labor diverted from other industries or occupations will be replaced by drawing on the large pool of the unemployed or under-employed.

The following Table H summarizes the results obtained The methodology and supporting tables appear in Annex 9. In the case of both models, it is assumed that all foreign investment will be focused on the export market, so that total direct value added (7) generated by the foreign investment would be equal to total net exports (gross exports less imported inputs).

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(7) "Direct" value added abstracts from the Keynesian income multiplier effect, but includes the income directly generated in the production of all domestically produced inputs.

The results obtained are as follows:

TABLE H
Summary of Economic Analysis Results

	Model I	Model II
Internal Rate of Return	42.6%	34.2%
Net Present Value with a 10% annual discount rate (in millions US$)	10.8	7.3
Net Present Value with a 15% discount rate (in millions US$	7.1	4.5
Net Present Value with a 20% discount rate (in millions US$)	4.6	2.7
Employment Generation Total (including employment multiplier effect)	10,468	5,234
Direct only (excluding employment multiplier effect)	5,234	2,617

These are clearly very high rates of return, particularly when account is taken of the fact that these calculations are in terms of constant US dollars. Note that Model I shows that the net present value of the benefits from the investment promotion project, when discounted at an average annual rate of 10%, exceeds the total amount spent on investment promotion over the five-year "Life of Project" period. Direct employment generation (in the industries directly affected) is estimated at 5,234 under Model I, and 2,617 under Model II, while total employment generation, including the employment impact on the industries producing the inputs and on other activities subject to the income multiplier effect, is estimated at 10,468 under Model I, and half that number under Model II. The basis for these estimates (admittedly very crude) is discussed further in the Methodology Section., which, along with supporting tables and the sensitivity analysis, is presented in Annex 7.

Expenditures of the proposed foreign investment promotion program are projected at $8.8 million over the life of the project. The most important benefits that would accrue to the economy include (1) additional foreign investment of about $26.7 million, (2) net export earnings between $38.2 million and $48.3 million, in current dollars, over the next ten years, and (3) new jobs estimated between 5,234 and 10,468. It is estimated that the investment promotion program will cost between $850 and $1700 for every direct and indirect job generated.

Thus, the investment promotion program will contribute significantly and directly to Bolivia's major economic needs: the generation of foreign exchange, higher output and productivity, and the reduction of the high unemployment rate. There are, in addition, a number of other economic benefits that the analysis did not attempt to quantify - such as technology transfer, economic diversification, and development of the industrial base - which may be as important as the variables that were quantified.

C. Social Analysis

Poverty is rampant in Bolivia. Key socio-economic indicators place Bolivia as one of the poorest countries in the American hemisphere. GDP per capita, for example, is $570, making Bolivia the second poorest country after Haiti. According to the Mission's Economics Office, open unemployment is 20% and underemployment is over 50% percent. Health and education statistics are also revealing: infant mortality is 109 out of 1000 (compared to neighboring Peru, for example, which has a rate of 87 per 1000); and literacy rates reach only 75%. Although Bolivia has had a stable political regime and sound macro-economic policies over the last 5 years, economic growth is still far from what it should be. In order to make a dent on these "poverty" statistics, there will need to be a great deal more domestic and foreign investment.

The trade union movement has traditionally been very strong, particularly in the mining sector. Today, however, trade unions are weakened. The Central Obrera Boliviana (COB), which represents the trade unions, has managed to maintain its lobbying capabilities with the GOB, but its membership is substantially lower than it was in the past. Recent experience suggests that trade unions will not pose a great problem for Bolivian exporters and foreign investors. Offshore manufacturing plants, in particular, are frequently cited as having excellent working conditions and employee benefit programs.

There have been some concerns that the trade union leadership or leftists groups will react negatively to a large foreign investment program, such as the one proposed in the Project Paper Amendment. In recent years, particularly when large mining companies have expressed interest in Bolivia, there have been claims that Bolivia is selling its "national patrimony" to foreigners. Arguments and reactions of this nature, however, are not expected (at least not on a large, meaningful scale) to the Foreign Investment Promotion program. Most, if not all of the investments generated under the program will be privately owned, discrete, activities, which will in all likelyhood not generate any reactions. Should such reactions arise, however, USAID/Bolivia is willing to invest funds under the Project for a public education campaign, highlighting the benefits of such a program, particularly its impact on job creation.

Through the Technical Assistance to Exporters and the Foreign Investment Promotion components, the Project is expected to generate approximately 10,000, mostly unskilled, jobs by 1995. An estimated 55% of these jobs are to be held by women. Moreover, an internationally accepted standard indicates that for each new job created, there are 2 to 2.5 indirect jobs also created.

It is expected that the Export Promotion Project will make a substantial contribution to the socio-economic condition of poor Bolivians.

D. Institutional Analysis

No institutional analysis is presented in this Project Paper Amendment, since the creation or strengthening of institutions is not part of this project. The next Project Paper Amendment, however, will discuss the Export Financing component and its institutional channels.

E. Environmental Determination

A recommendation to the Chief Environmental Officer of LAC for a negative determination for an environmental threshold decision for the Export Promotion Project as amended was signed by the Mission Director on April 3, 1991. Concurrence was received from the Deputy Chief Environmental Officer in the form of a memo signed April 8, 1991. Concurrence was subject to condition that Environmental Assessments and Quality Assurance Programs be prepared for activities that involve the development of non-traditional agriculture exports requiring the use of pesticides or promotion of tropical exports with potential, direct impacts on biological diversity or tropical forests.

Copies of the recommendation and determination appear in Annex 11.

VIII. CONDITIONS PRECEDENT AND COVENANTS

Economic CP's, which would be appropriate for an export promotion project are not necessary in Bolivia, given the favorable economic environment and the fact that the International Monetary Fund (IMF) is keeping close track of macro-economic indicators.

No covenants are to be included in the Project Grant Agreement Amendment.

ANNEX 1

REVISED LOGFRAME

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EXPORT PROMOTION AMENDMENT I

LOGICAL FRAMEWORK

GOAL	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
To increase the contribution of the legal export sector to Bolivia's economic recovery and growth.	Value of Export earnings from non-traditional exports will increase to $450M by 1995 from $206M in 1989 (not directly attributable to the project).	DICOMEX (MICT), USAID Economics Office.	GOB will continue to implement free-market oriented policies. Political and economic stability. Bolivia's comparative advantages in non-traditional exports continue.
PURPOSE	**END OF PROJECT STATUS**	**MEANS OF VERIFICATION**	**ASSUMPTIONS**
To increase the dollar volume of non-traditional exports and related employment by Bolivian and foreign companies that receive project assistance.	Cumulative dollar volume of $100 million of non-traditional exports attributable to project.*	Project records, evaluations. Contractor reports, customs records.	Targeted companies are receptive to project technical assistance, and act to implement recommendations.
	New employment of 10,000 jobs attributable to project.*	Project evaluations, audits, records. Min. of Planning records.	
	Dollar volume of $50 million of export capacity in non-traditional exports created by foreign investment program.*	Project evaluations, contractor reports, company records.	Overseas offices are effective in marketing comparative advantages of investment opportunities in Bolivia.

* These targets will be adjusted in a subsequent PP amendment.

OUTPUTS	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATIONS	ASSUMPTIONS
Technical assistance provided to export companies.	100 companies assisted in export development by 1992. 250 companies in export development by the PACD.	Contractor records, project evaluation, project audits.	Targeted companies are receptive to TA provided by contractor. Bolivian export institutions (both public and private), are supportive of contractor TA and investment promotion activities.
Investor visits to Bolivia	48 investor visits by the end of 1992. By PACD, 220.	Project Records	Same as above.
Credit offered to exporters.	$9.1 million by PACD.*	Project evaluations and audits. Periodic credit surveys/analyses.	Demand for short-term credit is sufficient to justify credit lines.
Dollar volume of foreign investment	$50 million generated (cumulative) by PACD.	Project Records	
Free Trade zone established.	One free trade zone established and operational.	Project evaluations, contractor reports, PROA records.	Exporter interest and investment resources are sufficient to sustain the efficient operation of the FTZ.
Overseas investment promotion offices established.	Two overseas investment promotion offices established in key geographical areas by the end of 1992. By PACD, 3.	Project records, evaluations, audits.	Bolivia has sufficient comparative advantages to attract foreign investors and to justify cost of investment promotion activities.
Export reference libraries established.	Three libraries established & operational in La Paz, Cochabamba & Santa Cruz.	Project Evaluations	Institutional homes for libraries are committed to serving exporters and have the financing to do so; exporters utilize the libraries.

* This output will be modified in a subsequent PP amendment.

INPUTS

	AID	GOB	PS	TOTAL	
Technical assistance to exporters	8,250	800	-	9,050	Project records,
Foreign Investment Promotion	7.900	2,000	-	9.900	USAID Controller's records.
Export Finance	6,000	3,100	6,000	15,100	
Project Support	1,350	-	-	1,350	
TOTALS	23,500	5,900	6,000	35,400	

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ANNEX 2

AID/W GUIDANCE CABLE ON NPD AND MISSION RESPONSE

AID AMB DCM ECON Rec'd 02/22

VZCZCLP0232 LOC: 073 435
PP RUEHLP 22 FEB 91 0070
DE RUEHC #6763/01 0530039 CN: 05114
ZNR UUUUU ZZH CHRG: AID
P 220037Z FEB 91 DIST: AID
FM SECSTATE WASHDC
TO AMEMBASSY LA PAZ 0673
BT
UNCLAS SECTION 01 OF 02 STATE 056763

File: PD&I

Action: PD&I
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E.O. 12356: N/A
TAGS:
SUBJECT: BOLIVIA - EXPORT PROMOTION PROJECT (511-0585)
AMENDMENT 1 - NPD

REF: LA PAZ 17217

Reply due 03/01

1. A MEETING WAS HELD ON JANUARY 14, 1991, TO REVIEW THE EXPORT PROMOTION PROJECT - AMENDMENT 1 NPD AS PRESENTED IN THE REFERENCED CABLE. THE MEETING WAS CHAIRED BY J. EVANS, LAC/DR. ATTENDEES INCLUDED PPC/PB, LAC/DPP, LAC/TI, GC/LAC, AND LAC/DR/SD. E. KADUNC REPRESENTED THE MISSION. THE NPD WAS APPROVED AND AA/LAC DELEGATES AUTHORITY TO THE USAID MISSION DIRECTOR TO APPROVE AND AUTHORIZE THE PROJECT AMENDMENT. GUIDANCE EMANATING FROM THE MEETING IS NOTED BELOW.

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2. ISSUE - WHY HAS THE MISSION CHOSEN TO LIMIT SUPPORT TO INVESTMENT PROMOTION REGARDLESS OF SUCCESS?

DISCUSSION - THE ISSUE STEMS FROM THE INDICATION IN THE NPD THAT THE INVESTMENT PROMOTION ACTIVITY WOULD BE LIMITED TO A FOUR YEAR EFFORT, AND THAT, ONLY IF THE FIRST TWO YEARS PRODUCED SATISFACTORY RESULTS. A RECENTLY COMPLETED EVALUATION FUNDED BY LAC AND CDIE TITLED "EXPORT PROMOTION AND INVESTMENT PROMOTION: SUSTAINABILITY AND EFFECTIVE SERVICE DELIVERY" CITES SEVERAL PROBLEMS AND PITFALLS IN IMPLEMENTING EXPORT AND INVESTMENT PROMOTION PROJECTS. IT INCLUDES FINDINGS WHICH ARGUE FOR INVESTMENT PROMOTION ACTIVITIES FOR AS LONG AS THESE PROGRAMS CAN BE ECONOMICALLY JUSTIFIED, AND CONCLUDES THAT PROMOTION OF OFF-SHORE INVESTMENT IS FUNDAMENTALLY UNSUSTAINABLE.

GUIDANCE - THE MISSION SHOULD CONSIDER THE LAC CDIE EVALUATION IN COMPLETING PROJECT DESIGN. IT MAY BE POSSIBLE TO DESIGN AN ACTIVITY WHICH COULD BECOME SELF-SUSTAINING, IN WHICH CASE IT WOULD BE APPROPRIATE TO PROVIDE INPUTS TO BRING THIS ABOUT. ALTERNATIVELY, THE EXPORT PROMOTION EFFORT COULD BE JUSTIFIED ON THE BASIS OF EXPANDED TRADE AND INVESTMENT THAT WOULD ENSUE OVER THE LIMITED PERIOD OF THE EFFORT TO BE FUNDED. LAC AGREES THAT IF THE EXPORT PROMOTION ACTIVITY DOES NOT

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PRODUCE SATISFACTORY RESULTS OVER A REASONABLE PERIOD OF TIME, WHICH MAY OR MAY NOT BE TWO YEARS, IT SHOULD BE DISCONTINUED. LAC ALSO AGREES THAT THERE SHOULD BE NO INFERENCE THAT A.I.D. WOULD CONTINUE TO FUND THE EXPORT PROMOTION ONCE THIS PROJECT ENDS. THAT, HOWEVER, DOES NOT PRECLUDE SOME FUTURE DECISION TO FURTHER SUPPORT EXPORT ACTIVITIES IF THIS EFFORT IS MERITED.

3. ISSUE - HAS THE MISSION A RELATIVELY FIRM ESTIMATE THAT DOLS. 22.2 MILLION OF ADDITIONAL RESOURCES ARE REQUIRED?

THE STATEMENT IN THE NPD THAT QUOTE IF THE SOURCES OF CREDIT ARE SUFFICIENT TO MEET THE DEMAND WITHOUT COMMITTING ALL OF USAID'S CREDIT FUNDS, THE UNUSED FUNDS WILL BE REPROGRAMMED TO ADDRESS OTHER FACTORS LIMITING EXPORTS UNQUOTE RAISED THE QUESTION OF WHETHER THE PROJECT WOULD MEET FAA 611(A) REQUIREMENTS.

GUIDANCE: THE MISSION SHOULD ENSURE THAT DURING DESIGN OF THE AMENDMENT, ADEQUATE ANALYSES, INCLUDING AN ANALYSIS OF THE SUPPLY AND DEMAND FOR CREDIT, ARE CARRIED OUT TO ENSURE THAT THERE IS A REASONABLY FIRM ESTIMATE O THE COST TO THE U.S. OF THE PROJECT.

4. ISSUE - WHO WILL IMPLEMENT THE CREDIT COMPONENT OF THE PROJECT?

DISCUSSION - THE MISSION REPRESENTATIVE STATED THAT THE MISSION WAS CONSIDERING AT LEAST THREE POSSIBILITIES AT

THIS TIME: (1) THROUGH THE COMMERCIAL BANKING SYSTEM, (2) THROUGH A PRIVATE FINANCIAL INSTITUTION IN SANTA CRUZ OR (3) THROUGH AN INSTITUTIONALIZED CREDIT FUND MANAGED BY FOCUS. THE BUREAU WOULD HAVE PREFERRED THAT THE NPD INCLUDE THE PROPOSED IMPLEMENTING ORGANIZATION ALONG WITH OTHER MORE PRECISE INFORMATION.

DECISION - THE MISSION WILL PROVIDE APPROPRIATE ANALYSIS IN THE PP AMENDMENT TO SUPPORT THE DECISION FOR THE IMPLEMENTING ORGANIZATION OF THE CREDIT COMPONENT. THIS SHOULD INCLUDE AN ADMINISTRATIVE ANALYSIS OF THAT ORGANIZATION. THE PROJECT SHOULD INSURE THAT INSTITUTIONAL WEAKNESSES IN THE CHOSEN ORGANIZATION ARE ADDRESSED AND THAT THE PROJECT PROVIDES ANY NEEDED INSTITUTIONAL SUPPORT (I.E., TECHNICAL ASSISTANCE, ETC.).

5. ISSUE - IS THERE A DEMAND FOR AN ADDITIONAL DOLS. 16.2 MILLION OF UNSUBSIDIZED CREDIT FUNDS OR WILL THESE BE

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FUNDS MERELY SUBSTITUTE FOR FUNDS WHICH WOULD HAVE COME FROM THE EXISTING CREDIT SOURCES? IS DIRECTED CREDIT FOR EXPORT ORIENTED FIRMS APPROPRIATE?

A CREDIT DEMAND ANALYSIS IS UNDERWAY BUT NOT COMPLETED. A.I.D. POLICY GENERALLY DOES NOT FAVOR DIRECTED LINES OF CREDIT UNLESS JUSTIFIED.

GUIDANCE: BASED ON AN ANALYSIS OF CREDIT SUPPLY AND DEMAND, THE PROJECT AMENDMENT SHOULD INCLUDE A RATIONALE FOR ADDITIONAL CREDIT AND CREDIT LINES DIRECTED TO THE EXPORT SECTOR. IF CREDIT IS PROVIDED IT SHOULD NOT SUPPLANT CREDIT ALREADY AVAILABLE AND INSTEAD SHOULD SUPPORT NEW ENTRANTS TO THE EXPORT SECTOR AS WELL AS OTHERS IN THIS SECTOR WHOSE NEEDS ARE NOT BEING MET. CREDIT FUNDS SHOULD BE PROVIDED TO BORROWERS AT MARKET DETERMINED INTEREST RATES (UNSUBSIDIZED).

5. ISSUE - DOES BOLIVIA HAVE THE INSTITUTIONAL CAPABILITIES, AS WELL AS ABSORPTIVE CAPACITY FOR MANAGING A DOLS. 17.2 CREDIT PACKAGE AS PROPOSED UNDER THIS PROJECT?

DISCUSSION - WITHOUT THE IMPLEMENTING AGENCY HAVING BEEN CHOSEN THIS QUESTION COULD NOT BE ANSWERED. THE DESIGN PHASE OF THE AMENDMENT WILL HAVE TO ADDRESS THESE QUESTIONS.

DECISION - THE MISSION WILL PROVIDE INSTITUTIONAL ANALYSIS OF THE IMPLEMENTING ORGANIZATION WITHIN THE PP

AMENDMENT, AS WELL AS RELATING THIS TO THE CREDIT DEMAND STUDIES UNDERTAKEN.

6. ISSUE - WHY IS POLICY REFORM NO LONGER A PART OF THE PROJECT'S OBJECTIVES?

DISCUSSION - THE MISSION REPRESENTATIVE STATED THAT THE MISSION CONTINUES TO HAVE AS A MAJOR OBJECTIVE REFORMS IN POLICY WHICH CONSTRAIN INCREASED EXPORTS AND FOREIGN INVESTMENTS. THE PROJECT FOCUSES ITS EFFORTS AT A DIFFERENT LEVEL AND, ALTHOUGH THE IDEA OF A PERFORMANCE FUND WITHIN THE PROJECT HAS BEEN ELIMINATED, THE MISSION CONTINUES TO DISCUSS WITH THE GOB THE NECESSARY POLICY REFORMS THROUGH THE FORUM OF A MULTI-LATERAL WORKING GROUP AND AT THE LEVEL OF A COVENANT IN THE ECONOMIC RECOVERY PROGRAM. THE MISSION REP CLARIFIED THAT POLICY REFORMS ARE CURRENTLY BEING UNDERTAKEN BY THE GOB AND THAT PROJECT SUCCESS DOES NOT HINGE ON NEW REFORMS.

GUIDANCE - LAC CONCURS THAT THE MISSION WILL CONTINUE ITS DIALOG WITH THE GOB FOR POLICY REFORMS WHICH PROMOTE INCREASED EXPORTS AND FOREIGN INVESTMENT ALTHOUGH NOT NECESSARILY DIRECTLY THROUGH THIS PROJECT.

7. LAC/TI HAS BEEN DISCUSSING WITH USAID THE POSSIBILITY OF WHETHER UNDER THE PROJECT, THE MISSION COULD DEVELOP AN INNOVATIVE APPROACH TO TRADE PROMOTION

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WHICH COULD SERVE AS A MODEL FOR USE ELSEWHERE IN THE BUREAU. LAC/DI INTENDS TO DEVELOP AND FORWARD TO USAID A THINK PIECE ON THIS CONCEPT FOR THE MISSION TO CONSIDER AS IT DESIGNS THE PROJECT. LAC REQUESTS THAT THE MISSION CABLE ITS THOUGHTS ON THIS THINK-PIECE AS WELL AS AN OUTLINE OF ANY COMPONENT OF THE PROJECT DESIGNED AS A RESULT OF ITS CONSIDERATION FOR BUREAU COMMENT PRIOR TO MISSION AUTHORIZATION OF THE PROJECT. BAKER
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ANNEX 2

Response to AID/W Guidance Cable on Export Promotion Project Amendment No. 1 - NPD
(90 State 056763)

Paragraph 2. Issue: Why has the Mission Chosen to Limit Support to Investment Promotion Regardless of Success?

The intention of the Investment Promotion program is to create a program not necessarily an institution. USAID will evaluate the program after two years, and if successful, continue it for another two years (for a total of four). If the program proves to be very successful and promises to continue to produce high returns, USAID may then explore the possible options for a Bolivian institutional home and for continued A.I.D. or other donor funding. USAID does not wish to assume at this early stage that a permanent institution will be created nor that USAID will be a source of support for such an organization.

Paragraph 3. Issue: Has the Mission a Relatively Firm Estimate that $20 Million of Additional Resources are Required?

The Mission will no longer require $20 million in new NSD-18 resources, as suggested in the NPD, but rather $17.0 million. The Export Promotion component will utilize $5.0 million; the Investment Promotion component $7.0 million and the Export Financing component, $5.0 million.

The Export Promotion program has generated $2.0 million of exports with an investment of $1.0 million the first year (1990). Targets for subsequent years are $5.0 million, $23.0 million, $23.0 million, $33.0 and $24.0 million at an average cost of $1.4 million per year. Total cost for the 5.7 year program will be $8 million to produce $100.0 million of new exports at a cost of 8 cents per export dollar generated. This does not take into account the benefit stream that continues after the project ends. Under the Amendment, this program will require an additional $5.5 of NSD-18 funds.

The Investment Promotion program will run four and one-half years at an average cost of $2.0 million per year for a total of $8.8 million. That estimate is based on experience and data from the investment promotion component of the CINDE program in Costa Rica. We plan to use $1.0 million of government-owned local currency $6.845 million of NSD-18 funds and $0.955 of DA funds.

The credit component estimate is less firm. We have been unable to move funds through the existing structure with the Central Bank. A survey of existing credit lines and unmet credit needs of exporters is being conducted at present that will help us restructure the program. The project is being redesigned to allow us the flexibility to restructure credit as needed to complement other donor credit programs and respond to changing credit market conditions In July we plan to change our terms with the Cental Bank (long-term instead of short-term credit) or to take a route other than the Central Bank if the line doesn't move Other options are to operate through a Trust Fund (since the funds are a grant) directly with ICIs, or to create a development bank (out of the Market Town Capital Formation project's portfolio) Without an a priori determination of how the credit will finally be structured, we are fairly confident in our ability to define a legitimate need and a structure to respond to it. We estimate that we can use an additional $10.0 million in credit funds, half of which will come from the NSD-18 account and half from ESF counterpart funds.

Paragraph 4. Issue: Who will Implement the Credit Component of the Program?

As indicated above, we are currently undertaking a credit demand survey that will give us a good indication of the type of credit (short, medium or long term) we should be focusing on, and the the most suitable institutional channels

Rather than hold up the Project Paper Amendment until those issues are fully investigated and defined, we would prefer to approve an Amendment that contains an explanation of the options and the requirements for research, analysis and documentation for the decisions to be taken. We will delay an authorization of the credit funds until a subsequent PP Amendment on credit.

Paragraph 5. Issue: Does Bolivia have the institutional capabilities, as well as absorptive capacity for managing a $17.0 credit package as proposed under this project?

The new credit amount we are proposing is $9.1 million: $7.0 million of USAID funds and 2.1 million of GOB funds.

The CAF moved $35 million in short-term credit for exporters in 1990 through its credit line SAFICO and they expect to extend $40 million in 1991 Our survey of other credit lines indicates that there is very little long-term credit in the market. We have no doubt that Bolivia, the banking system and market could absorb the reduced amount of $9.1 million in 4 years. A subsequent PP amendment will present a redesign of the credit component of the project and justify additional funding.

Paragraph 6. Issue: Has the Mission focussed this program so it reflects a commitment to the two-way regional trade initiatives the U.S. wishes to implement in this hemisphere?

This program is directed at the primary goal of assisting the government of Bolivia in its efforts to create an economy alternative to that represented by the Cocaine Cartels. Alternative sources of foreign exchange through legitimate exports is the means to approach the goal. There are two strategic approaches: Technical Assistance (TA) to Bolivian exporters (actual and potential) and promotion with foreign (U.S. and other) businessmen on manufacturing opportunities in Bolivia. In the process of providing TA to Bolivian businessmen the project provides information on U.S. vendors of equipment required to expand export capacity. A successful investment promotion program will assist American companies to produce more competitive products through foreign manufacturing. As these companies become familiar with their new manufacturing environment, they will inevitablely discover new market opportunities as well.

The Private Sector Office routinely sends contractor reports to the Embassy and reviews them with the Commercial Officer for possible opportunities for U.S. businesses to be included in the Trade Opportunitiy Program cables (TOP) and Foreign Government Tender cables (FGT). We have also incorporated LAC/TI guidance on this question into the Project Paper Amendment.

Paragraph 7 Issue: Why is policy reform no longer a part of the Project's objectives?

Bolivia is already performing well on the three policy points which are most crucial to export success: tariff barriers have been lowered, the exchange rate is being kept competitive, and exchange controls have been practically eliminated. The remaining policy and institutional issues are considerably less important:

With help from USAID and others, the GOB has established a workable regime for private free trade zones.

Progress has been slow in defining a duty drawback scheme for exporters, to replace the existing flat-rate export incentive which is being phased out. The GOB is receiving technical assistance from other sources on this matter.

Bureaucratic procedures are still cumbersome. While this is more of an annoyance than a major hindrance, we are responding to GOB requests for TA to help streamline procedures.

While Bolivian corporate taxes are low, the country's failure to provide a tax holiday to new foreign investors in non-traditional export projects is a competitive disadvantage in attracting foreign investors. This issue is being discussed with the GOB in connection with the design of a USAID investment promotion program.

The budget of INPEX, the GOB export agency, is being slashed. INPEX will probably be considerably reduced, with some of its functions and equipment may be folded in to the the private Chamber of Exporters. The Mission regards this as a satisfactory outcome.

ANNEX 3

LAC/TI COMMENTS AND
The BOLIVIA MISSION'S APPROACH TO TRADE AND INVESTMENT

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Rec'd 4/22

File: PD&I

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Info: D/DD
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AIDAC FOR RICHARD ROSENBERG, PRIVATE SECTOR OFFICE

E.O. 12356: N/A
TAGS:
SUBJECT: DESIGN GUIDANCE FOR EXPORT PROMOTION PROJECT AMENDMENT

REF: (A) LA PAZ 17217 (B) WOOD-LEONARD MEETING 1/15/91 (C) WOOD-ROSENBERG TELCON 2/5/91 (D) STATE 056753

Reply due 4/26

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SUMMARY: LAC/TI REGRETS THAT, DUE TO TIMING AND TRAVEL RESTRICTIONS, IT IS UNABLE TO PROVIDE STAFF ASSISTANCE IN DEVELOPMENT OF SUBJECT PROJECT PAPER AMENDMENT. IN LIEU OF THIS TDY, LAC/TI FORWARDS THE FOLLOWING DESIGN CONCERNS/GUIDANCE TO BE ADDRESSED DURING PREPARATION OF THE PP AMENDMENT. PER TELCONS AND REF (D), PARA. 7, PRIOR TO MISSION AUTHORIZATION OF PROJECT LAC WILL REVIEW MISSION'S CONCEPTUAL APPROACH, TAKING INTO ACCOUNT ISSUES IDENTIFIED IN THIS CABLE.

1. THE FOCUS OF THE NPD FOR AMENDING THE EXISTING PROJECT IS ON EXPORT PROMOTION. IT SPEAKS TO EFFORTS TO INVOLVE EXPORTERS IN TRADE FAIRS ABROAD (TECHNICAL ASSISTANCE COMPONENT) AND ATTRACT FOREIGN INVESTMENT (INVESTMENT PROMOTION COMPONENT) TO ENHANCE BOLIVIAN PARTICIPATION IN THE ANDEAN TRADE INITIATIVE. MISSION IS REQUESTED TO BROADEN SCOPE OF PROJECT, NOT ONLY TO PREPARE BOLIVIA FOR PARTICIPATION IN ONE-WAY BENEFITS OF ANDEAN TRADE INITIATIVE, BUT FURTHER FOR FULL PARTICIPATION IN THE ENTERPRISE FOR THE AMERICAS INITIATIVE, INCLUDING TARIFF RESTRUCTURING (PERHAPS THROUGH ADVISORY COUNCIL, TRADE DEVELOPMENT PLUS SPECIFIC TRADE AND INVESTMENT ASSISTANCE). PARTICULAR EMPHASIS ON THE IMPORT SUBSTITUTION SUBSECTOR AND APPROACHES TO MOVE THIS SUBSECTOR TOWARD WORLD MARKET COMPETITIVE PRODUCTION IS ESSENTIAL.

2. MISSION'S APPARENT DESIRE NOT TO CREATE OR INDEFINITELY FUND AN AID-DEPENDENT EXPORT/INVESTMENT PROMOTION ORGANIZATION (PER REF A, PARA 3.3) IS IN KEEPING WITH BUREAU'S DESIRE NOT TO CONTINUE TRADITIONAL A.I.D. STRATEGIES OF PROMOTING TRADE AND INVESTMENT DEVELOPMENT THROUGH LONG-TERM SUPPORT OF SUCH ORGANIZATIONS. PROMOTING SELF-SUPPORTING OPTIONS DRIVEN BY REAL DEMAND FOR THEIR SERVICES IS PREFERRED.

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OWEVER, GIVEN LIMITED AVAILABLE U.S. MISSION STAFF RESOURCES (I.E., LACK OF A FOREIGN COMMERCIAL OFFICER), OPTIONS SHOULD BE EXPLORED FOR HOW U.S. INVESTORS CAN BE ATTRACTED TO BOLIVIA AND APPROPRIATELY ASSISTED. LAC/TI ECOMMENDS THE GUATEMALAN MODEL WHICH USES EXISTING ORGANIZATIONS SUCH AS THE AMCHAM AS LOCAL COUNTERPARTS AND BUILDS ON THE HOST GOVERNMENT'S FOREIGN COMMERCIAL SERVICE FOR OVERSEAS REPRESENTATION. A FOCUS ON LOCAL PRODUCTION WHICH IS COMPETITIVE IN WORLD MARKETS SHOULD BE INCLUDED SINCE THIS (A) ASSURES AVAILABILITY OF COMPETITIVE QUALITY PRODUCTS AT COMPETITIVE PRICES AND (B) IMPLIES OPENING MARKETS TO REMOVE PROTECTION AND ALLOWING FOREIGN BUSINESS TO COMPETE IN AREAS WHERE THERE IS NO COMPARATIVE ADVANTAGE FOR LOCAL PRODUCTION. ASSISTING BOLIVIAN ACCESS TO WORLD MARKETS FOR COMPETITIVE PRODUCTION IS A RELEVANT OBJECTIVE, ALTHOUGH IF PRODUCTS ARE PRODUCED SO THAT THEY ARE COMPETITIVE IN THE WORLD MARKETPLACE THE PLACE OF CONSUMPTION IS NOT IMPORTANT, WHETHER IT BE DOWN THE STREET OR AROUND THE WORLD. A COROLLARY OBJECTIVE IS TO EDUCATE LOCAL PRODUCERS SO THAT THEY CAN TAKE ADVANTAGE OF OPEN MARKET POLICIES AND BECOME A CONSTITUENCY GROUP FOR SUCH POLICIES BY THE GOB.

3. ACCORDING TO THE PAAD, ECONOMIC REACTIVATION IS BEING HAMPERED BY PROBLEMS WITH THE FINANCIAL SYSTEM

HANNELING CREDIT TO PRODUCTION ENTERPRISES; LACK OF PRIVATE SECTOR CONFIDENCE; OUTSTANDING PROBLEMS WITH FOREIGN INVESTORS; AND SLOWNESS OF GOB CONGRESS TO ADOPT PRIVATE INVESTMENT MEASURES, EVEN THOUGH A LIBERAL INVESTMENT CODE HAS BEEN PASSED; AND THE REMOVAL OF OTHER IMPEDIMENTS OT OPEN TRADE IN MINING AND HYDROCARBONS PENDING CONGRESSIONAL APPROVAL. THE MPLEMENTATION OF CORRECTIVE MEASURES APPEARS TO BE STILL ON HOLD. THIS PROJECT SHOULD EXAMINE SPECIFIC ACTIVITIES WHICH CAN BE UNDERTAKEN TO ADDRESS THE RATIONAL AND TIMELY IMPLEMENTATION OF THE NEW INVESTMENT CODES; WORK ON DEVELOPING ACCEPTABLE BINDING ARBITRATION PROCEDURES; DEVELOP MECHANISMS TO ASSURE THAT EXPORTERS, INVESTORS AND IMPORTERS CAN FULLY AVAIL THEMSELVES OF NEW BENEFITS. SPECIFIC OTHER TRADE AND INVESTMENT ISSUES, PARTICULARLY TARIFF RELATED ITEMS RELATED TO COMPETITIVE LOCAL PRODUCTION SHOULD BE ADDRESSED IN THE PROJECT DESIGN (AN EXAMPLE IS THE REDUCTION OF TARIFFS ON IMPORTED CAPITAL GOODS FOR TWO YEARS - WHAT WILL HAPPEN AFTER THIS TWO YEAR PERIOD AND HOW WILL THE PROJECT MORE BROADLY ADDRESS TARIFF REFORM).

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. A BROADER ISSUE WHICH FACES THE AGENCY IS DEVELOPMENT OF ANDEAN REGIONAL TRADE AND INVESTMENT. UNDER THE ANDEAN TRADE INITIATIVE THE AGENCY IS CHARGED WITH DEVELOPING BROAD TRADE INITIATIVES. THE PROJECT SHOULD EXAMINE MECHANISMS FOR DEVELOPING TRADE WITHIN THE REGION AND WITH OTHER AREAS AS WELL. EXAMINATION OF CROSS-BORDER TRANSACTIONS AND OBSTACLES MIGHT BE A USEFUL APPROACH FOR DEVELOPING ASSISTANCE TO FACILITATE REGIONAL TRADE AND INVESTMENT OPPORTUNITIES.

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5. DOLS. 1.5 MILLION OF LOCAL CURRENCY GENERATIONS FROM THE 1991 ESF PROGRAM ARE TO BE ALLOCATED FOR THIS PROJECT, PER PAAD, TO PROMOTE FREE TRADE ZONE INITIATIVES AND FOREIGN INVESTMENT. THE EXAMPLE OF FREE TRADE ZONES IN THE DOMINICAN REPUBLIC HAS BEEN LESS THAN DESIRED IN TERMS OF FULL INTEGRATION OF IMPACT ON THE LOCAL ECONOMY AND USEFULNESS AS A DEMONSTRATION TO HOST GOVERNMENT TO PROMOTE OPEN TRADE POLICIES, AND USAID SUPPORT FOR FREE TRADE ZONES SHOULD BE CAREFULLY EXAMINED. LAC/TI URGES USAID TO INCLUDE IN THE PROJECT THE ECONOMIC AND POLICY BENEFITS TO THE COUNTRY OF FREE TRADE ZONE DEVELOPMENT (I.E., TO ASSURE THAT THE GOVERNMENT BENEFITS FROM THE EXAMPLE OF FREE TRADE AND PPLIES THESE BENEFITS NATIONWIDE).

. FUNDING OF STUDIES AS PART OF THE TECHNICAL ASSISTANCE COMPONENT OF THE PROJECT SHOULD BE PURSUED ONLY IF THIS IS A VERY DIRECTED EFFORT THAT INCLUDES A TARGETED AUDIENCE AND A PLAN FOR DISSEMINATION, IMPLEMENTATION AND USE OF THE FINDINGS OF THE STUDIES. ISSION SHOULD NOT DESIGN STUDIES WITHIN THE PROJECT WITH SUBSEQUENT PROJECT FUNDING FOR UNDEFINED RECOMMENDATIONS OF THE STUDY SINCE THIS LEADS TO A 611(A) SITUATION AND MIGHT PRECLUDE AUTHORIZATION OF THE PROJECT. RATHER, STUDIES SHOULD BE FUNDED FOR ACTIVITIES WHICH WILL SUBSEQUENTLY BE FUNDED BY THE PRIVATE SECTOR (U.S. AND LOCAL).

. THE NPD PROVIDES SKETCHY INFORMATION ON THE CREDIT COMPONENT OF THE PROJECT. THE PROJECT PROPOSES TO PROVIDE WORKING CAPITAL CREDIT TO EXPORTERS AND MEDIUM AND LONG-TERM CAPITAL INVESTMENT CREDIT. GIVEN BOLIVIA'S "FRAGMENTED, DECAPITALIZED AND INEFFICIENT FINANCIAL SYSTEM" AND THE "NEED TO IMPROVE THE BANKING SYTEM'S INEFFICIENCY TO PROMOTE HIGHER LEVELS OF CAPACITY UTILIZATON AND INVESTMENT" THE PROJECT SHOULD BE EXPLORING REMEDIES TO THESE PROBLEMS, RATHER THAN JUST FILLING THE GAPS. MOBILIZATION OF CAPITAL SHOULD BE THE GOAL OF THIS COMPONENT, RATHER THAN PROVISION OF STOP-GAP FUNDING. THE PP SHOULD ADDRESS WHAT MORE FAR-REACHING MEASURES (BEYOND PROVISION OF CREDIT) ARE BEING TAKEN TO ADDRESS THE FINANCIAL SYSTEM'S INADEQUACIES ALTHOUGH IT IS REALIZED THAT MANY OR MOST OF THESE MIGHT BE OUTSIDE THE CONTEXT OF THIS PROJECT AND USAID'S ORTFOLIO).

. WE RECOGNIZE THAT MANY CONCERNS ARE ADDRESSED IN THIS CABLE. OUR INTENT IS TO HAVE THE MISSION CONSIDER THESE

CONCERNS IN THE PROJECT DESIGN AND ADDRESS THEM IN THE PROJECT PAPER. WE REALIZE THAT THE ACTUAL PROJECT TO BE UNDERTAKEN MUST BE DEVELOPED IN THE BOLIVIAN CONTEXT AND NOT IN WASHINGTON. BECAUSE OF THE TIMELINESS OF THESE CONCERNS, HOWEVER, WE BELIEVE THAT THE PROJECT PAPER MUST ADEQUATELY ADDRESS THEM.

9. PLEASE CONTACT LAC/TI IF THERE ARE ANY QUESTIONS ON THE ABOVE. KIMMITT
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#9277

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MEMORANDUM May 9, 1991

TO: Melinda Keenan-Wood, LAC/TI

FROM: Carl Leonard, USAID/La Paz

SUBJECT. The Bolivia Mission's Approach to Trade and Investment Issues

In a recent cable (State 129277), LAC asked for a clarification of the Mission's conceptual approach to trade and investment promotion, with particular attention to a number of issues raised in the cable.

We have carefully reviewed the cable, and have analyzed our Trade and Investment program in light of the cable. We were happy to find ourselves in full agreement with the the strategic thrust of the cable. More to the point, we believe that the rest of this memo will demonstrate that our actual and proposed programs are fully consistent with that thrust.

Based on conversations with LAC/TI, we are interpreting the cable's guidance as applying to the entire gamut of our trade and investment activities in Bolivia, rather than being restricted exclusively to the pending amendment of our Export project. That is to say, we are assuming that LAC's concern is that the Mission's <u>program</u> respond seriously to the issues raised, and that it is not especially important whether that response takes place within the boundaries of one or another particular project.

<u>"Trade" Focus vs. "Export" Focus</u> Philosophically, we agree that the challenge facing Bolivia is to increase and diversify its trade and investment. Export promotion is only one piece of this picture. An "export at all costs" strategy would run the risk of repeating the expensive errors which resulted from Latin America's infatuation with import-substitution in decades past. A heavily subsidized export sector could easily become an inefficient sector which drains resources away from better economic prospects and which generates political resistance to the eventual elimination of those subsidies. (Therefore, as discussed in the recent Bolivia Action Plan review, the Mission is reformulating our strategic objectives to better reflect an overall trade and investment focus, and the role of our export promotion activities as one part of that focus.)

Fortunately, the Bolivian government is fully committed to an approach based on free and efficient trade, rather than on subsidizing export production. Braving considerable political opposition, the GOB has recently eliminated the "CRA", its 10% non-traditional export subsidy; the IMF and the World Bank strongly supported this move. Moreover, exporters in Bolivia no longer have access to below-market interest rates on Central Bank credit lines: the GOB has instituted an auction system in which all borrowers bid for these funds on an equal basis, and at (very high) market rates. Our export credit activities will be consistent with this policy.

Bolivia's entry into GATT in August of last year is a further indication of its commitment to a free trade approach, and its determination not to distort producers' choices by heavy subsidies to one sector or another.

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Other particulars of Bolivia's trade policy will be discussed later in this memo. However, it can be said as a general matter that its policy performance is probably the best anywhere in Latin America. Thus, we do not believe that trade policy issues are a major constraint to our trade and investment efforts at present.

Nevertheless, we are not ignoring this area. We are continuing to support UDAPE, the GOB's economic think tank, which has been a significant player in the evolution of the government's trade policy. In addition, we will be supporting UDACEX, a new unit in the Trade Ministry which will provide analysis and assistance on trade policy generally, but which will focus particularly on back-up for bilateral and multilateral trade negotiations -- including, of course, Bolivia's eventual participation in the Enterprise for the Americas Initiative. The UDACEX proposal came out of the first meeting of the US-Bolivian Trade and Investment Council in Washington last year. It will be financed under our Export project.

The Import Substitution Subsector: Production for Local Markets. We agree fully with the cable's contention that the efficiency of local production is more important than whether that production is sold in local or export markets. The most dramatic way to improve the efficiency of local production is to remove its protection from offshore competition. Bolivia has already taken this decision: it has abandoned import licensing, and its external tariff -- only 10% on finished goods and 5% on capital goods* -- is the lowest in Latin America. The minimal protection provided by the 10% finished-good tariff is further diluted by the near universal availability of black-market merchandise. Finally, Bolivia's tariff levels are much more uniform than most countries', thus avoiding the distortions created by differential tariff rates. Thus, there is no need for a big USAID push on this front.

Experience in other countries has shown that such policy change -- i.e. tearing down tariff protection -- has a much bigger impact on the efficiency of local production than does technical assistance, credit, or other direct industry-support programs. That being said, the Mission does have programs which are available to help the local producer confront the challenge presented by the new rules of the game. All producers, including non-exporters, are eligible for technical assistance under our IESC program, or credit and technical assistance under our $30 million FOCAS project, or management and technical education through our IDEA project. And of course, local producers who wish to get into exporting receive production, marketing and other technical assistance under our Export Promotion project: out of the 40 export projects currently receiving assistance, more than a third represent companies that have in the past been producing for the local market.

Foreign Participation in Bolivian Markets. In addition to high tariff barriers, Bolivia, prior to 1985, posed other obstacles to international participation in its national economy, including restrictions on foreign investment in key sectors, and a policy of indiscriminate nationalization of foreign investments. However, the country has made great progress in opening itself again to foreign participation.

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* While the tariff reduction on capital goods was authorized for only two years, it is generally expected that this provision will be extended when the original period expires. Free trade zone companies pay no tariff at all on capital goods.

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Bolivia dropped its licensing requirement for foreign investment in 1985. A strong investment law, guaranteeing equal treatment of national and foreign investors, passed the Congress last year, and implementing regulations have been published. In the last few months, the Mining Law and the Hydrocarbons Law both passed the Congress: U.S. investors in both those areas regard the laws as quite satisfactory.

While progress on privatization is far from adequate, it is clear that the GOB has turned away from any inclination to nationalize private investments in the future. The Investment Law contains guarantees to this effect, though, as a practical matter, Bolivia's unsuccessful experience of the past with nationalized enterprises is probably a more effective guarantee than the terms of any law. Buttressing the provisions of the Investment Law, on May 3 Bolivia signed as a member of the International Center for Settlement of Investment Disputes (ICSID), the World Bank arbitration organization, thus providing foreign investors access to impartial and binding external arbitration; legislative ratification of this action is expected soon.

Thus, we do not believe that a major USAID initiative is called for with respect to macro-level policy on foreign investment. We do, however, believe that there will be room for continuing policy dialogue in this area.

A major element of the pending Export project amendment is a new foreign investment promotion program. Experience elsewhere has made it clear that the operation of such a program inevitably brings to light further policy and institutional obstacles to foreign investment. To respond to this concern, we are incorporating into the design of the program an Advisory Board composed of high-level Bolivians whose principal commitment will be to lobby for the correction of policy and institutional obstacles which are identified from time to time. Bolivian interest in the investment program is so strong that a sizable group of people from the very highest levels of the private and public sectors have expressed a willingness to serve on such a Board and to take on a policy dialogue responsibility.

In addition to our efforts on the investment policy front, the IDB is currently designing an Investment Sector loan for Bolivia (part of whose funding is expected to be provided under the Bush initiative). This loan will focus on remaining bottlenecks to investment.

Financial Sector Issues. The cable argues that the Mission's response to Bolivia's financial sector problems must go beyond a mere credit dump to fill gaps here and there. We agree wholeheartedly. Our Strengthening Financial Markets project is one of our approaches to structural reform. Its components have included technical assistance to the bankers' association, the establishment of a bankers' training institute (which we expect to be self-supporting after a few initial years), and assistance in the establishment of a Bolivian securities market.

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UDAPE, the government think-tank we fund, works on financial sector issues. We have just completed a massive financial sector assessment to guide our future efforts in this area. Financial sector reform is one of the two pillars of the forthcoming IBRD/IDB Structural Adjustment Credit, and we are in regular contact with the World Bank team to coordinate our efforts.

Another of our projects is working with the country's decrepit cooperative savings and loan system. This project is doing much more than dumping credit and technical assistance: working closely with the Superintendency of Financial Institutions, it is making important progress in the structural reform of the credit union system.

On the microenterprise front, PRODEM has introduced a successful new microlending technology to the country. The most exciting outgrowth of our support to PRODEM is the forthcoming establishment of the region's first fully private, for-profit microenterprise bank. If this bank generates the handsome profits we hope for, it will attract commercially-motivated competition, resulting in a vast expansion of the clientele served by this new financial technology.

Thus, we have been very active in financial sector reform. At the same time, and in the context of that effort, we believe there is a useful role for a carefully-structured export credit line. Since the time the New Project Description for our export amendment was submitted, we have conducted a detailed study of export credit markets. This study confirmed our impression that under present market conditions there is no shortage of funding for bankable exporters -- that is, exporters who are fully able to meet the commercial banks' stringent requirements.* Thus, the structure of our present credit line, which provides liquidity for loans to bankable clients, is not responding to an unmet need.

However, we have concluded that there is a large group of "nearly-bankable" exporters, i.e., exporters with reasonably solid business and financial situations, whose risk profile is modestly higher than what the banks are used to dealing with right now. Experience in various countries has shown that it is possible to structure a credit line which will provide incentives for a bank to make moderate adjustments to its lending practices. This is the market to which our restructured export credit line will be directed.

Free Trade Zones. The amendment to our export project will contain a component to assist in the development of an industrial free trade zone. The cable correctly notes that, in some other countries (e.g., the Dominican Republic), free trade zones have not been effective in catalyzing economic liberalization elsewhere in the host economy.

However, there is a crucial difference between Bolivia and these countries. In the more usual case -- like the Dominican Republic -- the free trade zone is an island of sound economic policy in a sea of artificially restrained trade. It is often hoped that the free trade zone's success will lead to liberalizing of the rest of the economy. This hope has occasionally been disappointed.

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* Because of a history of instability and heavy loan delinquency, Bolivian banks are extremely conservative at present: for instance, they typically require urban real estate worth three times the loan amount as collateral requirement.

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But in Bolivia's case, the economic regime at large is the most liberal in Latin America. The desirability of a free trade zone here does not stem from a need for protection against a bad policy regime, nor from a strategy of using the zone as a camel's nose under the tent in opening up the national policy. Rather, we want to support a free trade zone simply because experience elsewhere has demonstrated that it is an important tool in attracting the foreign investor. In a sense, "free trade zone" is a slight misnomer here in Bolivia -- the difference in economic regime inside the zone and outside the zone will not be that significant. The main advantage of the zone for a foreign investor will be the fact that it is a good industrial park, providing infrastructure and support services. Given this atypical situation in Bolivia, there is no need for a special effort to extend the policy benefits of a free trade zone to the rest of the economy.

Studies and Technical Assistance. We agree with the cable's skepticism with respect to export studies which are not linked to particular investors who are willing to put their assets at risk. Thus, our current policy is to try to avoid supporting generalized product studies, which are then disseminated in hopes that some as-yet-unidentified investor will pick up the idea. Our experience is that such studies seldom lead to investment. Even when a particular investor is on the scene, we tend to avoid assistance for feasibility studies: experience has suggested to us that the investor who really needs help with a feasibility study often lacks the resources or commitment to successfully implement the project being studied.

The same observations apply in a general way to our technical assistance under the present Export project. The vast majority of the assistance is provided to individual businesses, and we are having increasing success in getting them to absorb a part of the cost of the assistance.

As to the new foreign investment promotion program to be funded under the pending amendment, a very small portion of the funding will be directed to studies. These are highly targeted marketing studies, whose immediate practical impact will be to define, in geographic and sectoral terms, the classes of foreign investors for whom Bolivia's comparative advantages will have the greatest bottom line impact. Thus, there is no doubt that these studies will be used, and used immediately. Without them, we couldn't select foreign office locations, nor adopt any rational strategy as to which investors to target.

Regional Trade and Integration. We agree with the cable's emphasis on the importance of looking carefully at regional trade and investment opportunities, and this concern is already built in to our efforts. A large portion of the new export projects already receiving our technical assistance are focussed on markets in neighboring countries. The current investment promotion pilot program is actively considering the best ways to reach potential South American investors, since it is clear that Bolivia could present various important advantages to them.

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We expect that our support (under the Export project), to the UDACEX unit in the Trade Ministry will provide material assistance to the GOB in its negotiations toward regional integration. The Confederation of Private Entrepreneurs, which we also support, has been active and effective in pushing for greater Andean regional integration. In fact, negotiations are will advanced. The five Andean Pact members have committed themselves to establish inter-regional free trade by next year, and to adopt a common external tariff by 1995. Obviously, any advances in regional integration will be an important step along the way to the hemisphere-wide free trade regime which is the ultimate goal of the Enterprise for the Americas Initiative.

<u>The Proposed Investment Promotion Program</u>. As noted above, we recognize that export expansion is only one piece of the trade challenge facing Bolivia.

However, precisely because the general trade and investment policy framework has been rationalized, firm-level export promotion work represents an important target of opportunity. And it is clear that Bolivia's export capacity is a crucial link in its general trade performance: trade depends on hard-currency generations, and the only viable long-term solution to Bolivia's shortage of hard currency is export expansion. This concern is especially pressing as Bolivia's drug interdiction efforts cut down on a major existing source of hard currency.

The Mission's initial efforts in export promotion focussed on assistance to Bolivian companies. However, experience in many other countries has indicated that new foreign investment can play a major role in boosting exports. Since recent analytical work has satisfied us that Bolivia has substantial comparative advantages for the foreign investor, we are proposing to include a foreign investment promotion component in the forthcoming project amendment.

It is true that we hope to take advantage of some of the lessons learned in the successful Costa Rican investment promotion program. But we have no intention of replicating Costa Rica's CINDE, a position we have maintained consistently, against considerable local opposition.

Last year, a group of high-level private and public sector Bolivians visited Costa Rica on two occasions, and returned with a strong desire to see a CINDE equivalent in Bolivia. A protracted and painful process was required to convince them that AID was not willing to build an export promotion institution in Bolivia, let alone an institution like CINDE with a wide range of TA, investment promotion, and training programs.

Our technical assistance to Bolivian exporters is intended to be a "one-shot" effort. At the conclusion of this program, we do not plan to leave behind an institution to carry on similar technical assistance indefinitely. The "institution-building" effect of this program will lie in the dozens of Bolivian companies who will continue generating jobs and foreign exchange into the indefinite future, without additional external assistance.

On the investment promotion side, we are making it absolutely clear to all concerned that AID is assuming no responsibility to continue long-term funding of this effort, even if it is highly successful. The economic analysis in our project paper amendment is based on the assumption that the investment promotion will terminate when the proposed four-year funding runs out. That analysis demonstrates that achievement of the targets set for those four years would amply justify the expenditure involved, based on the jobs and foreign exchange produced by the companies which are attracted during that period.

This position has dictated our unpopular decision to manage the investment program out of a limited-term contract, rather than to focus (as was the case in Costa Rica) on the establishment of a Bolivian entity to institutionalize the program.

Generally speaking, we are pushing to maximize user fees in our business-assistance programs; we are making substantial progress in our IDEA business education project, in our PROCAF bank training program, and in our technical assistance to exporters. However, experience around the world has demonstrated that foreign investment promotion is a special case. The immediate targets of this promotion are foreign investors, who are not willing to pay the salespersons who are trying to sell them on a particular country. Over the longer haul, the entire private sector of the host country benefits from successful investment promotion, but these benefits are so diffuse that the local private sector will not pay the costs of the promotion: in fact, over the near term, new foreign investment can raise costs for the local private sector by increasing competition for labor and other inputs.

There is one important opportunity to charge user fees in a foreign investment program: such a program can increase revenues for local free trade zones, and it is reasonable and feasible to charge the owners of such zones a fee for clients attracted. (AID in Costa Rica failed to take advantage of this revenue source for its foreign investment program.) We are confident of success in our current negotiations with the promoters of Bolivian free trade zones to build in a substantial commission on all investors attracted to their zones by the new investment program.

We are taking advantage of LAC's suggestion that we look at the model being used by USAID/Guatemala. We have been in contact with our colleagues there to learn more about their approach. If we understand their program correctly, they expect substantial private sector contribution to support the proposed FUNDESA overseas offices which will concentrate on promoting Guatemalan <u>trade</u>. Since trade deals benefit local companies directly and immediately, it is reasonable to expect them to share in the costs of such promotion: we will make every effort to maximize local private support for such trade assistance.

However, we understand that Guatemala's approach to <u>investment</u> promotion, through the overseas representatives of the Chamber of Non-Traditional Exporters, recognizes the need for public funding of such work -- we are told that the funding for this program is 40% GOG and 60% USAID. As to the organizational specifics of their model, our colleagues in Guatemala tell us that it is too early to judge the success of the program in promoting investment. While there are differences in some specifics between the two approaches, the model we propose to use, like theirs, is based on overseas representation; our model has a track record of success in several different countries.

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We have been discussing with the Foreign Affairs ministry ways to take advantage of the GOB's overseas commercial representatives. We are optimistic that some useful coordination will be possible; but it is unlikely that these officials will be able to carry out the core investment promotion work. They are political appointees selected on criteria which have little to do with their ability as salesmen; besides, their primary clients are existing Bolivian businesses, not new foreign investors.

Agency-Wide Guidance. The Trade and Investment Project Guidebook, prepared by APRE, has recently been distributed as guidance for AID Missions throughout the Agency. We have reviewed its contents carefully. While this memo is not the place to discuss the details of that guidance, we believe that the approach we are taking is entirely consistent with what is suggested there.

We hope that this memo has demonstrated that USAID Bolivia is addressing the concerns expressed in the Bureau's cable, not only in the design of a specific Export Project amendment, but more importantly throughout the entire range of our trade and investment promotion program and activities.

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ANNEX 4

STATE 110911 AUTHORIZING PACD EXTENSION

67

AID AMB DCM ECON

Rec'd 4/8

VZCZCLPO943
PP RUEHLP
DE RUEHC #0911 0960515
ZNR UUUUU ZZH
P 060516Z APR 91
FM SECSTATE WASHDC
TO AMEMBASSY LA PAZ PRIORITY 1610
BT
UNCLAS STATE 110911

File: PD&I

LOC: 142 887
06 APR 91 0523
CN: 17753
CHRG: AID
DIST: AID

Action: PD✓
Info: D DD
EXO
DP
PD&I
RLA
C
RF 3
SF

AIDAC

E.O. 12356: N/A
TAGS:
SUBJECT: BOLIVIA EXPORT PROMOTION PROJECT (511-0585)
AMENDMENT 1

REF: A) LA PAZ 04226 B) STATE 256763

1. THE CN FOR THE PROJECT AMENDMENT CONTAINED IN REF A, IS BEING CIRCULATED FOR CLEARANCE. DUE TO EASTER RECESS, THE CN CANNOT GO TO THE HILL UNTIL APRIL 10, 1991.

Reply due 4/10

Action tkn 11/Ar

2. AA/LAC AUTHORIZES THE MISSION TO EXTEND THE PACD OF THIS MAJOR PROJECT AMENDMENT TO SEPTEMBER 30, 1995, AS PROPOSED IN REF A. PARA 2. THIS PACD EXTENSION NOW MAKES THE LOP SIX YEARS AND 10 MONTHS. BAKER
BT
#0911

NNNN

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ANNEX 5

AUTHORITY TO AUTHORIZE IN THE FIELD

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-AID. AMB DCM ECON

Rec'd 6/18

VZCZCLPC116
PP RUEHLP
DE RUEHC #8883 1692429
ZNR UUUUU ZZH
P 182429Z JUN 91
FM SECSTATE WASHDC
TO AMEMBASSY LA PAZ PRIORITY 3113
BT
UNCLAS STATE 198883

File: PD&I

LOC: 252 392
18 JUN 91 0412
CN: 31712
CHRG: AID
DIST: ~~AID~~

Action: PS

Info: D/DD
EXO
C
RF 3
SF

AIDAC

E.O. 12356: N/A
TAGS:
SUBJECT: BOLIVIA EXPORT PROMOTION PROJECT AMENDMENT

Reply due 6/25

REF: (A) LA PAZ 06818, (B) STATE 129277, (C) STATE 056763, (D) MEMO WOOD/LEONARD DTD JUNE 4, 1991, (E) MEMO LEONARD/WOOD DTD MAY 9, 1991

Action tkn

AS NOTED IN REF (D), LAC HAS REVIEWED REF (E'S) RESPONSE TO REF (B) AND PARA 7 OF REF ~~(C)~~. AS REQUESTED REF (A) LAC CONCURS THAT UNDER AUTHORITY DELEGATED IN REF (C), USAID DIRECTOR CAN PROCEED TO APPROVE AND AUTHORIZE SUBJECT PROJECT AMENDMENT. LAC APPRECIATES THOUGHTFUL MISSION VIEWS PRESENTED IN REF (E). EAGLEBURGER
BT
#8883

NNNN

UNCLASSIFIED STATE 198883

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ANNEX 6

CONTRACTING AUTHORITIES

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U. S. SMALL BUSINESS ADMINISTRATION
REGION IV
1375 PEACHTREE STREET, N.E., 5TH FLOOR
ATLANTA, GEORGIA 30367-8102

May 21, 1991

Regional Contracting Officer Bucher
for USAID/Bolivia
APO Miami, Florida 34032

Subject: Prime Contract No. 511-0585-C-00-0019
Subcontract No. 4-90-1-0023
Carana Corporation

Dear Sir:

In response to your memorandum of May 13, 1991, the Small Business Administration hereby gives its authorization for you to negotiate and issue a contract amendment under the subject contract estimated at \$2.5 million value.

This action is being authorized without competition because the estimated dollar value of the proposed amendment falls below the competitive threshold of \$3 million, pursuant to 13 CFR 124, Section 124.318(C).

Sincerely,

James B. Hunter

James B. Hunter
Contracting Officer

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AID AMB CM ECON Rec'd 6/11

VZCZCLP0667 File: EKO/P LOC: 240 651
PP RUEHLP 10 JUN 91 2056
DE RUEHC #9268 1612053 CN: 30272
ZNR UUUUU ZZH CHRG: AID
P 102049Z JUN 91 DIST: AID
FM SECSTATE WASHDC
TO AMEMBASSY LA PAZ PRIO ITY 2954
BT
UNCLAS STATE 189268

Action: RCO 2
Info: D/DD
EXO
PD&I
PS
RLA
C
RF 3
SF

AIDAC

E.O. 12356: N/A
TAGS:
SUBJECT: USAID/BOLIVIA EXPORT PROMOTION PROJECT

FROM JOHN WILKINSON, DIRECTOR, OSDBU

REF: (A) LA PAZ 07151 (B) DAVIDSON WILKINSON TELECON 05/30/91

Reply due 6/17
Action tkn

1. AS DISCUSSED WITH DEPUTY MISSION DIRECTOR DAVIDSON ON ABOVE DATE, OSDBU RECOMMENDS FOLLOWING ACTIONS RE SUBJECT PROJECT:

A. GIVEN ESTIMATED DOLS 10 TO 11 MILLION VALUE OF CONTRACT, AN 8(A) AWARD COULD ONLY BE MADE FOLLOWING A FULL AND OPEN COMPETITION AMONG ANY/ALL 8(A)S INTERESTED. THIS APPLIES TO ANY PROCUREMENT WHOSE LOP IS PROJECTED TO EQUAL OR EXCEED DOLS 3 MILLION AND WOULD INCLUDE CBD NOTICE, FULL RFP, AND FULL PROPOSALS AND WOULD REQUIRE SAME TIME FRAME AS A NORMAL FULL AND OPEN PROCUREMENT.

B. AGENCY'S GRAY AMENDMENT AUTHORITY FOR FY 1991 AND LATER FUNDS (AIDAR 706 302 71) IS BEING MODIFIED BY DRAFT REGULATIONS (AIDAR NOTICE 91 4) SO THAT QUOTE PROCEDURE NOW REQUIRES THE CONTRACTING OFFICER TO OBTAIN COMPETITION TO THE MAXIMUM PRACTICABLE EXTENT, BUT NO LONGER REQUIRES THE CONTRACTING OFFICER TO CERTIFY THAT TWO OR MORE RESPONSIBLE OFFERS CAN REASONABLY BE ANTICIPATED END QUOTE. AS IN FY 1990, THIS AUTHORITY APPLIES TO SMALL REPEAT SMALL DISADVANTAGED BUSINESS CONCERNS, AS WELL AS TO HISTORICALLY BLACK COLLEGES AND UNIVERSITIES OR THOSE WHICH HAVE A STUDENT BODY OF MORE THAN 40 PERCENT HISPANIC AMERICANS, AND DISADVANTAGED PRIVATE VOLUNTARY ORGANIZATIONS.

C. MISSION DECISION TO USE GRAY AMENDMENT AUTHORITY WOULD ONLY REQUIRE CLEARANCE FROM OSDBU, ALONG WITH A SHORT CERTIFICATION THAT COMPETITION UNDER 8(A) RULES IS IMPRACTICABLE

(SEE A, ABOVE) AND CERTIFICATION THAT
COMPETITION WAS OBTAINED TO MAXIMUM EXTENT
PRACTICABLE.

D. NORMALLY, OSDBU WOULD PROVIDE A SOURCE LIST
FROM ACRIS FOR MISSION REVIEW. AT THIS TIME,
HOWEVER, BELIEVE THAT CARANA AND MBA, INC,
MIAMI, FLORIDA ARE TWO FIRMS WITH MOST ABILITY
TO UNDERTAKE A PROJECT OF THIS TYPE. MBA, INC
PRINCIPALS ARE MANUEL IGLESIAS AND DAVID
SCHRIER. IF MISSION DESIRES, OSDBU WILL
FORWARD COPY OF LATTER'S CAPABILITY STATEMENT.
MISSION WOULD WANT TO CONSIDER BOTH BEFORE
MAKING A DECISION.

2. HOPE ABOVE IS HELPFUL, PLEASE CONTACT US IF WE CAN
DO ANYTHING ELSE TO HELP. OUR FAX NUMBER IS 703/875
1119. BAKER

BT
#9268

NNNN

ANNEX 7

CARLOS TORRES' REPORT ON INFORMATION SYSTEM DESIGN

15

MEMORANDUM

FECHA: 10 enero, 1991

PARA: Richard Rosenberg; USAID
Jerry Harrison-Burns; USAID
Ing. Curtis Sittenfeld; CARANA CORPORATION

DE: Carlos J. Torres

REF: BASES DE DATOS PARA LA PROMOCION DE LAS EXPORTACIONES Y DE LAS INVERSIONES

Introducción

El convenio principal firmado entre USAID y el Ministerio de Planeamiento, y los sub-convenios firmados con las diferentes entidades en La Paz, Santa Cruz y Cochabamba, le dan mucha importancia a la implementación de una base de datos electrónica para apoyar el proceso exportador. Dados los cambios en el proyecto en este primer año de su implementación, creo que es un buen momento para reflexionar sobre la importancia de las bases de datos en el proceso exportador y cual seria la mejor forma de lograr los objetivos del proyecto en esta area, dada la experiencia en Bolivia y en otros paises.

Antes de entrar en una discusión sobre las diferentes clases de bases de datos que existen y la forma en que se pueden utilizar, es importante entender que las bases de datos son solo una herramienta que apoyan un proceso de investigación, que es un paso muy preliminar de muchos que se tienen que realizar antes de que una compañia logre exportar exitosamente. Hemos visto que en muchos paises, entidades de promoción de exportacion han buscado desarrollar bases de datos, invirtiendo grandes recursos financieros y humanos en el desarrollo de éstos. Aunque la existencia de una base de datos puede ser algo útil al proceso exportador, la realidad es que este proceso exportador es muy complejo y requiere de muchisimo trabajo por parte del exportador con sus propios recursos.

Diferentes Clases de Bases de Datos

Existen muchas clases de bases de datos que se pueden utilizar. Un resumen de las más importantes se presentan en esta sección.

- Precios: La mayoria de estos son electrónicas, y lo que buscan es darle al usuario información sobre precios actuales e históricos que se pueden usar para analizar tendencias en

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precios. Desafortunadamente, estas bases de datos no son muy útiles para productos no tradicionales ya que por las diferencias en calidades de productos, la forma en que se empacan, y otras diferencias, los precios que se dan tienen un uso limitado (estudios de pre-factibilidad, etc.). He encontrado que para lograr tener una mejor estimación de un precio para un producto especifico, hay que hacer una investigación en el mercado directamente. El exportador que busca verificar independientemente de su comprador el precio de mercado para su producto, casi siempre tiene contactos con otros exportadores o con otros compradores. Las bases de datos de precios casi siempre son electrónicas, que tienen un alto costo para el usuario comparado con la información que se logra de estas.

- Identificacion de compradores: Existen muchas bases de datos, electrónicas y/o bibliotecarias, que se pueden utilizar para identificar compradores. Desde documentos tan sencillos como las "paginas amarillas" de las guias telefónicas de diferentes países y ciudades, a documentos especializados como "The Directory of United States Exporters" a bases de datos electronicas como "Dun and Bradstreet"; estos documentos se pueden utilizar para hacer una identificación preliminar de compradores, pero después hay que hacer una investigación en el mercado para identificar compradores compatibles y de buena reputación que tengan interés en el producto que se está ofreciendo, o en una variación de ese producto adaptado a las necesidades del comprador y su mercado. Por razones de costo, las bases de datos bibliotecarias son preferidas a las electrónicas, siempre y cuando se mantengan actualizados.

- Información Crediticia: Aquí también existen bases de datos electrónicas y bibliotecarias que son muy útiles a la hora de investigar un comprador especifico. Las bases de datos bibliotecarios, como las de Dun and Bradstreet pueden dar una información preliminar muy buena. Otras bases de datos electrónicas, pueden indicar una informacación mas detallada y actualizada, pero a un costo mas alto.

- Estadísticas de Comercio Internacional: Las estadisticas de comercio internacional son muy útiles para gobiernos y entidades que están involucrados en la definición de politicas de comercio internacional, etc., pero para el exportador especifico, son poco útiles. El acceso a esta información puede ser a través de bases de datos electrónicas y/o bibliotecarias.

- Identificación de Oportunidades de Inversión o de Exportación: Han habido varios intentos por parte de organismos internacionales para crear este tipo de bases de datos, pero en mi opinión, con muy poco éxito. Los costos de estos son muy elevados, y he visto tan poco éxito con estas bases de datos que no creo que valen la pena utilizarlas en el caso de Bolivia.

- Bases de Datos Bibliográficas: Una biblioteca de Comercio Internacional no puede pretender tener toda la informacion (estudios de factibilidad, perfiles de mercado, reglamentos de los diferentes paises para diferentes productos), pero a traves de bases de datos puede identificar la existencia de documentos sobre el tema que le pueda interesar al exportador. Las bases de datos de esta naturaleza pueden ser electrónicas, pero a través de convenios con diferentes entidades, se puede obtener accesso a este tipo de información por FAX o Telex.

El Usuario

Los usuarios principales de los centros de información que se crean en las entidades de promoción de exportación son casi siempre estudiantes y/o otras personas que probablemente nunca lleguen a exportar porque no reúnen las otras cualidades para lograr ser exportadores exitosos (accesso a capital, tecnologia, etc.). Con esto no quiero decir que no son necesarias y que por lo tanto no se deben utilizar. El exportador serio muchas veces tiene necesidades de información preliminar que se pueden encontrar en estos centros de información y que pueden ayudar a orientar al exportador rapidamente en su proceso de investigación.

Problemas Tecnológicos

Por razones tecnológicas, las bases de datos electrónicas tienen sus limitaciones en Bolivia. Las lineas de teléfono al exterior son dificiles de conseguir, y de una calidad que hace que la transmision de datos por esta via sea muy dificil. También tenemos que considerar el factor costo, ya que el costo por minuto de una llamada al exterior es alto, y una investigación en una base de datos electrónica en el exterior puede durar 30 minutos fácilmente. Por esta razón recomiendo que en Bolivia se haga nincapie en las bases de datos bibliotecarias, buscando desarrollar una relación con una entidad en el exterior que pueda apoyar una investigación cuando sea necesario, comunicandose con Bolivia por FAX o Telex.

Recomendaciones

Recomiendo que se siga apoyando la creacion de bases de datos y centros de información, pero modificando el enfoque hacia bases de datos bibliotecarios, con menos énfasis en las bases de datos electronicas.

El costo de montar un centro bibliográfico completo puede ser de $2,000 a $4,000, y el mantenimiento del centro puede variar entre $1,000 y $2,000 por año. Adjuntamos la lista de documentos que consideramos necesarios para un centro de esta naturaleza.

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KEY LIBRARY DOCUMENTS FOR BOLIVIAN EXPORTER'S LIBRARY

1. STANDARD AND POORS, 3-Volumes Register of companies.

2. Dun's MILLION DOLLAR DIRECTORY - Top 50,000 companies. D&B also offers company information on diskette which could be purchased every two or three years. Their services are described in Dun & Bradstreet's Catalog of Business Mailing Lists and Direct Marketing Services.

3. Various U.S. State Business Directories, e.g. California Manufacturers' Register. Most state offer manufacturing and service sector directories.

4. Association Directories, e.g. the American Electronic Association Directory, or the Apparel Manufacturers' Directory. Given that many important Associations are based in Washington, D.C., I assume we should be able to pick these up easily enough.

5. Rich's Business Guide - various High-Tech guides are available for different states.

6. Directory of Corporate Affiliations, published by the National Register Publishing Co.

7. McMillan's Directory of leading private companies.

8. Directory of HiTech Corporations, published by American Investor Information Services in Philadelphia.

9. MedTech Directory, which lists medical and other health-care companies that manufacture advance technology products. A similar one is the Medical & Healthcare Marketplace Guide, published by the MLR Publishing Co.

10. United States Importers & Exporters Directory. Published by The Journal of Commerce. Two Volumes.

11. Ulrich's International Periodicals Directory. 28th Edition. (Now including Irregular Serials & Annuals). Three Volumes.

ANNEX 8

TECHNICAL ANALYSIS

TECHNICAL ANALYSIS

An analysis of Bolivia's competitive advantages in the promotion and attraction of foreign investment was carried out by Mr. Rodrigo Ortiz in May, 1990. The analysis focused on the primary manufacturing sectors for new investment and export; issues related to Bolivia's comparative advantage of which Bolivian exporters and foreign investors must be aware; an anlysis of free trade zones and their application to Bolivian foreign investment; other potential export sectors; and, recommendations for a project strategy for Bolivia for securing new foreign investment and increasing exports.

A. Potential Manufacturing Sectors

The following is a summary of the potential manufacturing sectors in Bolivia which are capable of increasing export capacity and considered promising enough to warrant an in-depth analysis.

1. "Maquila" or Draw Back Industry

This manufacturing sector, referred to as the "Maquila" or "draw back" industry, is common to the offshore apparel industry in which cloth is manufactured and cut in the U.S., then temporarily exported to a third country. At the offshore site, the cloth pieces are assembled into a finished product or garment. The term maquila can also be applied to the assembly of electronic components or other manufactured goods whereby all the parts are shipped from the U.S. or elsewhere, and final manufacturing or assembly of the product is carried out in other countries with the use of well trained and inexpensive labor.

The maquila industry is highly labor intensive, with manufacturing facilities often requiring hundreds or thousands of local employees. However, since most of the component parts are imported, there is a relatively small amount of domestic value added, and little or no integration of local industrial capacity in the manufacturing and export process.

2. Vertically Integrated Textile Production

The vertically integrated textile production industry is closely related to the maquila sector, but is independent from the apparel maquila industry. This sector refers to textile manufacturing operations which are vertically integrated with all the processes needed to produce the thread or yarn which will eventually be dyed, woven and/or knitted into the finished cloth or garment. This type of manufacturing activity is more capital intensive than is the maquila industry, and is also an important source of employment generation given the size and volume of operations. This sector has the distinct advantage of incorporating local inputs such as wool, cotton, synthetics and fibers, thus increasing industrial integration and the potential for value added in Bolivia.

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3. Light Manufacturing

The third manufacturing sector included in the analysis is termed light manufacturing, and refers to those operations in which labor is a major component of the manufacturing cost. These facilities require a minimum of machinery (relative to the size, investment and technology of medium and heavy manufacturing). Light manufacturing, however, differs substantially from maquila in that not all the materials and components are imported. Local raw materials, components or subcomponents are frequently incorporated to produce the finished product. This type of manufacturing can employ substantial numbers of workers, but does not require a high level of technology. Included in this category are apparel operations which employ locally purchased or imported cloth, and all finishing operations take place domestically. Other representative sectors in this classification are electronics, metalmechanics, plastic injection and assembly, and jewelry making.

4. Mining, Extraction and Related Primary Industries

By far the most promising export and investment promotion sector in Bolivia is the mining, extraction and related primary industries. Over the last few years, major changes in the mining sector in terms of technology and variations in supply and demand have improved considerably the prospects for Bolivia's traditional mining exports. The rapid decline recently in Bolivia's exports of metallic ores is not attributable to a decline in raw material, but rather the inefficiencies in the mining processes employed in Bolivia. The production inefficiencies have caused Bolivian mines to be less competitive than mines and mining operations in other countries. Bolivia must study this sector and find ways to modernize and sustantially increase the efficiency of its mining operations if this sector is to provide leadership and continue to serve as the backbone of the economy.

Typically the mining sector, as a primary means of increasing exports, is ignored in most developing countries given the requirements of large capital expenditures and abundant natural resources. However, Bolivia's immense and accessible reserve of mineral resources indicate that everything possible should be done to effectively develop the mining and primary industries in order to produce refined and processed copper, steel, silver, gold, tin, lead, antimony as well as other metals and alloys.

Strong foreign investment and technology inputs are necessary to develop the Bolivian mining sector. Bolivia currently has the human resources and conditions necessary for maquila and light manufacturing industries, and the strong advantage of being capable of providing many of the raw materials required by these manufacturing sectors. In addition, the development of raw materials into finished and purified metals and minerals could be integrated into most industrial processes, and serve to competitively position many of Bolivia's export industries. The end result of this effort is that Bolivia will acquire a privileged position relative to Asian and Caribbean countries involved in offshore manufacturing activities.

B. Comparative Advantages from the Investor's Perspective

The analysis carried out by a foreign investor, prior to making the decisionto establish offshore production facilities and operations in Bolivia, would typically include the cost of production, investment incentives, manufacturing facilities, and opportunities and other considerations relative to these offshore operations. In addition to this analysis however, there are many common issues which must be addressed before an investment decision can be made.

One of the most important issues is the quality and quantity of the available work force. Since this is one issue which will have high priority among foreign investors, it is essential to evaluate the quantity, quality and availability of local labor. Foreign investors involved in offshore manufacturing require certain types of human resources regardless of whether they are interested in maquila assembly, light manufacturing or other manufacturing sectors.

1. "Blue Collar" Workers

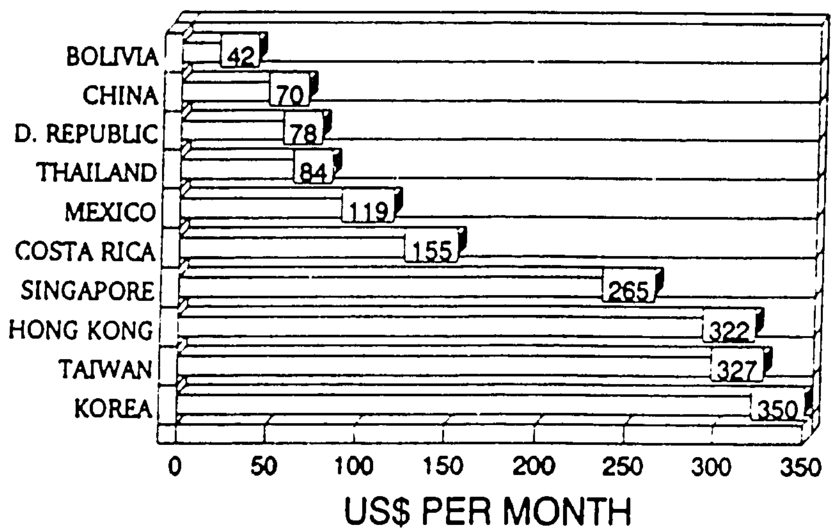
For general plant, or blue collar workers, Bolivia has a low literacy rate, work skill levels and an absence of related training programs. At the present time, there is no specific institution dedicated to worker training and development. To compensate for the absence of programs and specific resources in these areas, industries should be targeted and promoted which do not require a high level of education for the workers. An example of this is found in the area of jewelry manufacturing and diamond polishing, in which manual dexterity and interest in developing skills in a trade are the primary criteria for entry level employment.

2. Wage Rates

The following chart refers to salaries and labor rates in Bolivia relative to other offshore maufacturing countries. The chart illustrates comparative wage rates of Bolivia with competitive countries in the Caribbean Basin and Southeast Asia. Bolivia possesses a strong comparative advantage compared to the industrial wage rates of other competitive countries. Based upon cost surveys of several maquiladora plants in Costa Rica, a typical cost breakdown of these operations is presented as follows:

Labor	78%
Raw materials and packaging	2%
General plant expenses	18%
Financial costs	2%
Total	100%

INDUSTRIAL WAGES
WITHOUT FRINGE BENEFITS



This example shows the relative importance of salaries and the input of local labor in the manufacturing process. The cost breakdown reflects a salary structure which averages US$ .77 per hour (minimum wage), with a fully loaded cost (all benefits included) of US$ 1.08 per hour for the Costa Rican apparel industry. Even with these relatively high salaries, the Costa Rican apparel industry maintains a strong competitive position.

In Bolivia, the average wage rate within the apparel and textile industries is approximately US$ .33 per hour, with fully loaded fringe benefits bringing the hourly wage to US$ .45. Thus, Bolivia has a strong comparative advantage with other countries in terms of the cost of production labor.

3. Clerical and Technical Staff and Managerial Personnel

Foreign investment in the above mentioned manufacturing sectors requires the availability of clerical and technical staff with bilingual language skills and technical training, particularly in manufacturing related areas. Although not a particularly strong area in Bolivia, an assessemnt of the capabilities and availability of these workers will be carried out in the near future. The same preliminary assessment can be made for managerial personnel needed to mange operations after the initial start-up and training period. Information on the above personnel will be invaluable for Bolivian export promotional and developmental purposes in the future.

4. Air Transportation

Bolivia offers adequate infrastructure and international airports in the three major cities. These airports provide handling, storage and service facilities for modern freight and passenger aircraft, for both domestic and international flights.

Due to a larger volume of south-bound freight, Llovd Aereo Boliviano (LAB) will carry any type of cargo North-bound to Miami for $1/kilo. Preferential rates are available for loads under 5.000 kilos ($.05/kilo), as well as for loads over 5,000 kilos ($ 04/kilo). Representative products that qualify for this rate include textiles, apparel, minerals, wood manufactured products, plants, seeds, leather manufactured goods, toys, sporting goods and handicrafts. Despite the tremendous difference in distance with repect to other countries in Central America, Bolivian export products on the whole are competitive with other countries, based on air transport rates which average approximately $.06 less than Central American countries.

5. Sea Transportation

Adequate and competitive sea transportation is very important both for the importation of raw materials and the export of final products. Bolvia's seagoing export and import cargo mainly is shipped through ports located in the Pacific, such as Arica and Antofagasta, Chile, and Matarani in Peru.

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Ocean cargo rates to Miami for finished apparel goods indicate that the cost of a 40' container is $US 2,980, compared to a similar container from Costa Rica to Miami of $US 3,000. However, the major difference is the shipping time of at least 15 days from Bolivia to Miami, compared to 2-5 days from Costa Rica.

6. Incentives

A very important issue with foreign investors (especially for Pacific-rim countries) is the quota level for entry of apparel articles into the United States. Having access to a greater quota becomes so critical that it may totally overshadow all cost considerations when choosing an offshore production location. At this time Bolivia does not have apparel or textile quotas for entry into the U.S. The small volume from this industry has not been sufficient to create an historical performance level which is used in establishing a country quota. Thus, it should be extremely beneficial for Bolivia to receive preferential and predetermined quota levels since at this time it has a low performance level and no established quota. Moreover, Bolivia could negotiate with target companies by being able to offer guaranteed access to its quota, thus serving to strengthen future investment promotion activities.

7. One Stop Approval System

The one stop approval system, or "ventanilla unica", can greatly reduce the time and frustration in existing export and import procedures. However, this would require major institutional coordination and cooperation. Since experience in other countries indicates that this is a slow procedure, it would be convenient to begin now in order to obtain results within 1-2 years.

C. Other Potential Sectors and Subsectors for Export Development

The following selection criteria will be used to determine which export sectors, subsectors and individual industries are viable for inclusion under the project:

* Efforts will be concentrated on industries with relatively low technology levels. Over a 2-3 year period, the project focus should evolve toward more sophisticated and high technology areas and products as the Bolivian industrial subsectors develop.
* Products which require a high labor content to produce or manufacture should be considered and promoted since abundant and inexpensive labor constitutes a key part of Bolivia's comparative advantage.
* Products which require well-trained workers (trained over an extended period, 1-5 months), will enable Bolivia to become more competitive with other countries over the longer-term.
* Bolivia could obtain a competitive advantage in products which require a high degree of manual dexterity, such as micro electronics, gem and diamond polishing and high quality jewelry.

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- Products with high value to volume ratios, such that air cargo transportation is a key factor in export development. Products of this nature would include electronics, jewelry, and data processing components.

- Products which permit vertical integration of locally sourced components of many or all of the raw materials and inputs, thereby enabling more local value added.

- Products whose development and viability are not dependent upon critical lead times and product turn-around time. Products of this type employ distribution and manufacturing cycles which are not sensitive to lead times required for the assembly or fabrication of local or imported product inputs.

The following is a summary analysis of other potential export sectors which the institutional contractor will assess during the early stages of implementation.

1. Agricultural Sector

The tropical regions of Bolivia produce wheat, corn, rice, quinua and other basic grains as well as cane molasses, all of which are excellent carbohydrate energy sources. Farmers in these regions can also produce root crops such as cassava for the same purpose. All of these factors combined with the increasing soybean production creates ideal conditions for swine, egg and broiler production. Instead of exporting soybeans which require considable investment and infrastructure, oil disposal problems, transportation deficiencies, and price irregularities, soybeans could be processed through an extruder and the full fat soybean meal used to integrate into swine or poultry production operations and the end product used as a high energy, high value, protein food source. In addition, the Santa Cruz area can produce cotton and could also process cotton seed oil from cotton as a valuable by-product.

Pork and chicken could be slaughtered, processed and exported to neighboring countries as fresh or vacuum packed products or by-products. Many of these countries (Peru and Chile) are already importing soybean meal for exactly the same purpose.

Since the soybean harvest and shipping season is only 60 days long, local infrastructure cannot be developed for such a short-term and relatively low volume crop. Moreover, international competition and price variance make soybeans an extremely sensitive product. Major producers such as the U.S. and Brazil will always be in position to influence price and supply, with a potential detriment to Bolivian soybean production.

The Bolivian agroindustrial sector will take on greater importance in the near term as the Chapare diversification project provides crops and raw materials that will require industrialization. Of particular interest will be highly industrialized agroindustrial and canned products that take advantage of high labor inputs; local sugar (out of quota); cans (high local tin and zinc content, however, it will be necessary to study the price and quality of this material for canning purposes); and high energy component products which reduce turn around time and minimize transportation problems, and generate a year round presence in the market-place.

2. The Textile Sector/Fiber Production and Vertically Integrated Textiles

A proposed strategy for developing vertically integrated textile production for export would include the following:

a. Develop local production of wool, alpaca, rabbit and other high value fibers that can be incorporated into locally produced textile products.

b. Improve quality of the above fibers through technical assistance programs and genetic improvement programs. Major genetic improvement can be achieved in the short term due to the species involved and their very fast reproductive cycles. Animal nutrition programs can help solve the protein deficiency problems that severely affect fiber quality and quantity.

c. Process and dye local alpaca wool, thereby avoiding contraband shipments of the raw material to Peru and Chile for processing and return to the Bolivian exporter.

d. Substantially increase the production volume of textiles during the short-term through plant and employee expansion, and improved marketing channels. (An important Bolivian plant is already exporting $10 million per year in the product areas of cotton knits, flat weaving, knitting, dying, thread production and sewing.)

3. The Bolivian Mining Sector

Bolivia has drastically reduced its exports in almost every major area. The real challenge in the future will be to regain lost volume and increase export levels attained in previous years.

In 1986, the British Geological Survey (BGS) completed a 10 year mapping program of 100,000 square mile areas in Pando, Beni and Santa Cruz. As of this date no major follow up exploration has been made on the BGS study. It is estimated that perhaps only 10% of Bolivia's mineral wealth has been tapped. Near Uyuni, the world's largest lithium deposit can be found. At this time the mining of lithium has not commenced and the best methodology for extraction is still under consideration.

A large potential area in the mining sector is in semi-precious stones. Amythist is the principal stone found in Bolivia and is characterized by having a very high quality and color. The extraction of these stones in conjunction with a well developed jewelry industry would give Bolivia a large advantage in the export market and permit a totally vertical integration.

Target markets for Bolivia's mining products are the following: tin is principally shipped to Europe and Malaysia. Gold is bought by Germany (in concentrate form) and the US. (as placer nuggets). Belgium is the main buyer of silver and antimony is shared by the U.S. and Europe. Finally, copper is shipped primarily to Europe in concentrate form.

Any relevant promotion of the mining sector in Bolivia should contemplate the study and development of New Mining Sector Development Models. The following are examples of these potential models:

a. Consider linking authorization of mining concessions back to infrastructure development on behalf of the mining groups. Similar reflows of resources have been done successfully in Chile.

b. Link mining concessions back to diversification projects which could mean more vertical integration for Bolivia. Another possibility would be to require the establishment of subsidiaries of the large diversified transnationals in manufacturing in other areas.

c. Link a percentage of all mining exports income to the creation of a national fund for: product development, price stabilization, diversification, or vertical integration.

4. <u>Metal Working Sector</u>

a. Emphasis should be placed on the production of lead articles such as buck-shot, and bullets both jacketed (copper) and unjacketed. These articles would incorporate lead, tin, antimony and copper, all of which are mined and produced in Bolivia. Production of copper is 20,000 tons per year and many of the ingredients to produce gun powder are mined and produced in Bolivia (e.g. nitrates, saltpeter, sulfates).

b. Focus on labor intensive industries that utilize local raw materials: copper, zinc, lead, tin, wolfam (fishing weights, automobile batteries, high solder content products, highly tinned products).

c. Potential seems to be evident for plating industries: utilizing gold, silver, tin, and chrome as local raw materials.

d. Study the possibility of producing heavily gold plated electronic contacts, connectors and other component parts.

e. Produce semi-elaborated metal products which require Bolivian raw materials such as: radiator tubing and gold foil.

f. Pewter production: jewelry, fine castings, buttons, plates and dinnerware. Pewter incorporates copper, tin and lead, all of which are produced in Bolivia and the casting and finishing process is very labor intensive.

5. Jewelry Manufacturing

The jewelry manufacturing process is highly conducive to micro enterprise development and works well in a cottage industry environment. This sector uses large amounts of gold, silver, pewter and semi-precious stones and it would be viable to access other semi-precious stones and precious stones under free zone status from the neighboring countries in the region. It would be possible to extract amythist in Bolivia, lapislazuli, onyx and malaquite from Chile, emeralds from Colombia and many other stones and gems from Brazil.

If diamond polishing is pursued, emphasis should be placed upon the cut small diamonds which represent fractions of a carat. This is a low end subsector which is very labor intensive. From this inital base, an important employment and foreign currency source could be developed.

Informal sources have estimated that Bolivia produces approximately 2 tons of legitimate gold per year, and another 8 tons potentially are moved through illegal channels. Jewelry operations customarily import pure gold, thus limiting or avoiding the local gold and the possibility of impurity in extractions. In order to make these products and many others it would be essential to develop electrolytic gold purification on a national level that is reputable and controlled by the Bolivian Central Bank The investment and sophistication of this process is minimal but the national benefits could be substantial.

Other areas of distinct export potential would include: automotive battery production; electromechanical production and assembly; transformers; fractioned electric motors; cast iron castings and machine component parts; and woodworking artifacts and furnishings.

D. Conclusion:

Investment and export promotion programs, if properly structured and implemented, can produce significant contributions in employment generation, exports and investments. The internal and external environment at this time could not be more favorable for Bolivia. Implementation of successful and cost effective export promotion and investment attraction programs can provide Bolivia with an important contribution towards economic stability and development, as well as significantly increase the volume and range of exports, generate increased foreign exchange and create viable employment.

ANNEX 9

ECONOMIC ANALYSIS

Economic Analysis
Foreign Investment Promotion Program

1. Introduction

This analysis, prepared by the Mission's Economist, provides a quantitative justification for the Foreign Investment Promotion component of the Export Promotion Project. It establishes a relationship between expenditures on investment promotion, total foreign investment that may be expected to result from this project, and the benefits accruing to the economy as measured by gross and net exports (or value added) and employment generation. Studies and A.I.D. project papers in a large number of countries in which investment promotion projects were put into effect were reviewed. Only one project evaluation was found which provided some data to permit establishment of a quantitative relationship between the cost of an investment promotion project and the benefits that could be attributed to it, including its impact on exports and employment. This was the study undertaken for CINDE in Costa Rica by Corrales, Céspedes and Vega, entitled "Evaluación Económica del Programa de Inversiones y Exportaciones," PIE/CINDE, June 1990. No other study provided, or attempted to utilize, empirical data to establish quantitative relationships between the cost of investment promotion programs and their impact on the economy.

Studies other than the one cited above which provided some useful data include one by CINDE's Marketing Division, entitled "Second and Third Quarters Report, 1990"; AID's "Overview of Investment Promotion (Networking) Projects", and the Instituto Nacional de Estadística's (INE) input-output table for Bolivia.

A note of caution should be sounded with respect to the reliability of the results yielded by the models developed for the following reasons: (1) there is some question with respect to the applicability of one country's experience to another. In the case of the Costa Rican data, it can be argued that the overall investment climate is much more favorable in Costa Rica than in Bolivia owing to factors such as the length of the democratic tradition, closeness to the United States market, more developed infrastructure, etc. To compensate at least partially for such differences, we have adopted much more conservative assumptions with respect to the relationship between investment and benefits than the Costa Rican evaluation indicated; (2) data on the experience of other countries are extremely scarce, which forced us to rely very heavily on the CINDE evaluation; and (3) even in case of the CINDE evaluation, the data permitted no more than the establishment of estimates that could be used to establish ratios relating the cost of an investment promotion project to the final country benefits that may be expected to result therefrom.

Two alternative projection models were developed to deal with the problem of the project's impact on <u>net</u> employment, viz.: should we assume that the employment generated by the additional foreign investment represents a <u>net</u> increase in total employment (i.e., that the labor employed would have been remained unemployed in the absence of the investment?) Or does a significant proportion of the employment generated represent a diversion of labor from employment in other sectors? The assumption made with respect to this issue is crucial for both the employment and value added projections.

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Two models were developed to deal with this issue: Model I assumes that all labor employed as a result of the direct foreign investment resulting from the project represents a net addition to the employed labor force (i.e., which implies that these workers would be drawn from Bolivia's large tool of unemployed and under-employed); while Model II assumes that half of the labor employed as a result of the investment is diverted from other sectors. Quite possibly, the actual outcome would fall somewhere between these two cases. In fact, we believe that Model I is more realistic in the Bolivian situation owing to (1) the high level of unemployment and underemployment that prevails in this country, and (2) the likelihood that the labor diverted from other industries or occupations will be replaced by drawing on the large pool of the unemployed or under-employed.

The following table summarizes the results obtained. The methodology and supporting tables appear in Annex 7. In the case of both models, it is assumed that all foreign investment will be focused on the export market, so that total direct value added 1/ generated by the foreign investment would be equal to total net exports (gross exports less imported inputs).

The results obtained are as follows:

Summary of Economic Analysis Results

	Model I	Model II
Internal Rate of Return	42.6%	34.2%
Net Present Value with a 10% annual discount rate (in millions US$)	10.8	7.3
Net Present Value with a 15% discount rate (in millions US$	7.1	4.5
Net Present Value with a 20% discount rate (in millions US$)	4.6	2.7
Employment Generation Total (including employment multiplier effect)	10,468	5,234
Direct only (excluding employment multiplier effect)	5,234	2,617

1/ "Direct" value added abstracts from the Keynesian income multiplier effect, but includes the income directly generated in the production of all domestically produced inputs.

These are clearly very high rates of return, particularly when account is taken of the fact that these calculations are in terms of constant US dollars2/. Note that Model I shows that the net present value of the benefits from the investment promotion project, when discounted at an average annual rate of 10%, exceeds the total amount spent on investment promotion over the five-year "Life of Project" period. Direct employment generation (in the industries directly affected) is estimated at 5,234 under Model I, and 2,617 under Model II, while total employment generation, including the employment impact on the industries producing the inputs and on other activities subject to the income multiplier effect, is estimated at 10,468 under Model I, and half that number under Model II. The basis for these estimates (admittedly very crude) is discussed further in the Methodology Section.

2. Methodology

The first step is to establish, on the basis of available empirical information, a link between the investment promotion expenses and the total foreign investment that these promotion expenses may be expected to generate.

The relevant estimates are presented in Table 1. The first line of the table shows the scheduled amounts of investment in the project that AID plans to undertake over the five-year project implementation period. The second line indicates the assumed ratio between these expenditures and the amount of direct foreign investment that these promotion expenditures are expected to yield each year. This ratio probably is the most crucial assumption of the model. In Costa Rica, the CINDE study suggested that $6.9 million spent on investment promotion over 1987-88 gave rise to $47 million in foreign investment directly attributable to investment promotion during this period.3/ This indicates a ratio of 6.8 to 1.0 - i.e. $1 million spent on investment promotion resulted in $6.8 million in total foreign investment. This ratio struck us as being far too optimistic for Bolivia. We decided, therefore, to adopt a much more conservative ratio of 3 to 1 in our projections. Line 3 of Table 1 was obtained by multiplying the figures in line 1 by a factor of 3.

The figures on line 4 (showing the amount of foreign investment in each of the four sectors) were obtained by dividing the totals on line 3 by four, on the assumption that the foreign investment would be equally distributed among four major sectors, viz. agriculture, textiles, wood and wood products, and "various manufactured products". This assumption is obviously arbitrary, but we have no basis for assuming any particular distribution of foreign investment among the major economic sectors.

2/ Current dollar projections were reduced to constant dollars by assuming that the annual US inflaction rate will be 5.5%, equal to the average annual inflation rate over 1979-89.

3/ The CINDE study took care to separate total foreign investment from the foreign investment that could be attributed to the AID investment promotion project. Its analysis focused only on the latter.

We are now ready to move from direct foreign investment to estimating the value added resulting from this investment. This is accomplished by means of the input/output table elaborated by INE. Table 2 presents in highly summarized form the results of the input/output analysis as applied to our four major categories - agriculture, textiles, wood and wood products and "various manufactured products". In the case of textiles, for example, a dollar spent on finished output is broken down as follows: 22 cents is spent on imported inputs, 40 cents is spent on domestic inputs other than salaries, 24 cents goes for salaries and 14 cents remain for on profit. If we assume that all profits are repatriated (a worst-case assumption), the amount of value added generated that remains in the country would be 64 cents (i.e. the amount spent on domestic inputs and salaries) for every dollar of gross output.

We are now ready to estimate the impact of foreign investment expenditures (in line 3 of Table 1) first on gross output (assumed to be equal to gross exports), then on net value added. This is done in Table 3 (for Model I) and Table 4 (Model II). Focusing on Table 3, note that the first two lines (investment promotion expenses and foreign investment in each sector) were carried over from Table 1. Line 3 of Table 3, showing "total output generated in each sector as a result of prior year investments" is based on the following assumption: a direct foreign investment of $1.0 in year 1 produces an increase in gross exports of 50 cents in year 2 (we assume a one-year lag) and 75 cents in year 3 and in each year thereafter through year 10. This assumption is a much more conservative version of the Costa Rican experience which showed an average increase of $1.15 in gross exports for each dollar of direct foreign investment. This assumption is the basis for line 3 of Table 3 which shows that a foreign investment of $1.43 million in year 2 results in a gross output (or gross exports) of $0.72 million ($1.43 x .50) in year 3. In year 4, the $1.43 million invested in year 2 results in a gross output of $1.07 million ($1.43 x .75), while the $1.5 million invested in year 3 results in an output of $0.75 million in that same year. Thus, in year 4, the total increase in gross output resulting from the foreign investment in years 2 and 3 is $1.07 plus $0.75 or $1.82 million. Each of the figures on line 3 is based on the same methodology. In each case, it is assumed that the foreign investment undertaken in one year has an impact on gross output (or gross exports) in each of the following years. Note that the total output figures reach a maximum in year 7 and remain constant thereafter.

To move from gross output (or gross exports) to net value added, we utilize the input/output coefficients presented in Table 2. For example, in the case of textiles, we note that 40 cents out of every dollar is spent on domestic inputs (See Table 2). Table 3 shows that in year 3, $0.72 million was spent in each of the four sectors (line 3). Multiplying $0.72 by 0.40 gives us 0.29, which is the figure entered for textiles on the line corresponding to Domestic Intermediate Consumption for year 3 in Table 3. In the same manner, the figure for salaries was obtained by multiplying $0.72 million by 0.24 (the coefficient for salaries from Table 2) yielding $0.17 million, entered on the salary line for year 3 in Table 3. The same methodology was utilized to obtain each of the figures in the body of Table 3.

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The Net Value Added figures in line III represent the difference between Total Value Added on line II and the Investment Promotion Expenses on line I. These Net Value Added figures were then deflated by the projected annual increase in the US price level (assumed to be 5.5% a year, as over 1979-89) to express the figures in constant US dollars.

Table 4, illustrating Model II, is based on the same methodology. The only difference is that table 4 assumes that only half the labor employed as a result of the investment program would have been remained unemployed without it. Thus, the figures on the salary line for each of the four sectors are half the level shown in Table 3.

Estimates of the employment impact are based on the ratios of total investment to job generation for each of the four major sectors presented in Table 5. The direct employment estimates refer to total employment generated after all direct foreign investment projected over the four-year LOP period has been completed. Total direct foreign investment expected to result from the investment promotion project over the four-year period comes to $6.68 million for each sector. Thus, for textiles, for example, the figure of 1,415 jobs generated in textiles (see line 2 of Table 5) was obtained by dividing $6.68 million by $4720 (the estimated amount of investment required to generate one job in that industry). Sources for the data used are cited in Table 5. The total employment estimates (direct plus indirect) were obtained by assuming an employment multiplier of 2.0. The indirect effects are significant as these include the impact on the industries producing the inputs, as well as the impact on other activities subject to the income multiplier effect. The net employment impact in Model II is half that projected for Model I.

3. Sensitivity Analysis

There are three key variables that significantly affect our projections of the impact of the project on value added or net exports. The first relates to the net employment impact of the foreign investment, which was already taken into account in developing Models I and II. The other two refer to the relationship between the investment promotion expenses and the foreign investment in each sector resulting therefrom (with a one-year lag), which we have assumed to be 1 to 3 in our analysis (i.e. 1 dollar in investment promotion expenses will generate a total of $3 in direct foreign investment). Our sensitivity analysis will reduce that ratio to 1 to 2, i.e. every dollar spent on investment promotion will eventually result in $2 in new foreign investment.

A second key assumption of the analysis was that each dollar of foreign investment in year 1 would result in additional gross exports of 50 cents in the second year and of 75 cents in the third year and in each year thereafter. In the sensitivity analysis , we have reduced the assumed impact on gross exports to 30 cents in the second year and to 50 cents in the third year and each year thereafter.

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The results obtained (see Table 6) still show highly positive IRRs in three out of four cases. Even under Model II (which we think is too pessimistic), we still get a high IRR of 22%, except in the most unlikely situation when all worst-case assumptions are used in combination. Even in that event, the IRR declines to about 11%, still an acceptable outcome when account is taken of the fact that the projections are in real terms (i.e. expressed in constant US dollars).

4. Conclusion

Expenditures of the proposed foreign investment promotion program are projected at $8.8 million over the life of the project. The most important benefits that would accrue to the economy include (1) additional foreign investment of about $26.7 million, (2) net export earnings between $38.2 million and $48.3 million, in current dollars, over the next ten years, and (3) new jobs estimated between 5,234 and 10,468. It is estimated that the investment promotion program will cost between $850 and $1700 for every direct and indirect job generated.

Thus, the investment promotion program will contribute significantly and directly to Bolivia's major economic needs: the generation of foreign exchange, higher output and productivity, and the reduction of the high unemployment rate. There are, in addition, a number of other economic benefits that the analysis did not attempt to quantify - such as technology transfer, economic diversification, and development of the industrial base - which may be as important as the variables that were quantified.

Table 1

INVESTMENT PROJECTIONS	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Initial Investment Promotion Expenses (Mill. of $)	1.90	2.00	2.00	2.00	1.00	0.00	0.00	0.00	0.00	0.00
Proportion of Total Direct Foreign Investment to Investment Promotion Expenditures	-	3:1	3:1	3:1	3:1	3:1	3:1	3:1	3:1	3:1
Expected Initial Total Foreign Investment (Mill. of $)	-	5.70	6.00	6.00	6.00	3.00	0.00	0.00	0.00	0.00
Amount of Investment in Each of Four Projected Sectors* (assuming equal distribution of foreign investment among them) (Mill of $)	-	1.43	1.50	1.50	1.50	0.75	0.00	0.00	0.00	0.00

* Agriculture, Textiles, Wood and Wood Products, and Various Manufacturing Products.

Table 2

BREAKDOWN OF INTERMEDIATE CONSUMPTION AND VALUE ADDED PER DOLLAR OF OUTPUT	AGRICULTURE	TEXTILES	WOOD AND WOOD PRODUCTS	VARIOUS MANUFACT. PRODUCTS
TOTAL VALUE OF PRODUCTION	1.00	1.00	1.00	1.00
IMPORTED INPUTS	0.09	0.22	0.29	0.04
VALUE ADDED	0.91	0.78	0.71	0.96
-Domestic Inputs	0.05	0.40	0.22	0.30
-Salaries	0.13	0.24	0.09	0.19
-Indirect Taxes	0.00	0.00	0.01	0.00
-Profit (assumed repatriated)	0.73	0.14	0.39	0.47

Table 3

TOTAL VALUE ADDED RESULTING FROM THE INVESTMENT PROMOTION PROGRAM (1)

(Over a Ten-Year Period)

(Mill of $)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
I. INVESTMENT PROMOTION EXPENSES	1.90	2.00	2.00	2.00	1.00	0.00	0.00	0.00	0.00	0.00
Foreign Investment in Each Sector		1.43	1.50	1.50	1.50	0.75	0.00	0.00	0.00	0.00
Total Output Generated in Each Sector as a Result of Prior Year Investment			0.72	1.92	2.95	4.07	4.92	5.01	5.01	5.01
II. TOTAL VALUE ADDED (Undiscounted)	0.00	0.00	1.21	3.01	4.94	6.68	7.90	[illegible]	8.21	8.21
AGRICULTURE										
Economic Benefits			0.14	0.34	0.54	0.74	0.88	0.91	0.91	0.91
-Domestic Intermediate Consumption			0.04	0.09	0.15	0.20	0.24	0.25	0.25	0.25
-Salaries			0.09	0.24	0.38	0.53	0.63	0.65	0.65	0.65
-Net Indirect Taxes			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
-Corporate Taxes			0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
TEXTILES										
Economic Benefits			0.47	1.17	1.90	2.62	3.10	3.22	3.22	3.22
-Domestic Intermediate Consumption			0.29	0.73	1.18	1.63	1.93	2.00	2.00	2.00
-Salaries			0.17	0.44	0.71	0.98	1.16	1.20	1.20	1.20
-Net Indirect Taxes			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
-Corporate Taxes			0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
WOOD AND WOOD PRODUCTS										
Economic Benefits			0.24	0.59	0.95	1.31	1.55	1.61	1.61	1.61
-Domestic Intermediate Consumption			0.16	0.40	0.65	0.90	1.06	1.10	1.10	1.10
-Salaries			0.06	0.16	0.27	0.37	0.43	0.45	0.45	0.45
-Net Indirect Taxes			0.01	0.02	0.03	0.04	0.05	0.05	0.05	0.05
-Corporate Taxes			0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
VARIOUS MANUFACTURED PRODUCTS										
Economic Benefits			0.36	0.90	1.45	2.01	2.37	2.46	2.46	2.46
-Domestic Intermediate Consumption			0.22	0.55	0.88	1.22	1.45	1.50	1.50	1.50
-Salaries			0.14	0.35	0.56	0.77	0.92	0.95	0.95	0.95
-Net Indirect Taxes			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
-Corporate Taxes			0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
III. NET VALUE ADDED (II-I)(In Current $)	-1.90	-2.00	-0.79	1.01	3.84	6.68	7.90	8.21	8.21	8.21
IV. NET VALUE ADDED (In Constant $)	-1.90	-1.90	-0.57	0.81	2.94	4.94	5.42	5.25	5.07	4.80

Internal Rate of Return (Economic)	42.64%	
Net Present Value at 10% disc. rate	10.77	million of dollars
Net Present Value at 15% disc. rate	7.07	million of dollars
Net Present Value at 20% disc. rate	4.57	million of dollars

(1) Assuming that all labor employed as a result of this investment program would have been unemployed without it (i.e. marginal product of labor = 0)

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Table 4

TOTAL VALUE ADDED RESULTING FROM THE INVESTMENT PROMOTION PROGRAM (1)

(Over a Ten-Year Period)
(Mill of $)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
I. INVESTMENT PROMOTION EXPENSES	1.90	2.00	2.00	2.00	1.00	0.00	0.00	0.00	0.00	0.00
Foreign Investment in Each Sector		1.42	1.50	1.50	1.50	0.75	0.00	0.00	0.00	0.00
Total Output Generated in Each Sector as a Result of Prior Year Investment			0.71	1.88	2.00	2.75	2.94	2.94	2.94	2.94
II. TOTAL VALUE ADDED (Undiscounted)	0.00	0.00	0.93	2.42	2.89	5.22	6.23	6.45	6.45	6.45
AGRICULTURE										
Economic Benefits			0.09	0.23	0.36	0.44	0.46	0.46	0.46	0.46
-Domestic Intermediate Consumption			0.04	0.09	0.15	0.19	0.20	0.20	0.20	0.20
-Salaries			0.05	0.12	0.20	0.24	0.26	0.26	0.26	0.26
-Net Indirect Taxes			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
-Corporate Taxes			0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
TEXTILES										
Economic Benefits			0.38	0.96	1.54	2.13	2.52	2.62	2.62	2.62
-Domestic Intermediate Consumption			0.29	0.73	1.16	1.62	1.93	2.00	2.00	2.00
-Salaries			0.09	0.22	0.25	0.49	0.58	0.60	0.60	0.60
-Net Indirect Taxes			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
-Corporate Taxes			0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
WOOD AND WOOD PRODUCTS										
Economic Benefits			0.21	0.51	0.82	1.13	1.34	1.39	1.39	1.39
-Domestic Intermediate Consumption			0.16	0.40	0.65	0.90	1.06	1.10	1.10	1.10
-Salaries			0.03	0.08	0.13	0.18	0.22	0.23	0.23	0.23
-Net Indirect Taxes			0.01	0.02	0.03	0.04	0.05	0.05	0.05	0.05
-Corporate Taxes			0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
VARIOUS MANUFACTURED PRODUCTS										
Economic Benefits			0.29	0.72	1.17	1.62	1.91	1.99	1.99	1.99
-Domestic Intermediate Consumption			0.22	0.55	0.88	1.22	1.45	1.50	1.50	1.50
-Salaries			0.07	0.17	0.26	0.39	0.46	0.48	0.48	0.48
-Net Indirect Taxes			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
-Corporate Taxes			0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
III. NET VALUE ADDED (II-I)(In Current $)	-1.90	-2.00	-1.02	0.42	2.89	5.22	6.23	6.45	6.45	6.45
IV. NET VALUE ADDED (In Constant $)	-1.80	-1.60	-0.87	0.34	[illegible]	3.95	4.28	4.21	3.99	3.78

Internal Rate of Return (Economic)	34.21%
Net Present Value at 10% disc. rate	7.32 million of dollars
Net Present Value at 15% disc. rate	4.52 million of dollars
Net Present Value at 20% disc. rate	2.65 million of dollars

(1) Assuming that half of the labor employed as a result of this investment program would have been unemployed without it (i.e. marginal product equals half the average salary period).

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Table 5

EMPLOYMENT GENERATION

Agriculture ($5,800/job)* (1)	1,152
Textiles ($4,720/job)(2)	1,415
Wood and Wood Products ($6,960/job)(1)	974
Various Manufact Products** ($3,945/job)(1)	1,693
Total Direct Employment Generation	**5,234**
Assumed Employment Multiplier = 2.0	
Total Employment Effect	**10,468**

* Owing to the lack of data, this ratio of investment employment generated is for agroindustry.

** Averaging available data of sporting goods, electronics/data entry, souvenirs, agroindustry and pharmaceuticals.

SOURCES:

(1) Project Development Assistance Program, prepared for USAID/RDO/C by Louis Berger International, Inc., taken from Arthur D. Little 1984 Evaluation: "USAID Private Sector On-Lending Programs".

(2) CINDE's Marketing Division, II Quarter Report, 1990.

Table 6

SENSITIVITY ANALYSIS					
Proportion of Total Direct Foreign Investment to Investment Promotion Expenditures				3:1	2:1
Gross Exports Generated per Dollar of Direct Foreign Investment in Year 1					
(2nd Year)	(3rd Year and On)				
MODEL I					
0.5	0.75		IRR:	42.5%	28.3%
0.3	0.50		IRR:	27.6%	15.6%
MODEL II					
0.5	0.75		IRR:	34.2%	22.3%
0.3	0.50		IRR:	20.8%	10.9%

NOTE - Shaded boxes represent results of main model (used in text). Other figures show results of sensitivity analysis.

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ANNEX 10

SAMPLE MONITORING AND EVALUATION FORMS

CINDE MARKETING DIVISION
RESULTS THROUGH FIRST SEMESTER, 1990

A) INVESTMENT	1986	1987	1988	1989	1990 I SEMESTER	TOTAL
NUMBER OF NEW INVESTMENTS (1)	16	16	24	40	29	125
TOTAL INVESTMENT (US $000,000)						
Targets: 1986 5-yr Plan	26	26	26	26	13	117
Annual Plan	N/A	N/A	N/A	52	24	76
Investment Projections:						
Original (3)	20.99	30.09	83.19	194.41	61.54	390.32
Current (4)	18.87	27.15	68.07	194.41	61.54	370.10
Actual Investment to Date	17.59	26.07	29.51	35.33	10.65	119.15
(as % of Orig. Proj.)8	84%	87%	35%	18%	17%	31%
(as % of Current Proj.)	93%	96%	43%	18%	17%	32%

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B) EMPLOYMENT	1986	1987	1988	1989	1990 I SEMESTER	TOTAL
TOTAL JOB GENERATION	3,739	3,757	8,775	11,067	8,759	36,107
DIRECT JOBS GENERATED BY NEW INVESTMENTS (5)						
-- Targets: 1986 5-yr Plan	3,000	3,000	3,000	3,000	1,500	13,500
Annual Plan	3,000	3,000	3,000	8,000	3,000	20,000
-- Job Projections						
Original (3)	4,895	5,029	10,036	9,386	6,592	35,938
Current (4)	3,269	3,651	7,675	9,246	6,592	30,433
-- Actual Jobs to Date	3,061	3,192	4,160	2,606	1,978	14,997
(as % of Orig. Proj.)	63%	63%	41%	28%	30%	42%
as % of Current Proj.)	94%	87%	54%	28%	30%	49%
DIRECT JOBS GENERATED BY CONTRACTING						
-- Employment Generation (Job Equivalents)	470	106	1,100	1,821	2,177	5,674

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C) EXPORTS:	1986	1987	1988	1989	1990 (I SEMESTER)	TOTAL
TOTAL EXPORT GENERATION	35.17	29.34	60.73	146.59	80.93	352.76

ANNUAL EXPORTS GENERATED BY NEW INVESTMENTS ($000,000)	1986	1987	1988	1989	1990	TOTAL
-- Targets: 1986 5-yr. Plan	46.00	46.00	46.00	46.00	23.00	207
Annual Plan	46.00	46.00	46.00	52.00	24.00	214
-- Export Capacity Projections:						
Original (3)	8.98	16.02	70.00	112.29	56.84	264.13
Current (4,6)	29.53	28.06	48.95	123.61	56.84	286.99

ANNUAL EXPORTS GENERATED BY CONTRACTING ($000,000)	1986	1987	1988	1989	1990	TOTAL
NUMBER OF CONTRACTS (2)	4	4	30	39	87	164
-- Value of Exports ($000,000)	5.64	1.28	11.78	22.98	24.09	65.77

D) SECTOR BREAKDOWN	1986	1987	1988	1989	1990 I SEMESTER	TOTAL
(PERCENTAGE)						
-- INVESTMENT:						
Textile/apparel	32.32	57.46	33.10	9.19	17.12	22.17
Food/Agro	0.32	5.16	3.50	17.15	8.52	11.47
Electronics	8.97	13.63	59.28	0.87	5.13	13.67
Plastics	0.00	2.95	2.64	0.00	0.00	0.70
Metalworking	7.17	5.52	0.00	1.44	0.41	1.59
Pharmaceutical	0.00	9.21	1.12	0.00	4.78	1.61
Sporting Goods	0.00	4.05	0.00	0.00	0.00	0.20
Jewelry	[illegible]	[illegible]	0.00	1.14	0.24	0.36
Services	0.00	0.00	0.00	0.00	0.00	0.00
Tourism	0.00	0.00	0.00	68.81	60.72	46.26
Other	0.00	0.00	0.37	1.39	3.49	1.38
-- EMPLOYMENT						
Textile apparel	67.51	59.91	52.58	56.03	[illegible]	[illegible]
Food/Agro	1.07	4.07	3.67	[illegible]	[illegible]	8.16
Electronics	9.96	4.39	21.79	6.80	5.57	[illegible]
Plastics	0.00	3.46	3.42	1.10	1.42	1.57
Metalworking	1.12	7.99	0.91	2.17	1.71	2.15
Pharmaceutical	0.00	4.13	0.91	0.00	1.71	1.02
Sporting Goods	0.00	10.65	3.42	0.00	0.00	1.94
Jewelry	1.34	5.32	0.00	5.73	1.31	2.57
Services	0.00	0.00	0.00	0.15	[illegible]	0.05
Tourism	0.00	0.00	0.00	10.51	[illegible]	5.41
Other	0.00	0.08	3.70	2.57	[illegible]	[illegible]
-- ANNUAL PROJ. EXPORTS:						
Textile/apparel	81.93	47.24	54.08	46.59	39.79	49.88
Food/Agro	4.04	4.23	5.78	19.18	12.58	12.60
Electronics	7.25	16.09	25.34	6.80	9.75	11.40
Plastics	0.00	5.11	0.63	0.89	1.49	1.24
Metalworking	4.55	10.22	1.73	1.88	2.09	2.86
Pharmaceutical	0.00	5.11	3.98	0.00	6.07	2.64
Sporting Goods	0.00	7.16	3.46	0.00	0.62	1.33
Jewelry	2.33	4.70	0.00	3.75	0.00	2.18
Services	0.00	0.00	0.00	0.14	0.00	0.06
Tourism	0.00	0.00	0.00	14.44	21.43	13.92
Other	0.00	0.14	5.91	6.33	6.31	4.38

E) EFFICIENCY INDICATORS	1986	1987	1988	1989	1990 (I SEMESTER)	TOTAL
INVESTMENT PROMOTION RATIOS (7)						
-- P. I. E. Promotional Cost per Job Generated	$634	$628	$419	$320	$153	$368
-- Investment per Job	$5,036	$7,227	$7,757	$17,567	$7,029	$10,250
-- Annual Export Capacity per Job	$7,898	$7,469	$5,578	$11,169	$6,482	$7,948
--Annual Export Capacity per unit of Investment	1.87	1.08	0.89	0.75	1.31	0.95

NATURE OF ORIGINAL P.I.E. CONTACT WITH INVESTOR	1986	1987	1988	1989	1990 (I SEMESTER)	TOTAL
(PERCENTAGE)						
Cold Call by Overseas Promoter	10	16	39	56	NA	121
Contact Developed During P.I.E Overseas Public Presentation	4	5	11	5	NA	25
Overseas Response to Advertising	0	0	2	1	NA	3
Embassy or Other Overseas Referral	6	3	5	17	NA	31
Walk-In / Overseas Office or Costa Rican Office	0	1	5	5	NA	11
TOTAL	20	25	62	84	NA	191

(2ND1990.WK1)

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FOOTNOTES

1.- A company is recorded as investing only after a substantial legal/financial commitment has been made, including at least (a) execution of lease or other substantial contract, (b) filing of export incentive application, and (c) establishment of a Costa Rican corporation.

2.- Contracts brokered by MARKETING DIVISION, and dollar value of shipments under such contracts, are reported only after the shipments are actually made or the contract is well under way.

3.- "Original" projections are projections made (and reported to A.I.D.) at the time of a company's total investment, employment (full-time-equivalent), and annual exports and "full capacity", which is assumed to occur:

- -- In the case of non-tourism projects, two after building and machinery installation are complete,
- -- In the case of tourism projects, three years after receipt of tourism incentive approval (this period contemplates one year of construction and two years of start-up and staffing).

4.- "Current" projections are MARKETING DIVISION's latest estimates, updated on the basis of a project's actual experience, of the variables mentioned in the previous note.

5.- Only direct employment in the projects generated by MARKETING DIVISION are reported here. It is difficult to measure indirect job creation. Experience in Mexican border zones suggests that each new direct job there resulted in at least two additional indirect jobs.

6.- While companies are usually willing to share their export projections at the time of investment, they are frequently unwilling to provide data about actual sales, for competitive and other reasons. The original projections reported here for annual export capacity are based primarily on company projections. In the case of apparel and tourism projects, the current export capacity projections are based primarily on extrapolations from current employment projections applying the following export/exmployment ration, as well as study conducted by the technicians from the Industrial Development Program.

-- Apparel: drawback (assembly only)	$4.723/job
-- Apparel: Full package (includes cutting)	$7.778/job
-- Apparel: Specialty (suits, accesories,etc)	$8.828/job
-- Apparel/Textile (textile mfr. plus assembly)	$12.000/job
-- Tourism (based on Howarth & Howarth indexes)	$18.158/job

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In the case of other projects, current export capacity projections are based principally on extrapolation from current investment projections.

7.- During 1986/87, roughly 58% of all reported investment commitments originated from cold calls by MARKETING DIVISION overseas promoters. As the program became better established, and Costa Rica and better promotional skills developed, this percentage has increased each year.

(footnote.wk1)

ANNEX 11

ENVIRONMENTAL DETERMINATION

Environmental Determination

INITIAL ENVIRONMENTAL EXAMINATION

Project Location:	Bolivia ·
Project Title:	Export Promotion, PP Amendment No. 1
Project Number:	511-0585
Funding:	$23.5 million
Life of Project:	7 years (FY 88-95)
IEE Prepared by:	John Wilson, LAC Deputy Chief Environmental Officer

1. Project Description:

The Export Promotion Project was developed to provide technical assistance and training to Bolivian producers and exporters in identifving, designing, developing, and marketing exportable products. The project also contemplates sponsoring a pilot pre- and post-embarkation credit program and support for small investment promotion activities.

The project amendment incorporates a major new Foreign Investment Promotion component and makes minor adjustments in the original project design. The revised goal of the project is to increase the contribution of the legal export sector to Bolivia's economic recovery and growth. The revised Project purpose is to increase the dollar volume of non-traditional exports and related employment by Bolivian and foreign companies that receive project assistance.

The new components of the amended project are: Technical Assistance to Exporters, Export Financing, and Foreign Investment Promotion.

2. Discussion:

The activities to be funded under the proposed project are technical assistance, export financing, and investment promotion to help in addressing the key constraints which impede private and public sector efforts to expand and diversify Bolivia's exports. Specific assistance will be provided in the areas of product identification, design, and development; market development; pre- and post-embarkation credit, and foreign investment promotion.

Many of the activities supported under the project, i.e. technical assistance, market development, etc., are presumed not to cause significant, direct environmental impact. These types of activities fall generally within those classes of actions listed in Section 216.2(c)(2) of A.I.D.'s Environmental Procedures and are therefore not subject to further environmental review. These activities are presumed not to cause significant, direct environmental impact, as project activities

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are not planned to involve production, but only marketing and export of commodities, which would not have foreseeable direct, measurable, or predictable impacts on natural systems.

Nevertheless, the project does recognize that technical assistance in production, not only in marketing and export, will be necessary to have long-term improvements in exports of non-traditional products. The project contemplates supporting increases in production and exports of certain products, including non-traditional agriculture exports, tropical hardwood, leather goods, etc. Development of Quality Assurance Programs, proper use of pesticides, and protection of crops through a system of integrated management of pests, may be an important component in production and export systems for these crops. Another important component will be the protection of renewable natural resources, particularly tropical forests and biodiversity.

The Export Promotion project design may provide assistance to producers in the agronomic practices and methods necessary to produce uniformly high-quality agricultural commodities for the export market. For flower exports, for example, this requires rigorous control of pests and pest damage. This level of crop protection encourages overuse of insecticides, fungicides, and other pesticides, often regulated only by the need to have minimal pesticide residues on exportable commodities. Promotion of exports of tropical hardwoods, in the absence of effective management of tropical forests, obviously can impact on tropical deforestation. Increases in exports of leather goods, skins, and furs could potentially affect efforts to promote conservation of biological diversity.

At the present time, it is not clear that the Export Promotion project will actually support increased production and export of the above goods. To help ensure environmental soundness of production and export activities, the Export Promotion project will charge CARANA with assigning its production specialist with the responsibility of environmental review. Promotion of exports of tropical hardwoods will receive careful scrutiny, and if necessary, an Environmental Assessment0will be prepared to guide development of this area. Any production activities involving pesticide use or development of a Quality Assurance Program for non-traditional agriculture exports will require special considerations, specifically the preparation of an Environmental Assessment. Given the overlap between the Private Agriculture Organizations project, for which an Environmental Assessment is being prepared, it is suggested that the scope of work for that EA be expanded to cover the Export Promotion project as well.

Project personnel, with the guidance of the Mission Environmental Officer and/or the Regional Environmental Adviser will monitor environmental impacts of project activities. Furthermore, evaluation of environmental impacts will be included as a component of scheduled project evaluations

III. <u>Recommended Threshold Decision</u>:

USAID/Bolivia recommends a Negative Determination for the Export Promotion Project PP Amendment No. 1. This Request for a Negative Determination is submitted for review by the LAC Chief Environmental Officer in accordance with Section 216 of 22 CFR Part 216, Environmental Procedures. The Mission further recommends that, should the project become engaged in development of non-traditional agriculture exports requiring use of pesticides and establishment of a Quality Assurance Program, or in the promotion of tropical hardwoods or other products with potential, direct impacts on biological diversity, that an Environmental Assessment of these activities be prepared.

Mission Director's Concurrence: ______________

Date: 3/27/91

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Agency for International Development
Washington, D.C. 20523

LAC-IEE-91-31

ENVIRONMENTAL THRESHOLD DECISION

Project Location	:	Bolivia
Project Title	:	Export Promotion, PP Amendment Number 1
Project Number	:	511-0585
Funding	:	$23.5 million
Life of Project	:	7 years (FY 88-95)
IEE Prepared by	:	John O. Wilson LAC Deputy Chief Environmental Officer
Recommended Threshold Decision	:	Negative Determination
Bureau Threshold Decision	:	Concur with Recommendation
Comments	:	Concurrence subject to condition that, should the subject project become engaged in development of non-traditional agriculture exports requiring use of pesticides and the establisment of a Quality Assurance Program, or in the promotion of tropical exports or other products with potential, direct impacts on biological diversity or tropical forests, that an Environmental Assessment of these activities be prepared.
Copy to	:	Carl Leonard, Director USAID/Bolivia
Copy to	:	Lisa Valenzuela, USAID/Bolivia
Copy to	:	Darell McIntyre, USAID/Bolivia
Copy to	:	Bruce Blackman, LAC/SAM

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Copy to : Howard Clark, REA/SA

Copy to : IEE File

James S. Hester Date Apr. 18, 1991

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

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